PROGRESS REPORT AND MODIFICATION OF HUNGARY’S POSITION UNDER THE CODES OF LIBERALISATION

(Draft Report to Council)

This document is submitted to the Committee under written procedure. If no comments are received by the Secretariat by Friday, 22 December 2000, it will be considered to be approved and forwarded to Council. Changes to document DAFFE/INV(2000)19 are shown in bold.

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I. Introduction, Summary and Proposed Action

1. At their joint meeting on 24 June 1998, CIME/CMIT concluded a post-accession review of Hungary’s position under the OECD Codes of Liberalisation of Capital Movements and Current Invisible Operations. The Hungarian authorities proposed to make a report to the Committees in mid-2000 on progress in moving towards the goal of full liberalisation.1 The Hungarian authorities submitted their report on 20 September 2000 [DAFFE/INV(2000)13]. This report by the CMIT examines the progress Hungary has made over the past two years.

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Following its accession to the OECD, Hungary took the necessary measures to meet its legally binding commitments under the Codes towards future liberalisation, notably allowing foreign direct investment in the form of a branch (by end-1997), and extending the liberalisation of resident long-term portfolio investment abroad (by end-1996). It also took additional liberalisation measures going beyond these commitments.2 The Committees commended Hungary’s compliance with the obligations and the progressive liberalisation objective of the Codes.

In the post-accession review of Hungary in 1998, the Committees identified a number of areas where Hungary was expected to liberalise. These areas included: the removal of remaining exceptions to the national treatment principle concerning branches in mortgage banking and asset management services to voluntary private pension funds; to proceed by no later than 1999 with the planned liberalisation of remaining restrictions on capital flows; to amend as a matter of priority its Insurance Law so as to liberalise insurance with non-resident insurers for risks not covered by domestic insurers and to consider liberalising other cross-border financial services as early as possible [C(99)21, para. 23].

Following the 1998 examination, Hungary has taken various liberalisation measures, including the liberalisation of certain capital movements, the provision of asset management services to voluntary private pension funds by branches of non-resident financial institutions, and the partial liberalisation of cross-border insurance services. On the other hand, in some areas Hungary has not yet fulfilled its liberalisation commitments. These include, in particular, the ownership of arable land by branches of non-resident mortgage banks and the abolition of remaining capital controls.

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2. Hungary also duly notified the Committees of all the measures relevant to the Codes and the National Treatment instrument as they were adopted, in accordance of its notification obligations under these instruments.
2. With regard to foreign direct investment, Hungary still does not allow branches of non-resident mortgage banks to own arable land. [...] The Hungarian authorities emphasise that foreign land ownership is a politically sensitive issue, and that legislative action would therefore need careful preparation.

3. A restriction exists with regard to the provision of asset management services to voluntary private pension funds by branches of non-resident financial institutions. The Hungarian authorities state that the relevant legislation will be amended as of 1 January 2001 and thereby bringing Hungary into compliance with the Code. As far as compulsory private pension funds are concerned, the Hungarian authorities consider that these institutions supplement the general pay-as-you-go system and that the time is not yet ripe for liberalisation as they need more time to gain experience with this new field of insurance activity in Hungary.

4. With regard to capital movements other than FDI, the Hungarian authorities have taken liberalisation measures relating to operations in collective investment securities, credits directly linked with international commercial transactions or the rendering of international services, financial credits and loans, and operations of deposit accounts (items VII/B1, B2, D, VIII(ii)/B, IX/B, and XI/B2 of the Code of Liberalisation of Capital Movements). The Hungarian authorities therefore suggest amending Hungary’s position under the Codes accordingly.

5. As far as remaining capital controls are concerned, the Hungarian authorities had declared their determination in the 1998 examination to abolish remaining controls by the end of 2000. The Hungarian authorities now report that due to a series of international financial crises the original timetable had to be revised. Liberalisation of capital outflows is now envisaged for 2001 in the context of an amendment of the Foreign Exchange Act, whereas restrictions on capital inflows can only be lifted at a later stage.

