

Weekly Newsletter

News

King's City investors also decided to initiate legal proceedings

Developers of the King's City project – being weary of continual delays – finally decided to appeal to the ICSID, the International Centre for Settlement of Investment Disputes, a member of the World Bank Group in Washington D.C. Given that businessmen involved in the King's City project planned an investment worth of € 1 billion in the country, they may demand an adequate compensation in excess of \$ 100 million from the Hungarian government, which is – at the same time – countering them before Hungarian courts, and claims over HUF 2 billion for breach of contract. “We have submitted an official claim for the settlement of the investment dispute that arose in connection with the blocking of the King's City project” – stated the Cyprus based Vigotop Ltd., rights owner of the project in a statement that was published by the Hungarian daily Népszabadság. “King's City is supposed to be a multi-faceted wellness and holiday resort, one of the most important tourist destinations in Europe... Agents of the company have already made several futile attempts to meet representatives of the government in order to discuss the future of the development since the new government of Hungary was sworn into power in 2010. After these attempts failed, Vigotop Ltd. contacted the Hungarian State in January 2011, and – in line with the international agreement on the settlement of investment disputes – asked its representatives to negotiate the issue in order to arrive at a satisfying solution and to avoid any legal proceedings” – declares the statement. Latest developments of the procedure can now be monitored on ICSID's website as well, and the London based legal representative of Vigotop Ltd. also confirmed that their claim had been officially submitted.

Experts said that compensatory damages for the blocking of such a high-profile investment project may even be in magnitude of hundreds of millions of dollars. Neither Vigotop Ltd., nor the company's legal counsel wanted to comment on the opinions concerning sums of money. Independent lawyers pointed out, however, that arbiters usually try to convince the parties to first negotiate the disputed issue(s) and enter into an agreement if possible, and only when these negotiations fail, are they willing to hold a trial and decide on any monetary compensation – provided that the claim turns out to be righteous and in compliance with the law. However, the disputed parties barely have any common interest: the government did not even try to negotiate anything with the investors; what's more, it does not recognize the jurisdiction of ICSID. The Ministry for National Economy [in Hungarian: Nemzetgazdasági Minisztérium; common abbreviation: NGM] stated in its response letter that the concession agreement for the establishment of a casino – which was deemed to be null and void by the Hungarian government at the beginning of 2011 for breach of contract – was not concluded directly with Vigotop Ltd. but with King's City Kft., which is a limited liability company incorporated in Hungary. That is why it is solely under the jurisdiction of the courts of Hungary. The letter of the Ministry did not contemplate, however, that King's City Kft. is wholly owned and operated by Vigotop Ltd. More interesting is the fact that the concession was – based on contemporary news and press releases – not issued in a competition and won by the company mentioned in the Ministry's response (King's City Kft.), but it was actually applied for and won by KC Bidding Kft., which is also a limited liability company incorporated in Hungary, and is also wholly owned and operated by Vigotop Ltd.

Source: nol.hu

MSZP: Everybody should weigh up the pros and cons of fixed exchange rates

According to MSZP, it is an extremely important question whether troubled borrowers with mortgages denominated in foreign currencies should ask their banks for taking up fixed exchange rates or not. Mortgage holders should also consider whether they would be able to pay the higher instalments expected after expiry of the 3-year-period. Sándor Burány, socialist member of parliament suggested to the forex mortgage holders to use the mortgage calculator on the website of the State Audit Office of Hungary on a press conference on Sunday. The calculator is also accessible from the website of MSZP. Burány added that a primary factor in borrowers' judgement should be what the Hungarian forint (HUF) is likely to fetch against the Swiss franc (CHF) in the next few years. If the Hungarian forint stays at its current rate against both the Swiss franc and the euro, repayment rates would rise significantly after the opportunity of the rate's fixation around 180 forint expires, Burány added. In case of a ten-million forint mortgage taken up for twenty years the monthly repayment would be HUF 73,800 instead of the HUF 102,500 without the fixed exchange rates. After the expiry of the fixed repayment period, however, the complete instalment will reach about HUF 114,000 at an exchange rate of 250 according to the calculator of the State Audit Office. In case of a Swiss franc rate pegged to the euro at 270, the instalment will exceed HUF 125,000 according to the socialist lawmaker. To help troubled forex mortgage holders, Burány also added that MSZP was going to publish its proposed solutions in the coming days. He called upon the government again to return from holiday and to work towards making sure that the state, the banks and foreign currency mortgage holders share the burdens. When a journalist asked what the former socialist government had done to avoid the foreign currency mortgage debts of families, he replied that Swiss franc credits had started to spread when the state-subsidized property credit system introduced by the first Orbán-government had become unsustainable. The state budget was unable to bear the pressure caused by property credits, and it would have increased the public debt enormously. Foreign currency credits also started to spread because the interest rate policy of the central bank increased interest rates for forint credits up to over 10 percent. The socialist politician also added that it could be no accident that most Fidesz politicians also have debts in foreign currency. They also thought themselves that it would be the best option.

