U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

Executive Summary

Hungary maintains an open economy and attracting foreign investment remains important for the Hungarian government. Hungary is an EU member with strong legal protection of investment, receiving approximately $98 billion in FDI since 1989. The automotive, software development and life sciences sectors have received the most investment. The Hungarian Investment and Trade Development Agency (HITA) operating under the State Secretary for Foreign Affairs and External Economic Relations in the Prime Minister's Office has the primary government responsibility for attracting FDI to Hungary. The Hungarian government encourages investments in both manufacturing and high-value added sectors such as research and development centers, manufacturing facilities and service centers. Hungary's high-quality infrastructure, labor force, and central location are often cited as features that can make it an attractive destination for investment. Despite these advantages, some businesses assert that obstacles to investment remain and FDI has lagged in recent years.

Hungary had been a leading destination for FDI in Central and Eastern Europe, reaching a peak in 2005 with $7.4 billion of FDI inflow. FDI inflows in 2008 were promising, reaching $6.96 billion, although the pace of inflows has particularly slowed since the 2008 global financial crisis and Hungary's relative advantage compared to regional competitors has diminished. In 2010, FDI had dropped to $1.97 billion as companies became more cautious about committing to large investments. Hungary showed some signs of FDI growth in 2013, with FDI reaching $4.62 billion, although this was largely reinvestment by existing companies with relatively few new investors to the market. 2013 FDI levels were still well below those in 2005, 2006 and 2008. Countries within the EU account for 72.2% of total FDI, while the United States is the largest non-European investor with 4% of FDI (there are approximately 200 companies in Hungary of U.S. origin). The economy has showed signs of recovery -- after GDP fell 1.7% in 2012, it grew 1.1% in 2013 and is expected to grow 2% in 2014. The government also reduced its fiscal deficit to under 3% of GDP, a result that allowed Hungary to exit the EU's Excessive Deficit Procedure (EDP) in 2013, while also paying off its debts to the IMF early. That same year, Hungary's debt management agency returned to international markets by issuing foreign currency-denominated bonds for the first time in 21 months.

Obstacles to investment include a persistent lack of transparency and predictability, reports of corruption and excessive red tape. Hungary received a poor rating – coming in 20th of 28 EU member states -- in Transparency International's 2013 Corruption Perceptions Index. In January 2014, the Hungarian government made a surprise announcement they were awarding a $17 billion nuclear construction project to a Russian state-owned company after indicating to interested foreign investors since December 2010 that they were planning an open tender for bids.

Since 2010 the government has passed a number of tax changes, such as reductions in personal income and business tax rates, purportedly to increase Hungary's regional competitiveness. However, Hungary also implemented a number of so-called "crisis taxes" to reduce its budget deficit in order to exit the EDP. These taxes, along with other regulatory measures and fees, targeted certain sectors including banking, energy, telecommunications, and large-sized retail operations. The GOH also made -- over the objections of the private sector energy firms affected -- three successive mandatory cuts in the regulated price of household utilities, several utility companies decided to accept a government buyout of their holdings as a result. Originally billed as “extraordinary measures” that would last only three years, the taxes in the financial and energy sectors remain, and the re-elected Fidesz government shows no signs that they plan to eliminate these taxes. Many affected firms have said that the government adopted these measures with little to no consultation with other stakeholders. Hungary remains a relatively open place to invest with significant investor protections, but these and other government interventions have generated some concern among the industries affected.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude Toward FDI

Hungary maintains an open economy and attracting foreign investment remains important for the Hungarian government. The Hungarian government established the Hungarian Trade and Investment Agency on January 1, 2011 to encourage foreign companies to invest in Hungary, facilitate bilateral trade, and support the activity of Hungarian small and medium sized enterprises (SMEs). Hungary had been a leading destination for FDI in Central and Eastern Europe, and FDI inflows reached a 2005 peak of $7.7 billion. FDI inflows in 2008 reached $6.96 billion, although the pace of inflows has particularly slowed since the 2008 global financial crisis and Hungary’s relative advantage compared to regional competitors has diminished. In 2010, FDI had dropped to $1.97 billion as companies became more cautious about committing to large investments. Hungary showed some signs of FDI growth in 2013, with FDI reaching $4.62 billion, although this was largely reinvestment and few new investors entered the market. Germany is the most significant country of origin -- contributing 22% of all Hungary’s FDI -- followed by Austria (14%) and the Netherlands (13%). The United States is the largest non-European investor with 4% of FDI. The automotive, software development and life sciences sectors receive the most investments. FDI stock in Hungary amounted to $111 billion as of the end of 2013. There are approximately 200 companies in Hungary of U.S. origin, although the figure is closer to 800 if representation offices, sales offices, and sole proprietorships owned by U.S. citizens are considered.

The Hungarian government encourages investments in both manufacturing and high-value added sectors such as research and development centers, manufacturing facilities and service centers. The government also believes that considerable opportunities exist in biotechnology, information and communications technology, software development, the automotive industry, and tourism. Considerable efforts have been made by the National Innovation Office (NIH) to promote the expansion of small and medium sized enterprises and startups in information and communication technology.

Hungary's high-quality infrastructure, labor force, and central location are often cited as features that make it an attractive destination for investment. Despite these advantages, some businesses complain that obstacles to investment remain. These include a persistent lack of transparency and predictability, reports of corruption (particularly in government procurement and construction) and excessive red tape. Since 2010 the government has passed a number of tax changes, such as reductions in personal income and business tax rates in order to increase Hungary's regional competitiveness. Some tax increases, such as so-called “crisis taxes” to reduce the budget deficit below 3% of GDP and exit the EU’s excessive deficit procedure (EDP), have adversely affected some businesses. (Note: Hungary was under the EU’s EDP procedure since 2004 when it joined the EU. The European Commission lifted the EDP in 2013, after the GOH budget deficit fell to less than 3% of GDP for two consecutive years. End Note.) These taxes, along with other regulatory measures and fees passed in 2012, targeted certain sectors including banking, energy, telecommunications, and large-sized retail operations.

Originally billed as “extraordinary measures” that would last only three years, the re-elected Fidesz government will likely continue the taxes in the financial and energy sectors to offset lower revenue from reduced personal income tax rates. The GOH has even increased these taxes in recent years. As of January 1, 2013 the government increased the “Robin Hood tax” -- a tax on energy companies’ earnings before taxes -- from 11% to 31%, increasing the effective total tax rate (when including the 19% corporate tax rate) for energy service providers from 30% to 50%. The same day, the GOH introduced a Financial Transaction Tax, even though the banking sector as a whole posted losses in 2012 and 2013. The GOH also implemented a new public utility tax on water and sewer pipelines, natural gas, heat and electricity lines and telecommunications lines.

Since the GOH introduced many of the tax measures with little to no consultation with affected businesses, many foreign companies expressed displeasure with the unpredictability of Hungary’s tax regime, and the retroactive nature, speed and volume of legal and tax changes. Some companies operating in Hungary have also claimed that the recent “crisis taxes” are inconsistent with EU regulations since they target certain industries/sectors over others and do not reflect the costs of regulating the affected sectors. While the taxes affect Hungarian and non-Hungarian firms in those sectors equally, they appear to target sectors with mostly foreign firms. Both the EU and the IMF criticized the taxes and requested they be phased out as they distort competition, reduce foreign investment and economic growth, and offset the economic benefits of cuts in personal and corporate tax rates. The EU launched infringement procedures against the telecommunication tax implemented in 2010, and elevated it to the European Court of Justice at the end of 2012. In July 2013, however the European Commission (EC) dropped legal action against Hungary over the special telecom tax, after the European Court of Justice made an unfavorable ruling in a similar case involving France.

