HUNGARY

INVESTMENT CLIMATE STATEMENT

2015

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Executive Summary

Hungary is a landlocked country in eastern Central Europe. Hungary maintains an open economy and attracting foreign investment remains important for the Hungarian government. Hungary is a European Union (EU) member with strong legal protection of investment, receiving approximately USD 98 billion in FDI since 1989. The automotive, software development and life sciences sectors have received the most investment. The Hungarian Investment Promotion Agency (HIPA) operating under the Ministry of Foreign Affairs and Trade (MFAT) has the primary government responsibility for attracting FDI to Hungary. The Hungarian government encourages investments in both export-oriented manufacturing and high-value added sectors such as research and development centers 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. Particular points of concern include the lack of stability in the tax and regulatory environment, including a recent attempt by Hungary to apply taxes retroactively – which has been raised as a significant concern by businesses – and the lack of consultation with stakeholders before implementing major regulatory and tax changes.

Hungary had been a leading destination for Foreign Direct Investment (FDI) in Central and Eastern Europe, reaching a peak in 2005 with USD 7.4 billion of FDI inflow, 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. Hungary showed some signs of FDI growth, with FDI reaching USD 4.62 billion and USD 4.01 billion in 2013 and 2014 respectively, although this marked increase of FDI was largely composed of reinvestment of profits by existing investors and recapitalization of banks which sustained losses – few new investors entered the market. Countries within the EU account for 72.2 percent of total FDI, while the United States is the largest non-European investor with 4 percent of FDI.

The economy has showed signs of recovery – after GDP fell 1.7 percent in 2012, it grew 1.5 percent in 2013, 3.6 percent in 2014 and is expected to grow 2.5 percent in 2015. The government also reduced its fiscal deficit below 3 percent of GDP, which allowed Hungary to exit the EU’s Excessive Deficit Procedure (EDP) in 2013, while also paying off its debts to the IMF ahead of schedule. 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 21st of 28 EU member states – in Transparency International’s 2014 Corruption Perceptions Index. In January 2014, the Hungarian government made a surprise announcement that they were awarding a USD 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. Hungary’s government subsequently classified nearly all contracts related to this project for a period of 30 years in 2015. Transparency International has criticized Hungary for lacking transparency. Bankruptcy proceedings are criticized by the European Union for being rescue unfriendly, leading to a very low recovery rate – on average, 40 cents on the dollar, much lower than the OECD average of 72 cents per dollar.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Hungary maintains an open economy and attracting foreign direct investment (FDI) remains important for the Hungarian government. The Hungarian government established the Hungarian Trade and Investment Agency (HITA) 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). In 2014, HITA was split into the Hungarian Investment Promotion Agency (HIPA), which encourages and supports inbound FDI, and the Hungarian Trading House, which promotes Hungarian exports abroad. Both HIPA and the Trading House were placed under the authority of the newly renamed Ministry of Foreign Affairs and Trade. Hungary had been a leading destination for FDI in Central and Eastern Europe, and FDI inflows reached a 2005 peak of USD 7.7 billion. FDI inflows in 2008 reached USD 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 USD 1.97 billion as companies became more cautious about committing to large investments. Hungary showed some signs of FDI growth, with FDI reaching USD 4.62 billion and USD 4.01 billion in 2013 and 2014 respectively, although this marked inflow of FDI was largely composed of reinvestment of profits by existing investors and recapitalization of banks which sustained losses – few new investors entered the market. As a block, the EU accounted for 77 percent of all FDI stock in Hungary, with Germany standing as the most significant country of origin accounting for 24 percent of Hungary's FDI stock in 2013 and 22 percent of all FDI inflow in 2014. In 2014, the Netherlands accounted for 59 percent of all inbound FDI, with Germany as the second most important source. The United States is the largest non-European investor, holding 4 percent of FDI. 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. FDI stock in Hungary, as reported by the Hungarian National Bank, amounted to USD 105 billion as of the end of 2014 with a majority of the investing falling within automotive, software development and life sciences sectors.

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 percent of GDP and exit the EU's excessive deficit procedure (EDP), have adversely affected some businesses. (Hungary was under the EU's EDP procedure at the time of EU accession in 2004. The European Commission lifted the EDP in 2013, after the GOH budget deficit fell to less than 3 percent of GDP for two consecutive years.) These taxes, along with other regulatory measures and fees passed in 2012, targeted certain sectors including banking, energy, telecommunications, and large-sized retail operations.

