HUNGARY

(Position as of December 31, 2001)

Status Under IMF Articles of Agreement

Article VIII	Date of acceptance: January 1, 1996.

Exchange Arrangement

Currency	The currency of Hungary is the Hungarian forint.
Exchange rate structure	Unitary.
Classification	
Pegged exchange rate within horizontal bands	Between January 1, 2001, and October 1, 2001, the National Bank of Hungary (NBH) adjusted the central parity of the forint by a preannounced rate of crawl against the euro. Effective April 1, 2001, the monthly rate of depreciation was adjusted to 0.2% from 0.3%. Effective May 4, 2001, the width of the band within which the forint trades against the euro was widened to ±15% around the central parity from ±2.25%. Effective October 1, 2001, the crawling peg was abolished and the central parity of the Hungarian forint was fixed to the euro at Ft 276.1 per €1. Thus, the exchange arrangement of Hungary was reclassified to the category pegged exchange rate within horizontal bands from the category crawling band.
Exchange tax	No.
Exchange subsidy	No.
Forward exchange market	Prior to June 16, 2001, only resident commercial banks could engage in forward transactions at exchange rates that were negotiated freely between the banks and their customers. As of that date, all banks may engage in such transactions.

Arrangements for Payments and Receipts

Prescription of currency requirements	
Use of foreign exchange among residents	Yes.
Payment arrangements	
Bilateral payment arrangements	
Operative	There are agreements with Brazil and Ecuador, under which outstanding balances are settled every 90 days.
Inoperative	There are agreements with Albania, Bulgaria, Cambodia, the Lao People's Democratic Republic, Russia, and Vietnam for the settlement of outstanding transferable or clearing ruble balances with shipments of goods.
Regional arrangements	Hungary is a member of the CEFTA.
Administration of control	Through December 31, 2001, authority for enforcing foreign exchange regulations was vested in the NBH. After that date, there is no foreign exchange authority in Hungary.
International security restrictions	
In accordance with UN sanctions	Hungary maintains payment restrictions against Iraq and Libya.
Payment arrears	No.
Controls on trade in gold (coins and/or bullion)	No.

Controls on exports and imports of banknotes	Effective June 16, 2001, only a declaration is required to import or export more than Ft 1 million or its equivalent in foreign currency. Previously, residents and nonresidents were allowed to import or export up to Ft 350,000 a person a trip without authorization. Likewise, exports over the equivalent of Ft 100,000 in foreign currency a person a trip required authorization.
On exports	
Domestic currency	Yes.
Foreign currency	Yes.
On imports	
Domestic currency	Yes.
Foreign currency	Yes.

Resident Accounts

Foreign exchange accounts permitted	Yes.
Held domestically	Resident natural persons may freely maintain convertible currency accounts at authorized commercial banks. Resident juridical persons may open convertible currency accounts with funds originating from specific sources, such as export proceeds, foreign borrowing, capital paid in convertible currency by the foreign owners of joint-venture companies, as well as proceeds from direct and portfolio investments abroad; inheritances; donations paid in convertible currency for foundations, churches, and social organizations; and budgetary institutions.
Approval required	Prior to June 16, 2001, when restrictions were lifted, approval was required for titles not mentioned above.
Held abroad	Effective June 16, 2001, restrictions on the holding of foreign exchange accounts abroad were lifted. Previously, residents who worked or stayed abroad, maintained a resident office, or were main contractors could hold without permission foreign exchange accounts abroad for the purpose of an initial capital deposit account in connection with making outward foreign direct investment or for credit accounts and margin accounts in connection with commodity stock. Resident fund managers were likewise authorized to hold accounts abroad in which to keep the securities and their earnings abroad in order to technically facilitate investment operations. In all other cases, permission to hold foreign exchange accounts abroad was required.
Approval required	Effective June 16, 2001, NBH approval is no longer required.
Accounts in domestic currency held abroad	Effective June 16, 2001, NBH approval is no longer required.
Accounts in domestic currency convertible into foreign currency	Effective June 16, 2001, conversion is free for all items. Prior to that date, conversion was free only for liberalized items and in authorized cases.

Nonresident Accounts

Foreign exchange accounts permitted	Yes.
Domestic currency accounts	Yes.
Convertible into foreign currency	Effective June 16, 2001, convertible forint accounts may be credited freely, and their balances converted into foreign currencies and transferred freely. Previously, convertible forint accounts could be credited only with legally acquired forint and their balance could be converted into foreign currency. Proceeds from the conversion of convertible currency or forint acquired from nonliberalized or unauthorized transactions had to be placed in a nonconvertible forint account, which did not bear interest.