These same sectors are often targeted by the GOH in political and populist rhetoric, with Prime Minister Orban himself telling supporters during a March 15 rally that Hungary had proved that it was strong because it had battled the “world of money” in a reference to GOH actions to target banks and financial institutions. Other GOH officials have publically commented that companies in those sectors that earn “unfair profits” would be less welcome as investors in Hungary. The current government has remained positive towards foreign investors that are involved in manufacturing for export, and has not target these firms to date for extraordinary taxes.

Investment Trends

Hungary is slowly emerging from the 2008/2009 global financial and Euro crisis. Except for a 1.7% drop in GDP in 2012, Hungarian growth has slowly increased following a 6.8% decline in 2009. The IMF expects 1.1% GDP growth in 2013 followed by a moderate 2% in 2014.

GOH-mandated cuts in regulated public utility prices and government schemes to rescue foreign currency denominated mortgage holders have slowly lifted domestic demand, which economic analysts believe could contribute to GDP growth. Exports remain the main engine of the Hungarian economy and amount to 80% of GDP. Germany is the country's largest export destination and over the past few years Hungary maintained a trade and current account surplus. Following a successful return to the global financial markets in February 2013 (after almost two years of not issuing foreign currency bonds), in August 2013 Hungary repaid the remaining portion of the 20 billion Euro ($26 billion) financial stabilization package it borrowed in October 2008 from the European Union (EU), the International Monetary Fund (IMF), and the World Bank. The GOH issued more foreign currency bonds in November 2013 and most recently $3 billion in dollar bonds in March 2014.

International credit rating agencies lowered Hungary's government bond ratings in 2011 and 2012 to non-investment grade in response to the government's windfall taxes, nationalization of mandatory private pension savings and the elimination of the independent Fiscal Council. As the economy seems to slowly recover, Standards and Poor's raised Hungary's long-term sovereign debt from negative to stable in March 2014.

Other Investment Policy Reviews

Since 1989, Hungary has undergone a dramatic transformation from a centrally planned economy to an open, pro-business economy. In 2004 it became a member of the European Union. Financial markets are highly developed and smoothly operating, and reflect a level of sophistication indicative of an early reformer in the region.

Parliament drafted a new Constitution that came into force on January 1, 2010 – which as of April 2014 has been amended five times. The New Hungarian Constitution guarantees private ownership, right of enterprise, and freedom of competition, in addition to guaranteeing full and immediate compensation for any property expropriated by the Hungarian state. In November 2010 Parliament moved to restrict tax and budgetary matters from the Constitutional Court's purview so that no legislation can be ruled unconstitutional if it affects government revenue. The Ministry of Economic Affairs established the ITDH (Investment and Trade Development Agency in Hungary) in 1993 to help companies make major investments in the country. On January 1, 2011, ITDH's economic development responsibilities were transferred to the Hungarian Investment and Trade Development Agency (HITA) operating under the Ministry of National Economy. In April 2013, HITA was moved from the purview of the Ministry of National Economy to the Prime Minister's Office, now operating under the State Secretary for Foreign Affairs and External Economic Relations. HITA is smaller in size than the former ITDH. The government has a National Development Program II (NDPII) for channeling EU development funds and the Smart Hungary investment incentive program, aimed at facilitating investments in key areas -- especially in less developed regions.

The Investors' Council -- made up of the 100 largest foreign investors -- is intended as a mechanism to maintain Hungary's economic competitiveness and attractiveness to foreign investors. It is co-chaired by the Minister of Economy, the American Chamber of Commerce, the German Hungarian Chamber of Commerce, the Hungarian Joint Venture Association, the Hungarian Association of International Investors, and the Permanent Commission of EU Chambers. The Council was revived in 2011 after a period of dormancy and continues to meet regularly.

Since July 2012 the Hungarian government has signed 43 "strategic agreements" with key investors in Hungary, including several U.S. companies. According to government officials, these appear designed to ensure investment-friendly relations between foreign firms and the Hungarian government, but generally do not commit the companies or governments to specific actions and/or targets. These agreements are seen by some companies as providing special access to the government, and have led to a concern that some companies do receive special treatment and others have difficulties obtaining access to decision makers.

Laws/Regulations of FDI

There are significant protections for property and investment. Article XIII of the Hungarian Constitution that states that that the Hungarian state may only expropriate property in exceptional cases where there is a public interest, that any such expropriations must be carried out in a lawful way, and that the Hungarian government is obliged to make immediate and full restitution for any expropriated property without any additional stipulations or conditions. The most notable legislation in force that protects investors is the Foreign Investment Act of 1988. It grants full protection to the investments and businesses of non-Hungarian resident investors and guarantees that non-Hungarian investors will be treated in the same manner as Hungarian investors. The Act also contains a repatriation guarantee under which foreign investors are free to remit profits and investment capital to their home country in the event of partial or complete termination of their enterprise.

A substantial body of other laws also protects foreign investment in Hungary, provides equal treatment under Hungarian laws, and enables profit repatriation. Institutions and procedures are in place to ensure compliance with legislation and competition rules. Most important are the 2006 Law on Business Organizations, the 2009 Law on Enterprise, the 1992 law on transforming state companies into economic associations, the 1996 Competition Law, and the 1995 Privatization Law. Other significant laws include the 1991 Law on Bankruptcy, the Law on Securities, and the 1994 Law establishing the Commodity Exchange Legislation. These laws do not differentiate between domestic and foreign investors, treating all investors equally. Commercial law in Hungary is well developed; however, most analysts see both a need to continue to revise the corporate legal code and to improve the judicial and administrative capacity for enforcing it. There continue to be complaints from foreign investors about the slow pace of the judicial system.

Limits on Foreign Control

Up to 100-percent foreign ownership is permitted with the exception of designated "strategic" holdings in some defense-related industries and farmland. Since 2012, the government has been trying to raise state owned energy company MVM's share in the energy sector through regulatory measures and buyouts. Government-imposed utility price cuts in 2013 and 2014 may also push international investors out of Hungary's energy sector. A new law that would require all utility companies to be non-profit is being drafted and expected to be submitted to Parliament in 2014. According to the new waste management law passed in 2012, waste management companies shall be in state or municipal majority ownership after January 2014. Ownership of water pipeline and sewage grids is limited to the state or municipality. Foreigners investing in financial institutions and insurance companies must officially notify the government but do not need advance authorization. Foreign financial institutions may operate branches and conduct cross-border financial services in Hungary, in keeping with OECD commitments. Currently, foreign firms control two-thirds of the manufacturing sector, 59% of the financial sector, 90% of the telecommunications sector, and 60% of the energy sector. The private sector currently produces about 80% of Hungary's economic output.

The Hungarian State Holding Company (MNV) became the legal successor to the Hungarian Privatization and State Holding Company (APV) in 2008, and is responsible for managing and privatizing state-owned properties. With most state-owned companies now privatized, the pace of privatizations has slowed considerably in recent years. Government rhetoric may even point to a reversal: in March PM Orban told supporters and a Chamber of Commerce and Industry meeting that at least half of the banking sector should be in Hungarian hands. The GOH appears to be moving toward that goal: analysts say windfall taxes, the financial transaction tax, and government rescue schemes designed to ease burdens of foreign currency mortgage holders have resulted in several foreign-owned banks considering the sale of their Hungarian business units, including German owned MKB (Hungarian Foreign Trade Bank), Austria's Raiffeisen Bank, and Italian owned CIB. The Hungarian-owned network of Savings Cooperatives is also now under government ownership.