Jobbik provocation at Budapest Sziget Fesztivál

In a statement released by the Sixty-Four Counties Youth Movement (HVIM), György Zagyva, member of the right-extremist Jobbik has called on the Parliament's Immunity Committee to lift his immunity in order that his case could be examined faster, and to prove that it was he against whom a crime was committed. Zagyva and four others were detained and charged with anti-social behavior when they tried to enter Budapest's Sziget Festival without tickets. Initially, the Jobbik MP insisted on his immunity. Zagyva and a pocket of about seventy demonstrators planned to protest against rising petrol prices. However, they were soon turned away by the police, as Sziget Festival qualifies as a private territory during the event. Zagyva said in a statement released by the HVIM that he was unlawfully detained. If the police decide to press charges against the MP, the case will be referred to the Parliament's Immunity Committee. The committee will have thirty days to put up the proposal for vote. Immunity is lifted if two-thirds of the MPs present vote in favor. It is not the first time that Mr. Zagyva has an affair with the police., Mr. Zagyva He is known to have made threatening remarks towards the reporters of the *Hetek*, a political weekly during an event last August called "The Hungarian Island". He denied the charges back then, but was ready to renounce his claims to immunity.

Freedom House calls for withdrawal of Hungary's new church law

Washington-based lobby group Freedom House has called on the Hungarian government to withdraw the country's recent church law, the international human rights watchdog said on its website on last Thursday.

The organisation criticised the law for restricting the officially recognised churches in Hungary to 14 religious communities. Director of Advocacy Paula Schreifer called the legislation discriminative

and incompatible with the principles of a liberal democracy.

Even before the law was passed on July 12, Freedom House had written to US Secretary of State Hillary Clinton, asking her to convey American concerns about the draft.

Under the new law, communities other than the officially recognised 14 will need approval by two thirds of Parliament to be registered as a church or religious congregation.

Source: MTI

Israel expects Hungary not to support Palestinian independence in UN

Israel hopes that Hungary will be one of those countries that vote against the independence and United Nations membership of Palestine in the upcoming UN General Assembly, Israel's Deputy Foreign Minister Danny Ayalon told MTI in an interview on Monday. Ayalon said that such support for the Palestinian side would lead to conflict in the region.

"It is not in Europe's interest to support a decision which would increase uncertainty in the Middle East," said the Israeli diplomat.

Ayalon is on a two-day visit to Budapest, aimed at strengthening bilateral ties. In his interview, he said that Hungary and Israel were countries of a similar philosophy and culture, connected by historical ties. Concerning Israeli-Palestinian relations, Ayalon referred to earlier agreements that the two sides would settle open issues through bilateral negotiations without recourse to third parties, and said that the "one-sided Palestinian move" could mean an end of the peace process.

Even if the UN General Assembly voted in favour of Palestine, it would not change the current situation and would not create an independent state, Ayalon insisted. It would, however, raise unfounded Palestinian expectations, leading to violence and increased instability in the region, he added.

Source: MTI

Nearly a quarter of a million foreigners reside permanently in Hungary

The number of foreigners staying for more than three months in Hungary with a residence permit exceeded 220 thousand in the first half of the year – reads the latest summary of the Office of Immigration and Nationality.

In the first half of the year the number of applications for residence permits dropped compared to the same period of the previous year. While 12,212 permits were requested in the first six months of 2010, only 11,620 were applied for by the end of this June. The number of requests exceeding three months of residence and settlement has decreased over the past year. There were more than 17 and a half thousand such applications in the first half of 2010, while the amount was less than 16 thousand in the first six months of this year. The number of expelled, deported and arrested foreigners also decreased. The number of latest measures dropped from 2,200 to 1,700 over the past year – states the Office of Immigration and Nationality. The immigration authority recorded the largest decrease in the number of asylum applications. While 1,400 asylum applications were lodged in the first half of 2010, only 770 applications were received during the first six months of 2011.