In 2014, Parliament approved a series of new taxes levied on specific sectors and targeting mostly foreign businesses while at the same time favoring Hungarian companies. Tobacco industry, retailers, and media companies were among those targeted. The Advertisement Tax was introduced in June 2014 as a one-time tax on revenue, rather than profit, retroactively taxing a period that predated the implementation of the law. The law has several tax brackets, taxing the first USD 20 million of revenue at 1 percent, and revenue beyond the first USD 20 million at 10 percent. Additional tax brackets increased in 10 percent increments on each subsequent USD 20 million in revenue up to a 40 percent tax on all revenue over USD 80 million. The maximum rate of 40 percent was then changed to 50 percent on all revenue over USD 80 million, and commentators and Hungarian MPs noted that the maximum tax bracket was clearly designed to hit German-owned TV group RTL Klub – the only firm that fell into the top tax bracket.

In 2014, RTL paid more than 50 percent of the earmarked revenue in tax while its main rival, Hungarian-owned TV2, was exempt from the highest bracket due to a number of deductions inserted into the law – including an amendment added less than 24 hours prior to Parliament's vote on the law which blocked RTL's ability to write down a pre-existing one-time loss as a deduction. RTL turned to the European Commission (EC) to challenge the tax and in March 2015, the EC announced the launch of a state aid investigation as there were concerns that the advertisement tax was discriminatory, selectively favoring certain media companies, in breach of EU rules on illegal state aid and on competition. The EC investigation also implemented an injunction, which prohibits implementation of the progressive tax rates until the EC has finished the investigation and rendered a ruling. The government has responded by considering a flat 5.5 percent tax on all advertisement revenue, although no modification to the current law has been enacted by Parliament. Tobacco and retail companies also question if recently introduced taxes, which include similar discriminatory tax brackets that only target large foreign firms, are in line with EU rules, with some stakeholders indicating to post that they may seek legal remedy through the EC.

In a positive move in February and March 2015 the government announced plans to decrease the special bank and telecom taxes, which had a positive reception among market players and could improve the business climate – however, no modification to these taxes have taken place, and post notes that these temporary measures have already outlived their originally-promised lifespan.

Though they were originally billed as "extraordinary measures" that would last only three years, the re-elected Fidesz government will likely continue the taxes in the energy sectors to offset lower revenue from reduced personal income tax rates. The government has also increased energy taxes in recent years. As of January 1, 2013 the government increased the Robin Hood tax – a tax on energy companies' revenue (rather than profit) – from 11 percent to 31 percent, increasing the effective total tax rate (including the 19 percent corporate tax rate) for energy service providers from 30 percent to 50 percent of profits. The government has committed to gradually phasing out special bank taxes while maintaining the Financial Transaction Tax introduced in 2013, even though the banking sector as a whole posted losses in 2012 and 2013.

The banking sector was also severely impacted by a government scheme compensating borrowers in cases where banks unilaterally increased interest rates on certain consumer loans, although these interest rate increases were permitted by both Hungarian contract law and spelled out in the original contract. The government has also mandated that banks which issued loans denominated in foreign currencies convert the balance of existing loans to domestic currency, the Forint, with a preset exchange rate selected by law. While the final law as passed by parliament chose a balanced spot rate for currency exchange that is in line with current market exchange rates, the move will still cause billions of dollars in losses to banks with heavy exposure to foreign currency denominated mortgages. Most analysts assess that these government moves in the banking sector have hampered lending capacity and impacted bank balance sheets to the point of forcing several banks to require major recapitalization to meet Hungarian capital reserve requirements. The government also implemented a new public utility tax on water and sewer pipelines, natural gas, heat and electricity lines and telecommunications lines.

Since the government 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 tend to target foreign-firm dominated industries and sectors over domestic firm dominated industries and sectors, rather than levying taxes which reflect the costs of regulating the affected sectors. While the crisis taxes were non-discriminatory at the time of implementation – affecting all impacted firms in the sector equally – they only target sectors where foreign firms held a significant majority of market share at the time of implementation. In the case of the banking sector, these taxes were accompanied by rhetoric that the government was actively seeking to reduce foreign bank market share in the sector, and foreign bank market share has declined significantly due to government moves, including the Hungarian government actively buying up foreign-owned banks. 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.