Ownership in Hungary is considerably more concentrated than in the U.S. It is common for one or two stockholders to have a controlling stake in large corporations. Crossholdings are common and the independence of directors sometimes difficult to establish.

Under the Investment Act, a company incorporated in Hungary may only acquire real estate "required for its economic activities," but this has been liberally interpreted and has not prevented foreign entrepreneurs from engaging in property development. According to the new Land Law passed in 2013 and which entered force on May 1, 2014, only private Hungarian citizens or EU citizens resident in Hungary with a minimum of three years of experience working in agriculture or those holding a university degree in an agricultural field can purchase farmland. Both will be limited to purchasing at most 300 hectares. All others may only lease farmland; non-EU citizens and legal entities are not allowed to purchase agricultural land. All land purchases must be approved by a local land committee and Hungarian authorities. For those who do not fulfill the above requirements or for legal entities, the law allows the lease of farmland up to 1200 hectares for a maximum of 20 years.

Competition Law

TABLE 1: The following chart summarizes Hungary's rank in several well-regarded indices.

Measure	**Year**	**Rank or value**	**Website Address**

TI Corruption Perceptions index	2013	(47 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation’s Economic Freedom index	2013	(51 of 178)	http://www.heritage.org/index/ranking
World Bank’s Doing Business Report “Ease of Doing Business”	2013	(54 of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	(31 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	$12,380	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

The Hungarian forint (HUF) has been convertible for essentially all business transactions since January 1, 1996, and foreign currencies are freely available in all banks and exchange booths. Hungary complies with all OECD convertibility requirements and IMF Article VIII. Act XCIII of 2001 on Foreign Exchange Liberalization lifted all remaining foreign exchange restrictions and allowed free movement of capital in line with EU regulations. In 2001, Hungary adopted an exchange rate intervention band of +/-15% around a benchmark rate against the Euro. In order to allow the Hungarian National Bank (MNB) to exclusively focus on its inflation target of 3%, in February 2008 the MNB adopted a free-floating exchange rate regime. Since then, market forces determine the exchange rate of the HUF to the Euro and other currencies. The Hungarian Central Bank has been maintaining an inflation-targeting policy under the leadership of Gyorgy Matolcsy, nominated Bank Governor in March 2013. During his tenure, the Bank has cut Hungary’s prime rate aggressively from 7% in August 2012 to 2.5% today.

According to Hungary’s EU accession agreement, it must eventually adopt the Euro. Although the current government notes that adoption of the Euro remains a priority, a specific target date for entry has not been set. Recent reforms aim to strengthen Hungary's fiscal sustainability and bring it closer to meeting the Maastricht criteria and other conditions required for entry into the Exchange Rate Mechanism II (ERM II), necessary for Euro adoption. The timing of Hungary's entry into the Eurozone will largely depend on the economic policies and priorities of the government.

Short-term portfolio transactions, hedging, short and long-term credit transactions, financial securities, assignments and acknowledgment of debt may be carried out without any limitation or declaration. While the Forint remains the legal tender in Hungary, parties may settle financial obligations in a foreign currency. Many Hungarians took out mortgages denominated in foreign currency prior to the global financial crisis, which became a major issue for the government after the Forint depreciated against the Swiss Franc and the Euro. Despite strong pressure, the

Hungarian Supreme Court ruled that there is nothing inherently illegal or unconstitutional in loan agreements that are foreign currency denominated, upholding existing contract law.

Hungarian legislation allows for profit repatriation and re-investment. The timeframe for remittances are in line with the financial sector's normal timeframes (generally less than 30 days), depending on the destination of the transfer and on whether corresponding banks are easily found. There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs.

3. Expropriation and Compensation

Article XIII of Hungary's Fundamental Law provides protection against expropriation, nationalization, and any arbitrary action by the government except in cases of acute national concern. In such cases, immediate and full compensation is to be provided to the owner. There are no known expropriation cases where the Hungarian government has discriminated against U.S. investments, companies, or representatives. There have been some complaints from other foreign companies within the past several years that expropriations have been improperly executed without proper remuneration. These cases turned to the legal system for dispute settlement. Recently, the Hungarian government bought out certain foreign investors in the energy sector -- remuneration appeared to be sufficient and there were no complaints about the agreed buyout price.

4. Dispute Settlement

Legal system, Specialized Courts, Judicial Independence, Judgment of Foreign Courts

Hungary's judicial system underwent significant changes due to legislation passed in 2011 and effective January 1, 2012. Parliament renamed several courts and added a new court -- the Court of Public Administration and Labor. Presently, the Hungarian judicial system includes four tiers: district courts (formerly referred to as local courts) and courts of public administration and labor; courts of justice (formerly referred to as county courts); courts of appeal; and the Curia (the renamed Supreme Court). Hungary also has a Constitutional Court that reviews cases involving the constitutionality of legal regulations and court rulings.

Hungary also established the National Court Administration Office (OBH) and invested significant authority in the OBH President. The OBH President is nominated by the Hungarian President, approved by a two-thirds Parliamentary majority and serves a nine-year term. Under the revised judicial system, the OBH President's responsibilities include judicial appointment recommendations, court leadership decisions and caseload distribution. The OBH President was given the authority to choose the venue for specific cases in order to ensure timely proceedings, although that power was removed when the Fifth Amendment was adopted on September 16, 2013. Domestic and international observers have voiced concerns regarding the independence of the judiciary.

Bankruptcy

The Act on Bankruptcy Procedures, Liquidation Procedures and Final Settlement of 1991, amended several times, covers all commercial entities except banks (which have their own regulatory statutes), trusts, and state-owned enterprises to bring Hungarian legislation in line with EU regulations. Bankruptcy proceedings can only be initiated by the debtor provided he/she has not sought bankruptcy protection within the previous three years. Within 90 days of seeking bankruptcy protection, the debtor must call a settlement conference to which all creditors are invited. Majority consent of the creditors present is required for all settlements. If agreement is not reached, the court can order liquidation. The Bankruptcy Act establishes the following priorities of claims to be paid: 1) liquidation costs; 2) secured debts; 3) claims of the individuals; 4) social security and tax obligations; 5) all other debts. Creditors may request the court to appoint a trustee to perform an independent financial examination. The trustee has the right to challenge, based on conflict of interest, any contract concluded within 12 months preceding the bankruptcy.

Liquidation procedures may be filed with the court by the debtor, the creditors, the administrator, or the Criminal Court. Once a petition is filed, regardless of who filed it, the Court notifies the debtor by sending him a copy of the petition. The debtor has 8 days to declare whether he acknowledges insolvency. If accepted, the company declares if any respite for the settlement of debts is requested. Failure to respond to this shall result in the insolvency being presumed. Upon request the Court may allow a maximum period of 30 days for the debtor to settle its debt. If the Court finds the debtor insolvent, it shall, in the decree, appoint a liquidator. The Liquidation Decree shall be published in the Company Gazette. The Court shall notify the competent tax and customs authorities, the health insurance administration agency, the pension insurance administration agency and all payment service providers carrying the debtor's accounts, of the insolvency. There have been some concerns raised about the transparency of the liquidation process because a company may not know that a creditor is filing a liquidation petition until after the fact.