GDP increases below expectations - 'big disappointment' say analysts

Hungary's gross domestic product (GDP) increased by 1.5% year on year in the second quarter, according to both unadjusted figures and data adjusted for calendar effects, the Central Statistics Office (KSH) has reported on Tuesday. The consensus forecast in a Portfolio.hu poll was for a 2.3% growth. In January-June, GDP was up 2.0% and by 1.9% when adjusted for calendar effects. According to seasonally and calendar effects adjusted data, GDP stagnated as compared to the previous quarter. "The estimate is based on scarce information, thus the final data may differ from the ones published in this flash estimate," the KSH said. The data is way below the market's call - the consensus estimate in a Portfolio.hu poll came to 2.3%. It is not a real surprise though. Firstly because the data was leaked late on Monday (local news portal Index.hu reported that growth in Q2 was between 1.6-1.8%), which will most likely have consequences. Secondly, every recent macro

release indicated that the economy without a doubt stepped on the breaks. The industry, which has been a driving force of growth for a long time, has been showing a poor performance for some time now (IP was down 0.6% m/m in June) and the latest trade figures were also limp, implying that export growth was leaning on inventories in the past few months. Of the producing sectors only the agriculture, which started from a low base, managed to show growth, while the outlook on the construction sector remains hopeless. Due to the low domestic demand the services sector had no chance of performing well therefore we can say there is no real engine of growth in the Hungarian economy at the moment. In view of this the estimates for a GDP growth of around 3% look unrealistic not only for this year but also for 2012, creating yet another challenge for meeting the budget deficit target. There are several reasons behind this spectacular deceleration/stop in growth. One of these is that the external business environment has become a lot worse over the past few months, while getting up from rock bottom in the crisis was attributable only to sharply rising industrial exports. Meanwhile, the internal engines failed to be ignited. The adjustment process among households continued, i.e. they remained net repayers, with smaller discretionary income than in the previous years. The banks' lending activity remains subdued overall - Hungary may be the best example of the phenomenon known as 'creditless growth' in the whole world. Provided there will be growth at all. The situation was made even worse by the soaring Swiss franc that also ate into discretionary income via the increase of instalments on CHF-based loans. Another consequence of this is that no matter how diligently households are repaying their debt every month, their virtually owe the same to the banks due to revaluation losses. Unfortunately, Hungary's economic policy has failed to pick the right tools to foster growth. This is attested by the fact that while the budget's structural balance has worsened substantially, the domestic engines have even become feebler. By implementing tax reductions the state virtually 'donated' HUF 500 billion for high-income earners without making a meaningful impact on either the labour market or consumption. The outlook is not exactly rosy, quite the contrary. There is a danger of recession in the world economy and even if Hungary manages to stay out of it this time, global growth will be definitely kept low by the adjustment of the debt-ridden developed economies. Hungary will need to carry out a gigantic fiscal adjustment next year. And in such a weak external environment the reform-sized expenditure cuts will hardly create short-term fuel for growth. And the cabinet is likely to be forced to raise taxes too.



*: yr/yr data adjusted for calendar effects; q/q figure adjusted seasonally and for calendar effects

Gergely Suppan of Takarékbank said the worse than expected data mean full-year GDP growth is unlikely to be much over 2%. In light of Q2 GDP data for Germany, Hungary's biggest export market, also published on Tuesday, it is a wonder Hungary's GDP didn't fall quarter-on-quarter, he added. The data also worsen the outlook for next year, even though the start of production at a plant Daimler is building in Hungary could add 0.6 percentage points to Hungary's GDP growth, Suppan said. As for earlier expectations of full-year GDP growth around 3%, Erste Bank's Zoltán Árokszállási said "forget it". Industrial output is slowing and the construction sector continues to contract, he added.