Blocked accounts	No.

Imports and Import Payments

Foreign exchange budget	No.
Financing requirements for imports	No.
Documentation requirements for release of foreign exchange for imports	No.
Import licenses and other nontariff measures	Licenses are required for a number of products, including imports destined for the settlement of outstanding balances in transferable or clearing rubles. About 95% of Hungarian imports are fully liberalized.
Negative list	Yes.
Licenses with quotas	Licenses are needed for products falling under the global quota on consumer goods.
Other nontariff measures	Yes.
Import taxes and/or tariffs	Goods for personal use brought in by returning Hungarian travelers are subject to a general import duty of 15%, based on the actual invoice price with a duty-free allowance of Ft 30,000. Residents, if they are employees of a domestic agency and if they are stationed abroad for more than one year, may import, free of customs duty, goods for personal use up to a value equivalent to 40% of their earnings. Goods imported into Hungary are subject to customs duties in accordance with established and published tariffs.
State import monopoly	No.

Exports and Export Proceeds

Repatriation requirements	Effective June 16, 2001, the requirement that export proceeds in convertible currencies be repatriated upon receipt of the foreign exchange was abolished. Previously, certain exemptions were granted as stipulated in the law or after specific approval by the NBH. In the case of nonconvertible currencies, the exporters were required to make a best effort to exchange them into convertible currency and repatriate the convertible currency.
Financing requirements	No.
Documentation requirements	No.
Export licenses	Exports of items included in the negative list require a license.
Export taxes	No.

Payments for Invisible Transactions and Current Transfers

Controls on these transfers	No.

Proceeds from Invisible Transactions and Current Transfers

Repatriation requirements	Effective June 16, 2001, the requirement that such proceeds be subject to the same requirement as export proceeds was eliminated.
Restrictions on use of funds	No.

Capital Transactions

Controls on capital transactions	Effective June 16, 2001, all remaining foreign exchange controls on capital transactions were lifted.
Controls on capital and money market instruments	
On capital market securities	
Shares or other securities of a participating nature	
Sale or issue locally by nonresidents	Transactions in OECD central government bonds, bonds and shares of OECD-based enterprises (in the case of both bonds, those with an original maturity of one year or longer), and the sale of shares of parent companies to the employees of their subsidiary companies are free. Effective June 16, 2001, all proceeds associated with authorized transactions may be freely converted and transferred abroad by nonresidents. Prior to this date, foreign exchange authorization was required for transactions in other instruments and the authorization was granted liberally, on a case-by-case basis, after a request and its accompanying documents had been submitted.
Purchase abroad by residents	Prior to June 16, 2001, the same regulations applied as for sale or issue locally by nonresidents and transactions had to take place through a resident brokerage company. As of that date, funds required for transactions may be freely converted and transferred abroad by residents.
Bonds or other debt securities	
Purchase locally by nonresidents	Effective June 16, 2001, permission of the NBH is no longer required if the original maturity of bonds or other debt securities is less than 365 days.
Sale or issue locally by nonresidents	Prior to June 16, 2001, the same regulations applied as for shares or other securities of a participating nature.
Purchase abroad by residents	Effective June 16, 2001, funds required for transactions may be freely converted and transferred abroad by residents. Prior to that date, the same regulations applied as for sale or issue locally by nonresidents, and the transactions had to take place through a resident brokerage company.
Sale or issue abroad by residents	Effective June 16, 2001, permission of the NBH is no longer required for public or private offering of bonds and other debt securities issued by residents to foreigners or for listing such securities at a recognized securities market in a foreign country if the original maturity of such securities is less than 365 days. Prior to that date, under the Securities Act, such transactions were also subject to the approval of the Hungarian Financial Supervisory Authority.
On money market instruments	Effective June 16, 2001, these transactions no longer require foreign exchange authorization. (This authorization was granted in exceptional cases on a case-by-case basis, after a request and its accompanying documents had been submitted.) Proceeds associated with these transactions may be freely converted and transferred abroad.
Purchase locally by nonresidents	Effective June 16, 2001, there are no longer controls on these transactions.
Sale or issue locally by nonresidents	Effective June 16, 2001, there are no longer controls on these transactions.
Purchase abroad by residents	Effective June 16, 2001, there are no longer controls on these transactions.
Sale or issue abroad by residents	Effective June 16, 2001, there are no longer controls on these transactions.
On collective investment securities	
Purchase locally by nonresidents	Transactions for closed-end funds are free. Effective June 16, 2001, transactions for open-end funds no longer require authorization.
Sale or issue locally by nonresidents	Prior to June 16, 2001, the same regulations applied as for transactions in money market instruments, except that foreign collective investment securities were admitted to the domestic market if (1) the fund manager was registered in an OECD member state; (2) the fund's investment policy focused on instruments that were already liberalized and freely