The government often targets these same sectors with political and populist rhetoric, with Prime Minister Orban himself telling supporters during a March 15, 2014 rally that Hungary had proved its strength by battling the world of money, in a reference to Hungarian action in the banking sector. Other government officials have publically commented that companies in those sectors that earn extra profits would be less welcome as investors in Hungary, although the government has offered no measure for what would be considered "extra profits." The current government has remained positive towards foreign investors that are involved in manufacturing for export, and to date has not targeted these firms for extraordinary taxes.

Post also is aware of reports from U.S. firms involved in export that are under audit by the Hungarian Tax and Customs Authority as much as 40 percent of the time. Firms impacted by these audits are typically involved in high-volume export, and they indicate that these audits can take a week or more and generally involve an auditor coming to their place of business and requesting that their staff produce reports and paperwork to corroborate VAT reimbursements and tax forms as supplementary evidence to support the submission of these forms. VAT reimbursements are often delayed as a result of these audits, which can be a substantial cost as VAT is 27 percent in Hungary. Businesses complain that there is substantial lost productivity in compiling paperwork for the auditor. Additionally, firms report that the auditors apply a strict liability system with regards to errors. Human error such as calculation mistakes or using the wrong form can result in a fine worth several hundred dollars per infraction.

Other Investment Policy Reviews

Not applicable.

Laws/Regulations of Foreign Direct Investment

There are significant protections for property and investment. Article XIII of the Hungarian Constitution 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 new Civil Code of 2013 – which includes legislation on business organizations – 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, as well as EU criticism of bankruptcy proceedings, which are seen as rescue unfriendly, producing a very low recovery rate – on average, only 40 cents on the dollar are recovered from bankruptcy proceedings, much lower than the OECD average of 72 cents per dollar.

Industrial Promotion

Please see Section 5, Performance Requirements and Investment Incentives for a full discussion of promotion and subsidy efforts.

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 cuts to the regulated prices of household utilities in 2013 and 2014 have pushed international investors out of Hungary's energy sector. In April 2014, MVM bought gas provider Fogaz from Germany's RWE and France's GDF Suez is also pulling out of the Hungarian energy market. As another form of the direct governmental intervention into the private sector, the Hungarian government launched a non-profit state-owned utility provider, ENKSz, in 2015 to "provide cheap energy for households and businesses." According to the waste management law passed in 2012, waste management companies shall be in state or municipal majority ownership. 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, 90 percent of the telecommunications sector, and 60 percent of the energy sector. The private sector currently produces about 80 percent 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, 2014, 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 Hungarian Government has achieved its goal of concentrating over 50 percent of bank ownership in Hungarian hands: 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 selling off their Hungarian business units, including German-owned MKB (Hungarian Foreign Trade Bank), GE-owned Budapest Bank, and Citi's retail banking operation. Press has reported that Austria's Raiffeisen Bank, and Italian-owned CIB have considered exit from the market. The Hungarian-owned network of Savings

Cooperatives is also now under government ownership, which increases government ownership in the financial sector to nearly 60 percent.

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 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 holding a four-year university degree in an agricultural field can purchase farmland. Eligible individuals are limited to purchasing 300 hectares (741 acres). 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, and local farmers and young farmers must be offered a chance to purchase the land first before a new non-local farmer is allowed to purchase the land. 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. The government also took the step of invalidating any pre-existing leasing contract provisions that guaranteed that the lessee would be given a chance to purchase land first, which provoked criticism from Austria and Austrian farmers that lease land in Hungary.

Privatization Program

Not applicable.

Screening of FDI

Hungary does not screen FDI.

Competition Law

Hungary's competition laws are enforced by the Hungarian Competition Authority, which is tasked with safeguarding the public interest. Since EU accession in 2004, EU competition law also binds Hungary. The Competition Authority may investigate suspected violations of competition law and order behavior to be terminated or levy fines and penalties.

Hungary implemented a tax on advertising revenue in June of 2014, with a maximum tax bracket of 50 percent. The tax was retroactive in nature. Only one company, a German media firm, fell into the highest tax bracket, and tax deductions and other rules on the tax were clearly designed to insulate domestic firms from falling into the highest tax rate, while directly targeting the foreign firm. The European Commission responded by opening an investigation into possible violations of EU rules on state aid, implementing a suspension injunction on the tax – preventing application of progressive rates until the investigation is concluded.