International Arbitration

Hungary has accepted binding international arbitration in cases where the resolution of disputes between foreign investors and the state is unsuccessful. There are domestic arbitration bodies within the Hungarian Chamber of Commerce, the Ministry of Labor, and local municipal governments. Hungary is a member of the International Center for the Settlement of Investment Disputes (ICSID). Hungary is also a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. In the last few years mediation has become a tool of increasing importance for dispute settlement to avoid lengthy court procedures. In November 2013, Hungary's largest hydrocarbon company MOL filed a request for arbitration with ICSID in order to launch arbitration proceedings against the Croatian government for breaching certain of its obligations and undertakings in relation to MOL's investments in Croatia.

5. Performance Requirements and Investment Incentives

Hungary has a well-developed incentive system for investors, the cornerstone of which is a special incentive package for investments over a certain value (typically over 10 million Euro, or $13 million). The incentives are focused on investors establishing manufacturing facilities, logistics facilities, regional service centers, R&D facilities, bioenergy facilities, or tourist facilities. Incentive packages may consist of cash subsidies, development tax allowances, training subsidies, and job creation subsidies. The incentive system is compliant with EU regulations on competition and state aid and is administered by the Hungarian Investment and Trade Development Agency and managed by the Ministry of National Development.

Performance requirement/incentives are available to all enterprises registered in Hungary, regardless of the nationality of owners or location of incorporation, and applied on a systematic basis. Performance requirements, such as job creation or investment minimums, can be imposed as a condition for establishing, maintaining, or expanding an investment. There is no requirement that investors purchase from local sources, however the EU Rule of Origin applies. The government imposes “offset” requirements for defense sector investments over one billion forint ($4,300,000). Investors are not required to disclose proprietary information to the government as part of the regulatory process. There are no restrictions on participation in government financed or subsidized research and development programs. To comply with European Union rules, the government of Hungary no longer grants tax holidays based on investment volume.

Under the 2007-2014 Multiannual Financial Framework (MFF), the EU allocated Hungary 22.4 billion Euro ($29.5 billion) to implements it’s National Development Plan. Many observers note that EU funds have financed the majority of public investment in recent years.

The process of obtaining visas, residence permits, and work permits can be lengthy and tedious but does not inhibit foreign investors’ mobility. Employment of foreign nationals must meet Hungarian Labor Code requirements.
There have been no complaints against Hungary related to any failure to fulfill any trade related investment measures (TRIMS) treaty obligation.

6. Right to Private Ownership and Establishment

The Hungarian constitution guarantees the right to private ownership. Foreign and domestic private entities may establish and own business enterprises and engage in all forms of remunerative activity, except those prohibited by law. Hungarian law guarantees the right to establish of private entities, as well as the right to acquire and dispose of interests in business enterprises.

The Foreign Investment Act of 1988 grants full protection to the investments and businesses of non-Hungarian resident investors. The Act guarantees that investors will be treated in the same manner as national investors, and contains a repatriation guarantee under which foreign investors are free to remit profits and investment capital to their home country in the event of partial or complete termination of their enterprise. In Hungary, many foreign companies operate through representative offices.

The registration of business associations is compulsory in Hungary. All firms registered in Hungary are under the Court of Registration’s legal authority. The Court maintains a fully computerized registry, provides public access to company information, and is developing an electronic filing system. The Court also enforces compliance with the Company Act, enacted in 2006, which compels registry courts to process applications to register limited liability and joint-enterprise companies within 15 workdays. If the court fails to act in the period, the new company is automatically registered. The act eliminated separate registrations at the tax and social security authorities. The minimum capital required for a limited-liability company was raised by the new Civil Code (effective in March 2014) from 500,000 HUF ($2,250) to 3,000,000 HUF ($12,950). For private limited companies the minimum capital is set at 5,000,000 HUF ($21,580), for public limited companies 20,000,000 HUF ($86,300). As of July 1, 2008 businesses may be established in one hour electronically or by a simplified registration procedure. Lowering administrative burdens and red tape was also included in the 2013 budget.

7. Protection of Property Rights

Secured interests in property (mortgages), both moveable and real, are recognized and enforced but there is no title insurance in Hungary.

On January 1, 2003, Hungary acceded to the European Patent Convention and has accordingly amended the Hungarian Patent Act. Hungary is a party to the WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement and most other major international IPR agreements, including the most recent World Intellectual Property Organization (WIPO) copyright Treaty and the WIPO Performance and Phonograms Treaty. It is also a party to the EU Information Society Directive, and implemented the EU Enforcement Directive in 2005. The United States and Hungary signed a Comprehensive Bilateral Intellectual Property Rights (IPR) Agreement in 1993 that addresses copyright, trademarks and patent protection. A subsequent industrial property and copyright law entered into force on July 1, 1994 that significantly strengthened the domestic patent system. A new Copyright Law passed in June 1999 made necessary technical changes required by the WTO TRIPS Agreement.

The 1993 IPR agreement recognizes an exclusive right to authorize the public communication of works, including the performance, projection, exhibition, broadcast, transmission, retransmission or display of these works. It also requires that protected rights be freely and separately exploitable and transferable (contract rights), and recognizes an exclusive right to authorize the first public distribution, including import, for protected works.

Patent protection in Hungary covers the use, sale, offering for sale, and import of a patented product or products made using a patented process. The definition of infringement has been extended to include “supplying the means.” A person who sells or offers to sell the means of producing a patented product is liable if that person is proven to have known that the means could be used for infringement. An example is the sale of decoder boxes that would allow the user to pirate a cable signal.

Under the revised Patent Act, effective January 1, 1996, an invention may be patented if it is novel and has industrial application. The patent application process takes from six months to one year, and patents are issued for a period of twenty years from the filing date. Foreigners applying for a Hungarian patent whose permanent residence is not in the European Economic Area (EEA) must be represented by an authorized Hungarian patent agent. Hungarian patent law conforms to the guidelines of the European Patent Convention, to which Hungary is a signatory.

Trademarks may be granted for any product-distinguishing sign capable of being graphically represented. They are issued for ten years and are renewable. The Hungarian Intellectual Property Office (HIPO) is in charge of patent revocation and trademark invalidity proceedings, while all disputed related to the infringement of IPR fall under the jurisdiction of the courts.

In May 2004 the United States Trade Representative (USTR) announced that Hungary was placed upon the Special 301 Watch List of countries due to weak enforcement and inadequately protected confidential pharmaceutical test data. The government of Hungary has taken steps towards more complete implementation of its international obligations by implementing a ministerial decree to provide data exclusivity protection for pharmaceutical products authorized in the EU or Hungary after April 11, 2001. Due to this and other measures, USTR removed Hungary from the Special 301 Watch List in 2010.

In July 2010, the U.S. Patent and Trademark Office and HIPO launched a pilot program to facilitate patent recognition between the United States and Hungary. Due to the success of the pilot program, in April 2012 the USPTO and HIPO signed a Memorandum of Understanding to streamline and expedite patent recognition further. More details about this Patent Processing Highway (PPH) program can be found on USPTO's website at www.hipo.gov.hu/English/szabadalom/pph/.

In January 2008, the GOH established a National Board Against Counterfeiting and Piracy (HENT), led by a government commissioner, the Hungarian Intellectual Property Office (HIPO), and the Ministry of Justice (MOJ). HENT has participation from law enforcement and other government agencies, various business chambers, industry associations, and NGOs. The Board established a strategy until the end of 2010, which was approved by the government in October 2008. Since its creation, the HENT has undertaken a number of positive measures to increase training of judicial law enforcement officials, improve coordination between rights-holders and law enforcement officials, and increase public awareness of the importance of intellectual property rights protection. Ongoing areas of concern include internet-based piracy and the failure of judges to impose deterrent-level sentences for civil and criminal IP infringement. In January 2011 HENT was reorganized by a governmental decree and given a legal framework for its operation. HENT is in the process of establishing a new strategy to meet current IPR challenges.