	available for residents of Hungary; and (3) the initial offering of the securities had taken place in an OECD-member country. After that date, these regulations no longer applied.
Purchase abroad by residents	Prior to June 16, 2001, the same regulations applied as for transactions in money market instruments, except that residents could freely purchase abroad collective investment securities for closed-end funds or ones for which approval was granted through resident investment companies. After that date, these regulations no longer applied.
Sale or issue abroad by residents	Transactions for closed-end funds are free, and, as of June 16, 2001, those for open-end funds no longer require authorization.
Controls on derivatives and other instruments	Effective June 16, 2001, these transactions no longer require authorization.
Purchase locally by nonresidents	Effective June 16, 2001, nonresidents are permitted to trade freely in futures contracts for individual stocks or the Budapest stock index (BUX) on the Budapest Stock Exchange. Prior to that date, this was allowed only exceptionally.
Sale or issue locally by nonresidents	Effective June 16, 2001, nonresidents are permitted to trade freely in futures contracts for individual stocks or the BUX on the Budapest Stock Exchange. Prior to that date, this was allowed only exceptionally.
Purchase abroad by residents	Effective June 16, 2001, there are no longer controls on these transactions.
Sale or issue abroad by residents	Effective June 16, 2001, there are no longer controls on these transactions.
Controls on credit operations	
Financial credits	
By residents to nonresidents	Effective June 16, 2001, these transactions were liberalized and may be carried out freely. Previously, residents were allowed to grant to a direct enterprise abroad only credit that was acquired in accordance with Hungarian foreign exchange rules. The maturity of such a credit should have exceeded five years; otherwise, a foreign exchange authorization was required. Residents were allowed to grant foreign exchange credits with a maturity of more than one year to nonresidents of OECD member countries. With the exception of credits between close relatives, a foreign exchange authority authorization was required, which was granted liberally in the case of long- and medium-term credits and granted exceptionally in the case of short-term credits.
To residents from nonresidents	For residents, medium- and long-term financial credits in foreign exchange are allowed. Prior to June 16, 2001, short-term borrowing was allowed with an authorization from the NBH. The borrowing could be effected in the form of a bank transfer to an authorized credit institution in Hungary. Repayment was to be made proportionally, i.e., the first year's installments could not be higher than the average installment over the entire period. Effective June 16, 2001, these transactions were liberalized and may be carried out freely. Previously, borrowing in domestic currency by organizations and private individuals was subject to a foreign exchange authority permit and could be effected only from a convertible forint account held by a nonresident.
Guarantees, sureties, and financial backup facilities	Effective June 16, 2001, these limitations and controls were lifted. Previously, these transactions were allowed if they were related to liberalized transactions. In all other cases, authorization was needed, which was granted liberally on a case-by-case basis.
By residents to nonresidents	Effective June 16, 2001, there are no controls on these transactions.
To residents from nonresidents	Effective June 16, 2001, there are no controls on these transactions.
Controls on direct investment	
Outward direct investment	Effective June 16, 2001, controls on these investments were lifted. Previously, equity participation in a nonresident enterprise was considered as foreign direct investment and was free if the participation in the share or equity capital or the value of assets of the foreign enterprise was more than 10%. The following preconditions were also to be met: (1) the laws of the country of incorporation was to allow the transfer to Hungary of profits and capital in convertible foreign exchange; (2) the resident's liability was not to exceed (except in the case of a branch) its share in the enterprise; (3) the resident should have had no customs duty, tax, pension, health insurance, or social security contribution liability