Investment Trends

Hungary showed some signs of FDI growth, with FDI reaching USD 4.62 billion and USD 4.01 billion in 2013 and 2014 respectively, although this marked inflow of FDI was largely composed of reinvestment of profits by existing investors and recapitalization of banks which sustained losses – few new investors entered the market. 2013 FDI levels were still well below those in 2005, 2006 and 2008. Countries within the EU account for 72.2 percent of total FDI, while the United States is the largest non-European investor with 4 percent of FDI (there are approximately 200 companies in Hungary of U.S. origin).

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	47 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	54 of 178	doingbusiness.org/rankings
Global Innovation Index	2014	35 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 13,260	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

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. Market forces determine the exchange rate of the HUF to the Euro and other currencies.

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 adoption 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.

Remittance Policies

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.

The timeframes 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.

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. Parties involved in 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.

The recent implementation of the Advertising Tax and a similar new tax on tobacco products has raised concerns with some businesses that indirect expropriation may be possible through discriminatory taxation that disproportionately impacts a given company with the intent to force a firm to accept a buy-out by a domestic firm – however, the EU investigation into the Advertising Tax suggests that the EU is able to enforce marketplace non-discrimination by implementing injunctions as such preferential behavior would qualify as illegal state aid under EU rules.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

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 Hungarian Supreme Court). Hungary also has a Constitutional Court that reviews cases involving the constitutionality of legal regulations and court rulings. Post noted concerns – along with numerous other experts and commentators –

related to the 4th Amendment of the Hungarian Constitution, which limited the ability of the Constitutional Court to review the constitutionality of certain laws.

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 and brought Hungarian legislation in line with EU regulations. The debtor can only initiate bankruptcy proceedings provided that the debtor 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.

The debtor, the creditors, the administrator, or the Criminal Court may file liquidation procedures with the 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 results 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 appoints a liquidator. 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. The EU has also criticized the Hungarian system as being rescue unfriendly and unfriendly to restructuring efforts as bankruptcy proceedings typically only recover 40 cents on the USD, compared to the OECD average of 72 cents on the USD. This can result in catastrophic collapses of bankrupt companies, rather than orderly corporate buy-outs and restructuring efforts that permit eventual exit from bankruptcy – such as the collapse of Hungary’s former national airline MALEV in 2011.

Investment Disputes

There are no ongoing investment disputes, and Hungarian law provides a framework for settling investment disputes.

International Arbitration

Hungary has accepted 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. In the last few years' mediation has become a tool of increasing importance for dispute settlement to avoid lengthy court procedures.

ICSID Convention and New York Convention

Hungary is a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention). Hungary is also a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

Duration of Dispute Resolution

Generally, Hungary's courts process civil cases faster than EU average, although businesses continue to report frustrations with the length of time required by legal proceedings in civil courts.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

There have been no complaints against Hungary related to any failure to fulfill any trade related investment measures (TRIMS) treaty obligation.

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 USD 11 million). The incentives are focused on investors establishing manufacturing facilities, logistics facilities, regional service centers, R&D facilities, bioenergy facilities, or tourism industry investments. 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 Promotion Agency and managed by the Ministry of National Development.

Research and Development

U.S. and foreign firms are able to participate in government-financed research and development, however, most R&D public sector funding originates from EU sources.

Performance Requirements

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 a 100 percent offset requirement for defense sector investments over one billion forint (USD 4,300,000). Investors are not required to disclose proprietary information to the government as part of the regulatory process. To comply with European Union rules, the government of Hungary no longer grants tax holidays based on investment volume.

Data Storage

Data storage complies with EU norms. There are no forced localization provisions or requirements forcing firms to disclose encryption keys.

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 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 new Civil Code, which went into effect in March 2014, raised the minimum capital required for a limited-liability company from HUF 500,000 (USD 2,250) to HUF 3,000,000 (USD 12,950). For private limited companies the minimum capital is set at HUF 5,000,000 (USD 21,580), for public limited companies HUF 20,000,000 (USD 86,300). Businesses may be established in one hour electronically or by a simplified registration procedure.

7. Protection of Property Rights

Real Property

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

Intellectual Property Rights

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 Hungarian Government 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. 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's most recent action plan's aim - for the period 2011-2015 – is to meet current IPR challenges and decrease the number of IPR violations.

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/.