In January 2011, the Customs Authority and Tax Authority (NAV) were merged and given jurisdiction over IPR enforcement. NAV is a member of HENT, and also works closely with the Business Software Alliance (BSA). In January 2011 the NAV created a special Cyber-crime unit to better address internet IPR infringements.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Embassy point of contact: Maximilian Gebhardt GebhardtMR@state.gov (+36 1)475-4598

Local lawyers list: http://hungary.usembassy.gov/attorneys.html

8. Transparency of the Regulatory System

As a whole, labor, environment, health and safety laws are consistent with EU regulations. Laws in Parliament can be found on Parliament's website (http://www.parlament.hu/parl_en.htm). Legislation, once passed, is published in a legal gazette and available online at www.magyarkozlony.hu. Civil organizations have complained about a loophole in the current law that allow individual MPs to submit legislation and amendments without having to give a reason, something compulsory for legislation submitted by government institutions. The government has an inconsistent record of inviting interested parties to comment on draft legislation and does not always incorporate input into final documents.

According to a 2014 study of Budapest Corruption Research Center, the number of new laws passed by Parliament increased, while the average time spent debating new laws in Parliament decreased significantly in the past few years. In 2011 the number of laws amended within a year of Parliamentary approval quadrupled compared to the period of 2006-2008, and preliminary research shows that the trend remained the same in 2012 and 2013. Some see the increase in amendment activity as a result of the lack of time to adequately consult and debate new laws. In 2010, Parliament passed a new Act on Legislation and a new Law Soliciting Public Opinion.

The new laws require the government to publish the draft laws on its webpage and give adequate time for all interested parties to give an opinion on the draft. Implementation is not uniform: The government neglected to solicit discussion for several laws, such as a draft law on the Central Bank (which the European Central Bank criticized), the changes in disability pensions, the law on higher education or the new Land Law. Furthermore, as mentioned previously, companies in industries impacted by the crisis taxes have complained repeatedly that the business sector was not consulted before new taxes were announced, and that the government failed to take into account industry concerns. In some cases, the GOH took a course of action contrary to what it had indicated to business: in January 2014, the Hungarian government made a surprise announcement they were awarding a $17 billion project to expand the country's only nuclear power plant at Paks to a Russian state-owned company after frequent public statements made since December 2010 in which the government stated that they planned an open tender for bids.

In January 2012, a new, shorter and more flexible Public Procurement Act came into force. Reports indicate 4,063 procurement procedures in 2012 under the new Act. Most were negotiated procedures without public announcements, something allowed under the new law if the procurement value does not exceed 150,000,000 HUF ($647,000). The current Hungarian government extended the law to investments financed by the Hungarian Development Bank and increased the number of open tenders.

Government entities requesting bids must post information on their websites about the project and results of the public procurement process. Additionally, bids need to indicate all subcontractors and how they will participate in the project. The new law also reduces the amount of paperwork for bidders. Some experts consider the new Public Procurement Act too liberal and thus susceptible to corruption; for example, transparency NGOs point to evidence that Government offices broke up tenders to be under the limit requiring a public announcement, or interpreted public interest and security exceptions more broadly. Meanwhile, examinations of awards by transparency advocates appear to suggest State-owned or other companies with strong government connections still seem to have an advantage over private market players for public tenders. Companies operating in sectors with subsidies and price controls also appear to be affected by insufficient transparency and responsiveness to the setting of prices or subsidies.

According to Transparency International's (TI) National Integrity Study, systemic corruption adds as much as 20-25% to the costs of government procurement. A Freedom House study estimated that only 10% of government procurements are transparent. Government procurement reform is a major topic of discussion among foreign chambers of commerce and business entities. These groups have provided their suggestions to the GOH for inclusion into draft legislation.

TI noted that in October 2013, the Parliament passed a law on reporting issues of public interest, commonly referred to as a "whistleblower protection law." According to TI, in practice the new law lacks adequate protection for those reporting corruption.

The Accounting Law of 2000 and subsequent modifications were designed to bring Hungarian financial reporting standards and practices in line with the International Accounting Standards and the EU Fourth and Seventh Directives. Under the latest modification, effective January 1, 2005, listed companies under the scope of the EC are obliged to prepare consolidated financial statements in accordance with international financial standards, except for companies which are subsidiaries of a parent company already preparing a consolidated annual report.

9. Efficient Capital Markets and Portfolio Investment

Hungary has a modern financial sector. In April 2000, the responsibilities of the Bank Supervisory Board were merged with the state insurance and pension supervisory agencies to form the Hungarian Financial Supervisory Authority (PSZAF), a consolidated financial supervisor regulating all financial and securities markets. To increase its ability to foresee financial sector problems, Parliament passed a package of modifications to increase PSZAF's authority in December 2009 and October 2010. These include stricter regulations on loans for private individuals, better information about exact loan conditions and costs, and a code of ethics for banks. These changes are designed to prevent individuals from taking on loans they are unlikely to be able to repay and provide better protection for those who wish to change their loan conditions. In December 2010, Parliament empowered PSZAF to pass decrees, which created a strong two-pillar system of control by the Central Bank and the PSZAF over the financial sector. Tasks related to the establishment of the European Systemic Risk Body and the European System of Financial Supervisors was delegated to the PSZAF. In 2013 Hungary's Central Bank absorbed PSZAF and overtook all of its functions, including customer protection.

Prior to the global financial crisis, capital adequacy was not an issue in Hungary. Funds were readily available for businesses due in large part to a large foreign presence and significant competition in the banking sector. Since the crisis, banks have increased their capital adequacy ratios above the required 8%. However, credit is harder to obtain. Lack of confidence in financial markets over the past two years has affected Hungarian banks, and the government has curtailed lending in foreign currency by stipulating that only those who earn in foreign currency can take foreign currency denominated loans. Forint loans to businesses are hard to obtain as well, as the requirement to decrease the loan-to-deposit ratio is forcing banks to promote deposits and lend to less risky sectors. At the end of 2012, Hungary's loan-to-deposit ratio was down to 110%, compared with 170% in 2008. Foreign investors continue to have equal -- if not better -- access to credit on the local market, with the exception of special governmental credit concessions such as small business loans. Markets for direct finance are thin.

10. Competition from State-Owned Enterprises (SOEs)

Since the 1990s there has been considerable privatization of former state-owned enterprises. Today, a few SOEs remain primarily in strategic sectors such as national security, energy (MVM) and transportation. However, in the past year and a half, the government tried to make investments in areas outside the scope of national interest, such as the telecommunications sector or the production of machinery. Nevertheless, we have heard few complaints from private companies regarding competition from SOEs.

Since mid-2012, a number of government measures has made it more difficult for energy companies to operate and the government has publicly stated its interest in nationalizing some private firms. In 2013 the government purchased E.ON's wholesale and gas storage divisions and bought RWE's retail gas company, Fogaz.

According to a study conducted by the Budapest Corruption Research Institute and TI Hungarian SOEs scored 46 points on a scale of 100 as regards to meeting transparency obligations in terms of data published on their websites, integrity, Codes of Ethics, and internal control systems.