Economic research institutes told MTI they would lower their GDP growth projections to 1.7-2.2% for this year and to 1.5-2.0% for next year because of the poor showing in Q2. Kopint-Tárki projected full-year growth for 2011 of 2.5% on Monday in a Reuters poll, but it now forecasts growth of 2.2%, with downward risk, the think-tank's chief Éva Palócz told MTI. Estimates were too optimistic for the service sector as well as inventories, she added. Kopint-Tárki knocked down its projection for 2012 GDP growth from 3.0% to 2.0%. Pénzügykutató chief analyst Mária Zita Petschnig said the projection the research institute gave for 2011 GDP growth in the latest Reuters poll was 2.0%. In light of the fresh data, it has bumped down the forecast to 1.7%, she said and put 2012 GDP growth at 1-1.5%.

Hungary's lower-than-expected second quarter GDP growth does not put the government's 2011 deficit target at risk, the National Economy Ministry said on its website late Tuesday. "The stability fund was created with precisely such a contingency in mind, thus the almost HUF 90 billion negative effect can be securely financed," the ministry said. "The government continues to be committed to reducing state debt and restoring the fiscal balance," it added. The ministry said GDP estimates for the second quarter caused negative surprise in countries across Europe as most showed a significant slowdown from the previous quarter. Lower-than-expected growth in Hungary was first of all the result of external factors, it added. "Although home constructions continue to show an unfavorable picture, developments financed with European Union resources will positively affect investment trends, as will recently launched investments," the ministry said, citing big projects in Hungary by the carmakers Daimler, Audi and GM as well as tire maker Hankook.

Meanwhile Reuters reported on Tuesday, citing a top official at the National Economy Ministry that Hungary's government will reassess its macroeconomic forecasts in September, after a second reading of Q2 GDP data is published, "New macro forecasts will be linked to the (2012) draft budget and that may include changes (in the forecasts)," state secretary András Kármán told Reuters. "Certainly tax revenue forecasts must be based on this reassessed macroeconomic course," he said.

Source: Portfolio.hu; MTI

Another awful set of figures from Hungary's construction sector

The production volume of Hungary's construction sector dipped by 5.6% month on month in June, the Central Statistics Office (KSH) has reported on Monday. Production was down 13.9% year on year, according to both unadjusted figures and data adjusted for working days. The sector's output was 9.6% smaller in January-June than in the first half of 2010.

Source: Portfolio.hu

Comments

The freedom fighter

One could know in advance that there would be trouble at Sziget Festival, because the far-right members of the 64 Counties Youth Movement cannot tolerate not being allowed to protest against high fuel prices in front of the main stage. The question was only whether they should buy a ticket and sneak to the location in undercover, or whether they would try to break through the gates. They chose the latter, which was a pretty cowardly act as it was crystal clear that they could not get inside. Had they chosen to sneak in, they had had to face anti-fascist youngsters from abroad, the crabby

punks. That could have been an interesting encounter. In the end they chose to act as if they really had wanted to get in. Eventually the police intervened and detained some of the protestors including their leader Gyula György Zagyva, an MP with the radical right-wing Jobbik. Zagyva did not want to waive his right to immunity.

I do not want to insult Ferenc Gyurcsány by mentioning him in the same article with Zagyva, but it is a fact that the former prime minister requested Parliament to waive his right to immunity in a much more serious matter. They belong to different generations. Zagyva seems to be brave only when he can yell at left-wing woman demonstrators or when he can threaten journalists. One would expect more from a freedom fighter.

Iván Andraszew, Népszava, August 15. 2011.

2011 Esztergom = 2014 Hungary?

It might be a bit early to start the debate over the democratic ways for the suspension of the system created by Fidesz after its 2010 victory. (The next general elections are scheduled for spring of 2014.) The other hot topic is whether the present opposition could govern efficiently after the 2014 elections as Fidesz-KDNP coalition can block the decision-making processes.

We should look at the example of Esztergom. (A town in north Hungary with an independent mayor, Éva Tétényi, supported by the whole opposition, whose work is disabled by the Fidesz-led town council.) This example shows how a town can be blocked, and how the results of a democratic election can be ignored. Éva Tétényi still holds her position but the public is getting tired of the paralyzed status quo. The mayor can lose a lot in this situation as she can be seen as the one who impedes the town's functioning, just like Meggyes (former Fidesz mayor) was considered as an obstacle after a while. Tétényi can fail not because she appeared once on MSZP's May Day party but because Esztergom's community may think she has no chance against the power of the two-third majority.