Resources for Rights Holders

Embassy Point of Contact for IPR issues:
Maximilian Gebhardt
Economic Officer
+36 1 475 4598
gebhardtmr@state.gov

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 allows individual MPs to submit legislation and amendments without a public consultation procedure, something compulsory for legislation submitted by government institutions. The average deadline for submitting public comment is often very tight, usually less than a week. The government has an inconsistent record of inviting interested parties to comment on draft legislation.

The public consultation process is regulated by the Act on Legislation and the Law Soliciting Public Opinion, both passed by Parliament in 2010. The 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 did not solicit public comments 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.

According to a study done by the Budapest Corruption Research Center (BCRC), the number of new laws passed by Parliament increased, while the average time spent debating new laws in Parliament decreased significantly. In 2011-2012 the number of laws amended within a year of Parliamentary approval quadrupled compared to the period of 2006-2008. BCRC has noted that this increase in amendment activity may result from the lack of time devoted to adequately consulting on and debating new laws. The study also reveals that the Hungarian Government published preparatory documents – including impact studies and public consultation process summaries – for less than half of the laws passed in the 2011-2014 period.

In some cases, the Hungarian Government took a course of action contrary to what it had indicated to businesses: in January 2014, the Hungarian government made a surprise announcement awarding a USD 17 billion project to expand the country's only nuclear power plant to a Russian state-owned company after frequent public statements that it planned an open tender. In early March 2015, Parliament placed a 30-year ban on public access to business and technical details of the expansion contracts, a measure further reducing the transparency of the biggest investment project in Hungary.

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

Some experts consider the new Public Procurement Act too loose and thus susceptible to corruption; for example, transparency NGOs point to evidence that large projects undertaken by government offices were broken into smaller projects in order to slip under the limit for requiring a public bidding process. Some procurements have been criticized by these NGOs for relying on an expanded interpretation of public interest and security exceptions to avoid public tendering. Examinations of awards by transparency advocates appear to suggest State-owned or other companies with strong government connections still seem to have an advantage in public tenders over private market players. Companies operating in sectors with subsidies and price controls also appear to be affected by insufficient transparency and responsiveness in the setting of prices or subsidies.

According to Transparency International's (TI) National Integrity Study, systemic corruption adds as much as 20-25 percent to the costs of government procurement. A Freedom House study estimated that only 10 percent 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 Hungarian Government 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. For example, the law provides whistleblowers protection only if they whistleblower less than six months after they discover an issue, while also mandating that whistleblowers exhaust all formal channels for reporting issues before whistleblowing, which regularly takes more than six months.

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 purview 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

All three major rating agencies – Standard and Poor's, Moody's and Fitch rate Hungary as one step below investment grade, S&P recently elevated it from BB to BB+. Hungary has a modern financial sector, although some regulatory issues have arisen as a result of the Central Bank's move to absorb the existing financial sector regulatory body. Since April 2000, the Hungarian Financial Supervisory Authority (PSZAF) has served as a consolidated financial supervisor regulating all financial and securities markets. PSZAF, in conjunction with the Central bank managed a strong two-pillar system of control over the financial sector, producing general stability in the market, effective regulation, and a system of checks and balances by dividing responsibilities and powers between the two bodies. In 2013 Hungary's Central Bank absorbed PSZAF and overtook all of its functions, including customer protection. The Hungarian State Audit Office (SAO) released a report in April of 2015 that identified numerous problems which had arisen when the Central Bank absorbed PSZAF, which undermined the system's ability to provide effective enforcement.

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 2013, Hungary's loan-to-deposit ratio was down to 107 percent, compared with 170 percent in 2008. The Central Bank has indicated that it targets a loan-to-deposit ratio of 100 percent. 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. Hungary boasts Europe's highest banking taxes.

In March 2015 insolvency, lax regulations, as well as potential embezzlement resulted in the failure of three brokerage firms (Buda-Cash, Questor, Horizont and DRB Bank) and a bank linked to them resulting in a total loss of over USD 1.2 billion, which is close to 1 percent of Hungary's GDP. The government submitted draft regulation to Parliament to tighten control over broker firms' operations.

Money and Banking System, Hostile Takeovers

Hungary's banking system is healthy; the largest bank in Hungary is OTP Bank, which is Hungarian-owned, controlling 25 percent of the market with approximately USD 29 billion in assets. Hungary's central bank is the Hungarian National Bank. There are no rules on a foreigner or foreign firm opening a bank account in Hungary. All rules on hostile take-overs are clear and non-discriminatory.