11. Corporate Social Responsibility (CSR)

Since the mid-1990s, corporations began to pay more attention to social responsibility. Foreign investors in Hungary over the long-term have "imported" their CSR policies and models, which local Hungarian corporations have also begun to adopt. According to a survey conducted by CSR Hungary, 55% of businesses have a CSR policy and 44% of businesses think that CSR increased their competitiveness. The Hungarian Business Leaders Forum (HBLF), a non-profit representative body of local and international business leaders in Hungary, considers CSR as part of its mission. Since 2006 CSR Hungary -- the country's largest CSR forum -- has held several conferences every year, where corporate managers, researchers and university students exchange information and an annual CSR award is presented. According to Nielsen Global Omnibus research over 60% of Hungary's adult population prefers companies committed to CSR, exceeding the 54% average in the EU. In 2006 the government signed a strategic resolution to reinforce employers' social responsibility.

Price Regulation and Liberalization

The Price Act of 1990 authorizes the government to determine compulsory prices when the Competition Act fails to protect interests of consumers. This sets the upper or lower price limit for certain goods and services to be established by a relevant government authority.

Foreign companies operating in price-regulated sectors, such as energy and pharmaceuticals, have suffered decreased margins due to government delays in adjusting prices upward and extending subsidies to new drugs. Multinational pharmaceutical firms say they have negotiated with the Ministry of Health with little effect on the price and reimbursement policies, and therefore view current government plans for pharmaceutical subsidies as impractical.

Even with deregulation, some sectors -- particularly in energy -- operate under regulated prices. According to the Amendment on Electricity and Gas Act passed by Parliament in June 2010, the Ministry for National Development, in consultation with the Hungarian energy regulator, sets the price regime of universal service providers (USPs) quarterly. USPs have seen their profit margins squeezed when the set price is below the price of imported gas. The government-imposed utility price cuts in 2013 and 2014 resulted in most Hungarian USPs operating in the red.

Since mid-2012, the government has implemented two cuts to regulated utility prices, making it increasingly difficult for private energy companies to operate. In 2014, the government announced that it was planning to bring a law to parliament that would mandate that all utility firms must be non-profit. As a result of this, E.ON sold its wholesale and gas storage divisions to the government and RWE sold its retail gas company, Fogaz.

The 1996 Offering of Securities, Investment Services and Securities Exchange Act, and the 1990 Securities and Stock Exchange Act govern the public issuance and trading of bonds, shares and other securities. The Budapest Stock Exchange (BSE) has 37 members, which are licensed-broker or broker-dealer companies, including several U.S.-based firms. It is a full member of the Federation of International Stock Exchanges and an associate member of the International Securities Market Association. The total market capitalization in March 2014 amounted to 56.9 billion Euro ($73.9 billion), of which shares amount to 13.1 billion Euro ($17.0 billion) and government bonds and treasury bills amount to 38.0 billion Euro ($49.4 billion). Average daily turnover was 23.5 million Euros ($30.5 million), which is 1% higher than in 2013. In November 2005, the BSE integrated the Commodity Exchange, creating a commodities section. In December 2010 the BSE listed a total of 68 issuers. These include 49 equity, 11 bond, 3 mortgage, 9 investment funds, one government bond and T-bill issuer, two investment and turbo certificate issuers, and one compensation note issuer, some of which issue several types of instruments. 71.4% of capitalization is concentrated in four companies (MOL, OTP, Magyar Telecom, and Richter), the “Blue-chips’ which determine the Stock Exchange Index. Until November 2013 these were included in the MSCI’s Emerging Market Index, when the New York based index provider decided to remove Magyar Telekom from among them.

In January 2010, the BSE became a subsidiary of the CEESEG AG holding company, which owns 50.45% of the BSE. In December 2013, the BSE switched to the Xetra trading system, which directly links companies listed on its platform to traders and investors of 18 European countries as well as offering a direct access to thousands of new instruments to Hungarian investors.

12. Political Violence

Despite violent protests in 2006, political violence has not been characteristic in Hungary. The transition from communist authoritarianism to capitalist democracy was negotiated and peaceful, and free elections have been held since 1990. Hungary's economic troubles, however, have contributed to an increase in political extremism. In April 6, 2014 elections, an extreme ethnic nationalist and openly anti-Roma and anti-Semitic party -- Jobbik -- won 20.2% of the popular vote. The party had entered Parliament after the 2010 elections, and had supported or organized a series of marches in Roma villages under the guise of maintaining public order.

On January 13, 2014 a CIB Bank branch in Budapest was bombed by an unknown assailant. No one was injured. As of April 2014, the perpetrator of this attack has not been found and the motive behind the attack remains unknown. CIB is owned by Italian banking firm Intesa Sanpaolo.

13. Corruption

The Hungarian Ministry of Public Administration and Justice is responsible for combating corruption. There is a growing legal framework in place to support its efforts. Hungary is a party to the OECD Anti-Bribery Convention and has incorporated its provisions into the penal code, as well as subsequent OECD and EU requirements on the prevention of bribery. Hungary adopted a national strategy on combating corruption and the new Criminal Code effective July 2013 introduced stricter rules for corruption related crimes. Parliament also passed the Strasbourg Criminal Law Convention on Corruption of 2002 and the Strasbourg Civil Code Convention on Corruption of 2004. Hungary is a member of GRECO (Group of States against Corruption), an organization established by members of the Council of Europe to monitor the observance of their standards for fighting corruption.

Transparency International (TI) is active in Hungary. TI’s 2013 Corruption Perceptions Index rated Hungary 47th out of 178 countries (1st being best), down from 46th in 2011. Among the 28 EU countries, Hungary ranked 20th -- behind regional peers like Estonia, Slovenia, Lithuania and Poland. TI commented that state institutions responsible for supervising public organizations are headed by people loyal to the ruling party, limiting their ability to serve as a check the actions of the government. After the GOH amended the Act on Freedom of Information in 2013, TI commented data on public spending would be more difficult to access, adding that rather than making progress, Hungary stepped back.

Giving or accepting a bribe is a criminal offense, as is an official’s failure to report such an incident. Penalties can include confiscation of assets, imprisonment, or both. Since EU membership, legal entities can also be prosecuted. Conflict of interest legislation prohibits members of parliament from serving as executives of state-owned companies. An extensive list of public officials and many of their family members are required to make annual declarations of assets, but there is no specified penalty for making an incomplete or inaccurate declaration. A 2003 law extended the State Audit Office’s right to review businesses’ government contracts and public-private transactions that were previously considered “business-confidential.”

While legislation is in place, private companies and NGOs have expressed their concern about possible corruption in government procurement due to a lack of transparency and uneven implementation of anti-corruption laws. Non-governmental organizations, the business community, and foreign governments share many of these concerns, and maintain an ongoing dialogue with the government to improve conditions. The GOH set up an Anti-Corruption Coordination Board, led by the Ministry of Justice with participation from other government ministries, chambers and NGOs, which submitted a strategy and action plan to Parliament in 2008. This board disbanded in late 2009. In addition, observers have raised concerns about appointments of Fidesz Party loyalists as heads of quasi-independent institutions like the Media Council and the State Audit Office.

In December 2009, Parliament passed new measures designed to reduce corruption in public procurement. However, most of these measures have not been implemented. The government does not intend to set up new anti-corruption institutions but rather prefers to strengthen existing institutions. On January 1 2012, the Anticorruption Division of the Central Investigative Chief Prosecutor's Office increased the number of prosecutors specializing in high-profile corruption cases from eight to thirty-five.