Fidesz is working on portraying Tétényi as the main blocking factor. If this campaign is successful, the tabula rasa, the new start will easily be without Tétényi. Esztergom's experience projects a dark scenario after the 2014 elections. The democratic opposition's victory might be Pyrrhic only. We can conclude that it is not too early to begin this debate, as this issue will not be solved even after 2014.

Balázs Böcskei, Vasárnapi Hírek, August 14. 2011.

The awkward squad

Poor countries needing investment and favours from their richer counterparts should polish their images and avoid rows. So it may seem odd that so many politicians in ex-communist Europe, with wobbly economies and security, often do the opposite. A prime example is Hungary, where Viktor Orbán's government has attracted a blaze of outside criticism since it took office in May 2010. Contested issues have included supposedly confiscatory taxes, a law that threatens media freedom and central-bank independence.

The latest row concerns possible legal action against three former prime ministers from the opposition Socialists for mismanaging the public finances. A parliamentary committee investigating the growth of public debt between 2002 and 2010 from 53% to 80% of GDP has called for a probe into Péter Medgyessy, Ferenc Gyurcsány and Gordon Bajnai. The results will be handed to prosecutors. The government has not ruled out criminal charges.

The announcement caused outrage in Hungary and abroad. Mr Gyurcsány, widely seen as the main target, decried it as political manoeuvring. The probe may yet be postponed. The spectacle of former prime ministers in the dock would play well to loyalists of Hungary's ruling Fidesz party but would do little for the country's already-tarnished international image.

But Mr Orbán's government is not the only concern. Georgia's president, Mikheil Saakashvili, is toying with staying in power as prime minister once his term expires, dismaying some Western fans who saw in him a challenge to the eternal rule of ex-Soviet autocrats such as Russia's Vladimir Putin or Alyaksandr Lukashenka in Belarus. In 2009 the Czech president, Vaclav Klaus, joyfully

threatened to derail the Lisbon treaty; more recently he has attacked Western diplomats who expressed their support for a gay-pride march in Prague. In Poland Jaroslaw Kaczynski, prime minister for 16 months from mid-2006, and his late twin brother Lech, who was president from 2005 to 2010, picked spectacular fights at home and abroad. Polish politics is considerably less extreme today (see box), but the memory lingers.

Snooty outsiders, both commentators and policymakers, tend to lump all this together. They see Mr Orbán as merely the latest example in a long line of erratic eastern politicians prone to mystifying and ungrateful bouts of troublemaking. That analysis goes down badly in the region, not least because it seems so selective. Where, ask Mr Orbán's supporters, were outsiders when Hungary was run by sleazy and rapacious ex-communists? The leftists bequeathed a bankrupt and ungovernable country, they say—meaning that their own remedies must be robust. Poles who back the Kaczynski approach have similar complaints: they find the world deaf to their concerns about moral decay, lingering secret-police influence in public life, corruption and kowtows to Moscow.

The awkward squad tends to despise conventional diplomacy and public relations, and is therefore bad at them. Mr Klaus, for example, usually refuses to talk to foreign journalists unless they promise to print his answers in full. The Kaczynskis' chaotic media strategy was legendary. The other side's spin-doctors are liberal-minded, polyglot and accommodating. Their half-truths and distortions, say their opponents, get an easy airing abroad. Mr Orbán's people in particular think that their enemies at home have a hotline to foreign news desks, think-tanks and chancelleries.

Politicians in the region also point out that they were elected to make changes, not friends. Hungarian voters strongly back Mr Orbán's brusque approach. Many Czechs relished their president's stand against the Euro-federalists. The Kaczynskis' scepticism about rapprochement with Germany and Russia chimed with some Poles' deep historical fears. In many countries (and not only in Europe's east) facing down foreign foes is a sign of virtue.

Emollient behaviour, such as Poland's current diplomacy under its polished prime minister, Donald Tusk, may bring modest rewards, but stropiness has incurred little visible penalty. Foreigners sniped and griped about the Kaczynskis, but life went on. Sneers about domestic politics hurting Hungary's presidency of the European Union in the first half of 2011 proved largely groundless. Rows are not the end of the world; after the sound and fury, they can bring concessions, not isolation. That is because, although some easterners may be irritating, noisy and unfashionable, in modern Europe they are indispensable.

The Economist, August 13, 2011. <http://www.economist.com/node/21525919>