10. Competition from State-Owned Enterprises

Since the 1990s there has been considerable privatization of former State-owned enterprises (SOE's). Today, only a few SOEs remain – primarily in strategic sectors such as national security, energy, and transportation. However, in the past year and a half, the government has tried to make investments in areas outside of the scope of existing SOEs, such as the telecommunications sector and machinery production.

Since mid-2012, a number of government measures have made it more difficult for energy companies to operate in the market 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.

OECD Guidelines on Corporate Governance of SOEs

Hungary adheres to OECD Guidelines on Corporate Governance as well as to EU rules on SOEs. There is a state asset management office, the Hungarian National Asset Management Company.

According to a study conducted by the Budapest Corruption Research Institute and TI Hungary, 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. TI noted that none of the SOEs reviewed during their study were in full compliance with transparency and disclosure requirements as mandated by Hungarian law.

Sovereign Wealth Funds

Hungary does not maintain a sovereign wealth fund, however, in 2011 Hungary nationalized USD 14.6 billion of private pension funds, creating the Pension Reform and Debt Reduction Fund, which were supervised by the State Debt Management Agency. As of April 2015, the

Pension Reform and Debt Reduction Fund has been exhausted. Transparency watchdogs note that only half of the nationalized sum was transparently included in the central budget.

11. Corporate Social Responsibility

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 percent of businesses have a CSR policy and 44 percent 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 percent of Hungary's adult population prefers companies committed to CSR, exceeding the 54 percent average in the EU. In 2006 the government signed a strategic resolution to reinforce employers' social responsibility.

OECD Guidelines for Multinational Enterprises

Hungary encourages multinational firms to follow the OECD guidelines.

12. Political Violence

Despite violent protests in 2006, political violence has not been common in Hungary. The transition from communist authoritarianism to capitalist democracy was negotiated and peaceful, and free elections have been held consistently since 1990.

On January 13, 2014 an unknown assailant bombed a CIB BANK branch in Budapest. No one was injured. As of April 2015, the perpetrator of this attack has not been found and the motive behind the attack remains unknown. Italian banking firm Intesa Sanpaolo owns CIB.

13. Corruption

In the fall of 2014, the U.S. Department of State barred several Hungarian officials and persons from entry into the United States under Presidential Proclamation 7750 on Anti-Kleptocracy due to suspicion of participation in corruption that adversely affected U.S. interests.

The Hungarian Ministry of 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. In February 2015, the Hungarian Government came out with the draft of a new national strategy on combating corruption for the period 2015-2018 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 2014 Corruption Perceptions Index rated Hungary 47th out of 175 countries (1st being best), down from 46th in 2012. 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 on the actions of the government. After the Hungarian Government amended the Act on Freedom of Information in 2013, TI commented data on public spending would be more difficult to access.

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 Hungary's entry into the EU, 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. It is common for prominent politicians to be forced to amend declarations of assets following revelations in the press of omission of ownership or part-ownership of real estate and other assets in asset declarations. Politicians are not penalized for these omissions. 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." Since 2011, the State Audit Office performs its integrity survey each year in the public sphere in order to identify corruption risks and strengthen the integrity-based mentality.

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. 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. In 2011 the Hungarian Government set up the National Protection Service (NPS), an agency aimed to fight against corruption within the law enforcement and state administration under the supervision of the Ministry of Interior. The NPS is responsible for investigations into corruption, carrying out reliability and lifestyle clearances of employees of the police, intelligence services and the Tax Office. As part of the Prosecution Office's reform in 2011 a special Anticorruption Division was created in the Central Investigative Chief Prosecutor's Office. On January 1, 2012, the Anticorruption Division increased the number of prosecutors specializing in high-profile corruption cases from eight to thirty-five.

In 2014, the Vice President of the Socialist Party was arrested after approximately USD 1 million was found in bank accounts in his name in Vienna which he could not account for. The Socialist Party ejected him from the party and condemned the behavior. He is currently awaiting trial. Post is aware of several low profile corruption cases that are ongoing against public officials in the government; however, the government does not typically publicize such cases. The government does release data related to combatting corruption at the end of the year, however, no specific information on cases and investigations are released. Transparency watchdogs and the opposition note that the government does publicize cases against opposition politicians and former government officials, but ruling party affiliated officials are typically removed quietly. The government typically cites data protection laws as the reason for the lack of publicity regarding ongoing investigations and cases; however, this policy hampers transparency and makes it difficult for watchdog organizations to judge the effectiveness of government actions to combat corruption.