As a consequence of Hungary's strategic location in central Europe, its cash based economy and well-developed financial services industry, money laundering in Hungary is related to a variety of criminal activities, including illicit narcotics-trafficking, prostitution, trafficking in persons, fraud and organized crime. Other prevalent economic and financial crimes include official corruption, tax evasion, real estate fraud, and identity theft. Hungarian legislation on combating money laundering is in line with international obligations. The core elements of Hungary's Anti-Money Laundering/ Combating Terrorist Financing (AML/CFT) regime are established in the Hungarian Criminal Code (HCC), which contains the Money Laundering and Terrorist Financing offenses; Act CXXXVI of 2007 on the Prevention and Combating of Money Laundering and Terrorist Financing (AML/CFT Act). A new AML/CFT Act was introduced in 2007, when Hungary transposed the third EU AML/CFT Directive, and it's Implementing Directive, into national law as well as introducing the financing of terrorism into preventive legislation. Anti-money laundering legislation covers banks; investment service providers, employer pension services, and commodity exchange services; insurance intermediary and mutual insurance fund services; sellers and issuers of international postal money orders; real estate agents and brokers; auditors; accountants; tax consultants and advisors; casinos or card rooms; precious metal and high value goods traders; lawyers; and notaries. Hungary is a member of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body.

14. Bilateral Investment Agreements

Hungary and the United States do not have a bilateral investment treaty (BIT), nor is one currently under negotiation.

Hungary has bilateral investment treaties with the following countries: Albania, Argentina, Australia, Austria, Azerbaijan, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Chile, China, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, India, Indonesia, Jordan, Kazakhstan, Kuwait, Latvia, Lebanon, Lithuania, Luxemburg, The former Yugoslav Republic of Macedonia, Malaysia, Moldova, Mongolia, Morocco, The

Netherlands, Norway, Paraguay, Poland, Portugal, Romania, Russian Federation, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, Uruguay, Uzbekistan, Vietnam and Yemen.
Hungary has tax treaties which eliminate many aspects of double taxation with the United States and the following countries: Albania, Australia, Austria, Azerbaijan, Belarus, Belgium, Brazil, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, the Federal Republic of Yugoslavia, France, Georgia, Germany, Great Britain, Greece, Hong Kong, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, The former Yugoslav Republic of Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Morocco, The Netherlands, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Korea, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, Tunisia, Ukraine, Uruguay, Uzbekistan and Vietnam. Negotiations were recently concluded in 2010 to revise Hungary's current tax treaty with the United States; it awaits Senate ratification.

In January 2014 Hungary signed a Foreign Account Tax Compliance Act (FATCA) with the U.S. to improve international tax compliance through mutual assistance in tax matters and the automatic exchange of tax information. The USG and GOH are also negotiating a totalization agreement that will eliminate double social security taxation and fill gaps in benefits for workers that have divided their careers between the United States and Hungary.

Strategic Agreements
In mid-2012 the government announced its plan to sign "strategic cooperation agreements" with key investors engaged mainly in manufacturing, with the aim that they continue operations in Hungary and contribute to growth and employment. As of April, 2014, 43 such agreements have been signed, including the following U.S. companies: Coca-Cola, Alcoa-Kofem Microsoft, GE, IBM, Jabil, Delphi, Hewlett Packard and National Instruments.

Taxation
Since April 2010, the government has made a number of significant tax changes. The government approved cuts in personal and corporate income tax rates, intending to spur economic growth. The personal income tax rate was reduced to 16% for all income groups. The corporate income tax rate was increased to 19% for a tax base above 500 million HUF (US$2.1 million) and reduced to 10% below this threshold. In 2012 the government increased the VAT from 25% to 27%, the highest rate in the EU. At the same time, the government imposed temporary financial sector taxes and "crisis taxes" on the energy, telecommunications, and retail sectors. Retail companies pay up to 2.5% when tax bases exceed 100 million HUF (US$426,000), telecommunications companies pay up to 6.5% when tax bases exceed 5 billion HUF (US$21.5 million), and energy suppliers pay up to 1.05% for all tax bases. In November 2012, the government decided to increase the "Robin Hood tax" for energy companies from 11% to 31% as of January 1, 2013. The government also imposed a tax on electric wires, telecommunications cables, and pipelines including gas, water, and sewer pipes, adversely affecting companies operating in these areas.

The government recently announced that the bank tax amounting to 0.15% of banks' 2009 balance sheet would continue, despite a 2012 agreement with the Banker's Association to phase it out by 2014. In 2012 the government also introduced a financial transaction tax: 0.2% on all money transfers and 0.3% on cash withdrawals, which it doubled in 2013. In 2013 the eight largest banks incurred a combined loss of 162 billion HUF ($754 million), after paying 110 billion HUF ($512 million) in taxes. The situation, however, varies by bank: US-owned Budapest Bank increased profits by 30%, and other profitable banks include Citibank, OTP, K+H, and UniCredit. Erste Bank, Raiffeisen, MKB, and CIB were in the red.

The manufacturing sector however, is exempt from these “crisis taxes,” because the government considers manufacturing to be one of the driving forces of exports and growth, and a sector to encourage.

15. OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) has operated in Hungary since October 1989, offering U.S. investors financing through direct loans or guarantees, political risk insurance, and capital for private equity funds. OPIC helps U.S. companies compete in new markets and developing countries when traditional lenders or financing is not available. OPIC’s financial support ranges from small micro financings to large infrastructure project loans.

16. Labor

Hungary's civilian labor force of 4.3 million is highly educated and skilled. Literacy exceeds 98% and about two-thirds of the work force has completed secondary, technical or vocational education. Hungary is particularly strong in engineering, medicine, economics, and science training. An increasing number of young people are attending U.S. and European-affiliated business schools in Hungary. Foreign language skills, especially in English and German, are becoming more widespread, yet Hungary still has the lowest level of foreign language proficiency in the EU. According to 2013 data of Eurostat, only 35% of Hungarians can speak at least one foreign language.

Hungary’s unemployment rate decreased from a peak of 11.8% in March 2010 to 8.6% in 2014, which is lower than the EU average of 10.6% and slightly better than the OECD average. Hungary’s labor participation rate is 58.1% -- low by European standards, but 3.5% higher than at the end of 2009. The employment rate for those aged 15-64 rose from 55% in 2011 to 60% by January 2014 but remains below the EU-average of 64.5%. Analysts note, however, that labor and employment figures include part-time public workers as well as Hungarians working abroad -- or 10% of the labor force. Despite high unemployment, certain sectors experience a continued shortage of skilled and well-educated employees. Regional differences in employment opportunities also prevail: the northwest and central regions of the country at times see shortages of skilled workers, particularly in the IT, financial and manufacturing sectors. East of the Danube, unemployment levels are above average even though the labor is cheaper. Wages in Hungary are significantly lower than those in Western Europe. Average Hungarian labor productivity is lower than the EU average, but greater than that of other Central and Eastern European economies.

To boost employment, the 2013 year budget earmarked 300 billion HUF (US$1.36 billion) for job protection and promoting the employment of unskilled workers, women returning from maternity leave, and those under 25 or above 55 years of age. The government has also turned its focus to helping the education system adapt better to labor market requirements and is encouraging cooperation between higher education institutions and business. To achieve this goal, the government is reallocating state-funded scholarships from the humanities to the hard sciences and engineering with the aim of increasing the number of graduates in sought-after fields.

A new Labor Code came into force on July 1, 2012. It left the basic legal framework unchanged but introduced some significant changes to make the labor market more flexible and to boost the labor force participation rate. The new law transferred some of the collective bargaining rights from trade unions over to works councils (Note: Although works councils have a similar mission to those of labor unions, they only exist at individual firms. Work councils are often more dependent on corporate leadership and less capable of representing employees' interests. End note.) This reinforced the declining role of trade unions; Hungary's trade union membership rate, currently about 15% (the EU average is 25%), is also expected to fall.