	outstanding; (4) the resident was not to be in bankruptcy proceedings or under liquidation, and no such action was to have been initiated against him or her in the year of application or the previous two calendar years; (5) during the period stipulated above, there was to be no negative decision against the investor made by the foreign exchange authority; and (6) during the same period, no senior employee of the applicant was to have been a senior member of the supervisory committee of an enterprise against which the foreign exchange authority had made a negative decision. If the planned investment did not meet any of the listed criteria, the application automatically went through the authorization procedure.
Controls on liquidation of direct investment	No.
Controls on real estate transactions	
Purchase abroad by residents	Prior to June 16, 2001, real estate acquisition had to be reported within eight days. As of that date, this requirement was lifted.
Purchase locally by nonresidents	Effective June 16, 2001, approval of local municipal authorities is no longer required.
Controls on personal capital movements	
Loans	
By residents to nonresidents	Effective June 16, 2001, there are no controls on these transactions. Prior to that date, only credits between close relatives could be carried out freely. Otherwise, the same regulations applied as for financial credits.
To residents from nonresidents	Effective June 16, 2001, there are no longer controls on these transactions.
Gifts, endowments, inheritances, and legacies	
By residents to nonresidents	Effective June 16, 2001, all controls on these transactions were removed. Previously, residents could donate convertible foreign exchange or currency to a nonresident, provided an authorization of the NBH was granted. A resident could give a gift of pecuniary value to a nonresident, but it could not be (1) the resident's share or participation in foreign direct investment; (2) the right of ownership in respect of real estate abroad or in Hungary; and (3) securities, money market instruments, and transferable instruments, which nonresidents could acquire only with a foreign exchange license. (The above-mentioned operations were liberalized only in the case of close relatives.) Further, residents could establish an endowment abroad or join a foreign endowment only with authorization. This provision also applied to an assumption of obligation serving the public interest.
Settlement of debts abroad by immigrants	
Transfer of assets	
Transfer abroad by emigrants	Effective June 16, 2001, controls on these transactions were eliminated. Previously, on first leaving Hungary for any foreign country, a private individual who was entitled to emigrate may take the following out of the country without the permission of the foreign exchange authority: (1) his or her pecuniary holdings; (2) the currency or foreign exchange originating from the conversion of the domestic payment instruments received for the sale of his or her domestic real estate; and (3) the foreign exchange or currency originating from the conversion of domestic payment instrument(s) deposited with a domestic credit institution in a registered deposit.
Provisions specific to commercial banks and other credit institutions	
Borrowing abroad	Financial institutions must report all foreign borrowing to the NBH.
Lending to nonresidents (financial or commercial credits)	Lending is allowed within the following rules: (1) A bank may not have an aggregate lending with an individual borrower of more than 25% of its adjusted capital; and (2) Country risk rules prescribe the placement of specific reserves against possible losses on credits extended to problem countries, the list of which is based on the assessment of

the NBH and published by the MOF.

Until June 16, 2001, when this was lifted, a third requirement stipulated that the total outstanding lending to nonresidents was not to exceed 50% of the total amount of liabilities in foreign exchange less the own capital of the bank in foreign exchange or the amount stipulated in a foreign exchange authority license. Effective January 1, 2000, medium- and long-term lending for nonresidents from OECD-member countries may be effected freely. Until June 16, 2001, when this control was lifted, lending to other nonresidents was subject to case-by-case authorization, which was granted liberally. In the case of purchase of short-term securities with an original maturity of less than one year, their aggregate amount was not to exceed 50% of the total amount of liabilities in foreign exchange less the own capital of the bank in foreign exchange. In that figure, short-term lending was also to be included. In the case of purchase of medium- and long-term securities, the same rules applied as for residents. Short-term lending locally to nonresidents was allowed within the framework stipulated above.

Purchase of locally issued securities denominated in foreign exchange

Effective June 16, 2001, the purchase and issue of locally issued foreign exchange–denominated securities no longer require a permit from the NBH.

Differential treatment of deposit accounts in foreign exchange

Reserve requirements

Effective July 1, 2001, the interest paid on reserves generated for foreign currency liabilities was made equal to that on reserves generated for forint liabilities. Previously, it was 0.5 of a percentage point higher.

Liquid asset requirements

No.

Interest rate controls

No.

Credit controls

Effective June 16, 2001, overdraft facilities are allowed in foreign exchange on resident deposit accounts.

Differential treatment of deposit accounts held by nonresidents

Reserve requirements

Effective July 1, 2001, 100% of commercial bank liabilities denominated in foreign currency with maturity of less than two years were made subject to the same 6% reserve requirement as those denominated in domestic currency. Previously, only 50% of commercial bank foreign liabilities denominated in foreign currency with a maturity of less than one year were subject to reserve requirements.

These types of liabilities with a maturity of more than two years are exempt from reserve requirements. At the same time, these reserve requirements are remunerated at a rate of interest of 4.25%.

Interest rate controls

Assets from certain transactions could only be placed in nonremunerated nonconvertible forint accounts. This limitation was lifted on June 16, 2001.