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). 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.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Hungary has signed and acceded to the UN Anticorruption Convention and the OECD Convention on Combatting Bribery

Resources to Report Corruption

Hungarian Government Office Responsible for Combatting Corruption:
National Protective Service
General Director Zoltan Bolcsik
Phone: +36 1 433 9711
Fax: +36 1 433 9751
E-mail: nvsz@nvsz.police.hu

Transparency International Hungary:
1055 Budapest
Falk Miksa utca 30. 4/2
Phone: +36 1 269 9534
Fax: +36 1 269 9535
E-mail: info@transparency.hu

U.S. Embassy Budapest Anti-Corruption Point of Contact
Maximilian Gebhardt
Economic Officer
1054 Budapest
Szabadsag Ter 12.
Phone: +36 1 475 4598
E-mail: GebhardtMR@State.Gov

14. Bilateral Investment Agreements

Hungary and the United States do not have a bilateral investment treaty (BIT). Hungary, as an European Union member, is involved in the ongoing negotiations on the Transatlantic Trade and Investment Partnership.

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.

Bilateral Taxation Treaties

Hungary has tax treaties which eliminate many aspects of double taxation with the United States and the following other 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 concluded in 2010 to revise Hungary's current tax treaty with the United States; it awaits U.S. Senate ratification.

In January 2014, Hungary signed a Foreign Account Tax Compliance Act (FATCA) Intergovernmental Agreement 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

Hungarian Government have also signed 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.

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 percent 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 Eurostat data, only 35 percent of Hungarians can speak at least one foreign language.

Hungary's unemployment rate decreased from a peak of 11.8 percent in March 2010 to 7.7 percent by February 2015, which is lower than the EU average of 9.8 percent, but slightly worse than the 7.045 percent OECD average. Hungary's labor participation rate is 51.9 percent, for the population aged 15 and older, which is lower than the EU's 57.5 percent. The employment rate for those aged 15-64 rose from 55 percent in 2011 to 62.5 percent by February 2015 but remains below the EU-average of 65.5 percent. Analysts note, however, that labor and employment figures include part-time public workers as well as Hungarians working abroad, which accounts for about 10 percent of the labor force. Hungarians collecting certain benefits must participate in a small number of hours of part-time public work – reducing the unemployment numbers as a result. This program employed some 200,000 persons at the end of 2014. Despite high unemployment, certain sectors still experience shortages 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 HUF 300 billion (USD 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. In order to receive state funding for secondary education, students must sign a contract agreeing to work in Hungary for a set number of years in order to mitigate ongoing outflow of skilled labor to Western Europe.

A new Labor Code came into force on July 1, 2012. While the basic legal framework was left unchanged, it 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 to work councils (Although work councils have a similar mission to those of labor unions, each firm has its own work council. Work councils are often more dependent on corporate leadership and less capable of representing employees' interests.) This reinforced the declining role of trade unions; Hungary's trade union membership rate, currently about 15 percent (the EU average is 25 percent), is also expected to fall. Hungary has ratified all eight ILO core conventions.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

As a result of the entry into the EU, foreign trade zones were eliminated.

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 and Foreign Portfolio Investment Statistics

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: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	2013	134,200	2013	133,400	www.worldbank.org/en/country

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 ($M USD, stock positions)	2013	2,200	2013	6,000	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States ($M USD, stock positions)	2013	9,400	2013	20,100	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2013	84%	2013	84%	

*Ministry of National Economy and Central Statistics Office

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	250,305	100%	Total Outward	191,559	100%
Luxembourg	39,606	16%	Luxembourg	57,645	30%
Ireland	30,158	12%	Switzerland	54,873	29%
Germany	25,918	10%	United Kingdom	20,540	11%
United States	19,527	8%	United States	12,717	7%
Spain	16,296	7%	Curacao	10,417	5%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	9,135	100%	All Countries	7,096	100%	All Countries	2,039	100%
Luxembourg	3,543	39%	Luxembourg	2,988	42%	Luxembourg	555	27%
United States	1,451	16%	United States	1,210	17%	United States	242	12%
Austria	686	8%	Austria	601	8%	Jersey	225	11%
Germany	606	7%	Belgium	586	8%	Germany	138	7%
Belgium	588	6%	Germany	468	7%	Italy	115	6%

Source: IMF Coordinated Portfolio Investment Survey

19. Contact for More Information

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