Roles of Government and Trade Unions

The tripartite National Council for Interest Reconciliation, which was previously charged with negotiating the minimal wage, was replaced by the National Economic and Social Council (NGTT) in 2011 (Law on the composition of the National Economic and Social Council XCIII/2011). The new Council's members are representatives of employers and employees, delegates of Hungary's historical churches and certain members of civil society. The organization does not include representatives of the government, and its decisions regarding the minimum wage and other labor regulations are no longer binding. The minimum wage is now set by decree after consultation with NGTT. In 2014 the minimum wage for unskilled workers is 101,500 HUF ($436) per month, for skilled workers 118,000 HUF ($507) per month.

The Hungarian labor code guarantees the right to join trade unions and gives unions the right to operate inside a company. Unions are entitled to negotiate collective bargaining agreements. The labor code limits the length of the workday plus overtime to 12 hours; guarantees maternity leave; provides for at least 20 days of annual leave; mandates at least 30 days' notice prior to severance and requires severance pay for those employed at least three years. The law forbids discrimination based on gender, age or nationality. The minimum employment age is 16 years, though apprenticeships may begin at age 15. Hungary adheres to ILO conventions protecting worker rights. Labor/management relations are better than in much of Europe. However, as a result of the current economic situation labor-related strikes are occurring with increasing frequency.

In late 2010, Parliament accepted a law that tightens provisions for a strike by civil servants and rules a strike illegal unless a preliminary agreement is reached on a provision of minimum service. If parties are unable to decide, they may bring their case to a Labor Court, which has five days to set minimum service levels. Parties have five days to repeal the Court's decision and the entire process cannot take more than 15 days.

17. Foreign Trade Zones/Free Ports

The 1988 Law on Foreign Investment, the 1995 Law on Customs, Customs Procedures, and the 1995 Law on Foreign Currency permitted and regulated the operation of foreign trade zones. Prior to Hungary becoming a full member of the EU, 143 companies operated in about 130 customs free zones, producing about half of total Hungarian exports.

According to Law CXXVI of 2003, permits for operating in customs free zones expired. Currently no company operates in customs free zones and all of them transferred their assets and continued operation following customs handling of their assets. The Ministry of National Economy plans to nominate customs free zones, but currently there seems to be little demand for this. Possible sites could include Szekesfehervar, Gyor, Kecskemet, Miskolc, Zahony or Szombathely.

18. Foreign Direct Investment (FDI) Statistics

According to the Ministry for National Economy, foreign direct investment between 1995 and the end of 2013 amounted to 80.6 billion Euro ($111 billion), of which shares, other participation and reinvested income amounted to 67.8 billion Euro ($93.7 billion) and other capital was 12.8 billion Euro ($17.7 billion). Since a record high of 6.2 billion Euro ($7.4 billion) in 2005, annual FDI inflow has been declining -- from 5.5 billion Euro ($6.7 billion) in 2006 to 3.3 billion Euro ($4.4 billion) in 2011 -- except for 2012, when 6.9 billion Euro ($8.6 billion) of capital in transit and investors reallocations and 3.5 billion Euro ($4.3 billion) of reinvestment pushed FDI up to 10.4 billion Euro ($12.9 billion). Leading foreign investors include Germany, Austria, the Netherlands, and the United States. 72.2% of total FDI is from countries within the EU.

Services account for 71.6% of investments, (management consulting: 32.3%, trade: 11.5%, real estate: 6.3%, banking 6%, telecommunication 4.2%, other services 3.5%, transport and warehousing 2.3%) Manufacturing accounts for 20.1%, and energy for 4.1%. Hungary has a reasonably significant level of foreign investment abroad, primarily through acquisitions in other Central and Eastern European countries. At the end of 2013 Hungarian foreign investment abroad amounted to 25.9 billion Euro ($35.8 billion), which includes 24 billion Euro ($33 billion) in shares, other participation and reinvested earnings. 32% of Hungarian FDI is directed to Central Eastern Europe. Half of Hungarian investment abroad is in services, and 13% in manufacturing.

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	

Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	2012	$124.5	2012	$124.6	Host Country Stat. Source: KSH : http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qpt015.html International Stat. Source: World bank: http://databank.worldbank.org/data/views/reports/tableview.aspx
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*	2012	$2.3	2012	$6.0	Host Country Source: KSH: http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qpk003b.html U.S. Government Source: http://www.bea.gov/ Note: Hungarian data does not include U.S. FDI contributed by foreign subsidiaries of U.S. firms or U.S. firms not resident in the U.S.
Host country's FDI in the United States (*Millions U.S. Dollars, stock positions)*	2012	$9.4	2012	$20.3	Host Country Source: KSH: http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qpk005b.html U.S. Government Source: http://www.bea.gov/ Note: Hungarian data does not include Hungarian FDI that originates from Hungarian companies or Hungarian subsidiaries not resident in Hungary.
Total inbound stock of FDI as % host GDP (***calculate***	2012	84%	2012	80.7%	Host Country Source: Ministry for National Economy and KSH International Source: World Bank

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* Provide sources of host country statistical data used.

TABLE 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	246,113	100%	Total Outward	180,915	100%
Luxembourg	36,276	15%	Switzerland	62,372	34%
Germany	25,444	10%	Luxembourg	51,629	29%
Ireland	24,749	10%	United States	25,637	14%
Canada	18,564	8%	Curacao	9,381	5%
United States	18,125	7%	Korea, Republic of	5,051	3%

"0" reflects amounts rounded to +/- USD 500,000.
Source: IMF
Note: The U.S. Department of Commerce, Bureau of Economic Analysis and the IMF have different methodologies regarding whether an investment is considered a portfolio investment or FDI, resulting in differences in measurement.

TABLE 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, U.S. Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
World	7,330	100%	World	5,755	100%	World	1,574	100%
Luxembourg	2,656	36%	Luxembourg	2,366	41%	Luxembourg	291	18%
United States	1,145	16%	United States	958	17%	Austria	205	13%
Austria	791	11%	Austria	585	10%	United States	187	12%
Germany	501	7%	Germany	405	7%	Jersey	156	10%
Poland	400	5%	Poland	380	7%	Germany	97	6%

Source: IMF
Note: The U.S. Department of Commerce, Bureau of Economic Analysis and the IMF have different methodologies regarding whether an investment is considered a portfolio investment or FDI, resulting in differences in measurement.
Of the U.S.'s 50 largest multinationals, 40 are present in Hungary. The following U.S. companies have major investments here: GE, Alcoa, AES, Coca-Cola, O-l (Owens Illinois), General Motors, Guardian Industries, IBM, Lear Corporation, Pepsi Co, Sara Lee, Procter & Gamble, Visteon, Ford, Citibank, Zoltek, PACCAR, Celanese, Exxon Mobil, EDS Sykes, Jabil Circuit, McDonald's, Burger King, National Instruments, AIG/Lincoln, HP, Cisco, Microsoft, Oracle, Johnson & Johnson, Pfizer, Lilly, Monsanto, BD Medical, Johnson Controls, and, Dow Chemical.

Among the largest non-U.S. foreign investors in Hungary are: Deutsche Telekom, Audi, Nokia, Telenor, Vodafone, E.ON, Sanofi-Aventis, Electrolux, RWE, Tesco Global, Suzuki Motor, Auchan, Hankook, Mercedes Benz, SAP, ABB, Philips, CP Holdings, and Robert Bosch.

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