Credit controls

Credit raised by nonresidents in forint could be placed only in nonconvertible forint accounts. This limitation was lifted on June 16, 2001.

Open foreign exchange position limits

The gross aggregate position is limited to 30% of the bank's adjusted capital. Banks should adhere to the limit on a daily basis, which is applied equally to resident and nonresident assets and liabilities.

Provisions specific to institutional investors

Limits (max.) on securities issued by nonresidents

Assets constituting the mathematical reserves of an insurer may only be invested in assets issued in Hungary and real estate situated in Hungary. In addition to this general limitation, the following specific rules apply concerning the investments of an insurer:

(1) Technical reserves and insurance capital may not be invested in real estate situated abroad;

(2) Assets constituting the security capital and technical reserves of an insurer may not be invested in mortgage loans in which the real estate used as collateral is situated outside of Hungary;

	(3) Assets constituting the security capital and technical reserves of an insurer may not be placed in a current account held by a foreign credit institution; and
	(4) Due to the specific treatment of investments in mortgage bonds issued by domestic mortgage loan companies (i.e., credit institutions), the ceiling on investment in debt securities issued by domestic credit institutions is higher than on that by foreign credit institutions (45%, as compared to 20%).
	Mandatory private pension funds may not invest more than 30% of their assets in foreign securities. In the case of voluntary pension funds, a government decree limits the share of foreign investments to 30% of the fund's invested assets.
	There are no specific limitations on the foreign investment of investment (mutual) funds.
Limits (max.) on investment portfolio held abroad	The same regulations apply as for securities issued by nonresidents.
Limits (min.) on investment portfolio held locally	The mathematical reserves may be invested only in domestic securities and real estate situated in Hungary.
Other controls imposed by securities laws	No.

Changes During 2000

Exchange arrangement	*January 1.* The preannounced rate of crawl against the euro was effected.
	April 1. The monthly rate of depreciation was adjusted to 0.3% from 0.4%.
Resident accounts	*July 1.* Resident fund managers were allowed to keep foreign exchange accounts abroad.
Capital transactions	*July 1.* The sale or issue by nonresidents or the purchase by residents of collective investment securities was liberalized once a few preconditions are satisfied.
Controls on credit operations	*January 1.* Residents were allowed to extend credits with a maturity of more than one year to nonresidents of OECD member countries.
Provisions specific to commercial banks and other credit institutions	*January 1.* Long- and medium-term lending in foreign exchange to nonresidents from OECD member countries may be effected freely.
	July 1. Fifty percent of commercial bank liabilities to nonresidents with a maturity of less than one year became subject to a system of differential reserve requirements, with a reserve ratio of 11%.

Changes During 2001

Exchange arrangement	*April 1.* The monthly depreciation of the forint was adjusted to 0.2% from 0.3%.
	May 4. The width of the band within which the forint trades against the euro was widened to ±15% from ±2.25% around the parity.
	October 1. The crawling peg was abolished and the central parity of the Hungarian forint was fixed to the euro at Ft 276.1 per €1. Thus, the exchange arrangement of the forint was reclassified to the category pegged exchange rate within horizontal bands from the category crawling band.
Arrangements for payments and receipts	*June 15.* Only a declaration is required to import or export more than Ft 1 million or its equivalent in foreign currency. Previously, residents and nonresidents were allowed to import or export up to Ft 350,000 a person a trip without authorization and exports of more than Ft 100,000 in foreign currency a person a trip required authorization.
	December 31. Parliament passed an act lifting all foreign exchange restrictions.
Resident accounts	*June 16.* All restrictions on holding and maintaining foreign exchange accounts, on accounts in domestic currency held abroad, and on conversion of accounts in domestic currency were lifted.

Nonresident accounts	*June 16.* Convertible forint accounts may be credited freely and converted into foreign currencies and their balances may be transferred freely.
Exports and export proceeds	*June 16.* Repatriation requirements on exports were abolished.
Proceeds from invisible transactions and current transfers	*June 16.* Requirements on proceeds from invisible transactions and current transfers were eliminated.
Capital transactions	*June 16.* All remaining restrictions on capital transactions were lifted.
Provisions specific to commercial banks and other credit institutions	*July 1.* The interest paid on reserves generated for foreign currency liabilities was made equal to that on reserves generated for forint liabilities (previously, it was 0.5 of a percentage point higher).
	July 1. The preferential treatment of commercial bank foreign liabilities denominated in foreign currency with a maturity of less than two years was discontinued, as 100% (previously 50%) of these liabilities are currently subject to the reserve requirement of 6%.