6. Concerning cross-border financial services, the Hungarian authorities report that as of 1 January 2001 the conclusion by residents of insurance contracts with non-resident insurance companies for non-life risks not covered by domestic insurers will be liberalised. Hungary’s reservation to item D/4 of the Current Invisibles Code can thus be narrowed in scope. Furthermore, the Hungarian authorities also intend to examine the possibility to liberalise banking and investment services purchased abroad by residents.

7. The Committee considered these matters at its meeting on 12/13 October 2000 and came to the following conclusions. The Committee:

   a) Welcomed the liberalisation measures taken by the Hungarian authorities, which will result in the removal or narrowing of Hungary’s reservations to the Codes of Liberalisation regarding foreign currency denominated credits and loans, operation of deposit accounts, collective investment securities and non-life insurance operations;

   b) Recalled that at the time of its accession in 1996 Hungary had confirmed its objective to complete the abolition of remaining capital controls progressively over the next three or four years; recognised that a series of international financial crises had intervened; regretted that liberalisation progress had not been possible at the pace envisaged and urged the Hungarian authorities to pursue the liberalisation process vigorously;

   c) Noted with satisfaction that the provision of asset management services by branches of non-resident financial institutions to voluntary private pension funds will be liberalised.

on 1 January 2001, thereby ensuring full compliance with Hungary’s accession commitments in this respect;

d) While recognising the political sensitivity of real estate ownership by foreigners, urged the Hungarian authorities to work towards the liberalisation of temporary ownership of arable land by branches of foreign mortgage banks in Hungary so as to achieve full compliance with its obligations under the Codes of Liberalisation;

e) Reiterated its encouragement to Hungary to relax the remaining restrictions on cross-border financial services especially when the initiative to purchase is taken by the customer without solicitation on the part of the non-resident service provider.

8. Accordingly, the Council is invited to adopt the following entry in its Summary Record:

THE COUNCIL:

a) noted document C(2000).;

b) endorsed the Committees’ conclusions in paragraph 7 of the document;


II. Foreign Direct Investment

1. Foreign Branches

9. At the time of accession, Hungary committed itself to allow the establishment of branches of non-resident enterprises by 31 December 1997 on “conditions complying with the provisions of the Codes” [Hungarian Government’s Accession Declaration, C(96)73/FINAL]. Hungary’s reservation on branches ceased to apply on that date. The new Act on Branches and related amendments to sector-specific legislation, which entered into force on 1 January 1998, met the requirements of the Codes in most respects. However, certain restrictions remain:

a. Ownership of Arable Land

10. Unlike subsidiaries, branches of non-resident mortgage banks cannot own arable land, even temporarily as a result of foreclosure and pending resale. Branches of non-resident enterprises are otherwise allowed to acquire real estate in Hungary for their business purposes, e.g. to establish a factory or business headquarters. While noting the Hungarian authorities’ readiness to reconsider remaining exceptions to the principle of non-discrimination concerning branching in mortgage banking, the Committees urged the Hungarian authorities in the June 1998 examination to take corrective action as soon as possible so as to achieve Hungary’s full compliance with its obligations under the Code.4

4. C(99)21, paragraph 23b.
11. The Hungarian authorities pointed out both in the Background Report to the 1998 examination [DAFFE/INV/IME(98)3/REV2] and in their recent Progress Report that they are ready to ensure Hungary’s full compliance with its obligations under the Code in the context of the overall review of the Hungarian legislation concerning the ownership of arable land. They have stated that, given the political sensitivity attached to the issue of land ownership, the overall review of the legislation would need careful preparation.

[...]

12. The Committee discussed this issue and concluded that the fact that branches of foreign mortgage banks cannot own arable land for the purpose of their business activities – i.e. mortgage banking – should be considered as a de facto (indirect) discrimination concerning the establishment and operation of such branches. It is thus a restriction under item I/A of the Code of Liberalisation of Capital Movements. The Committee therefore confirmed its opinion already expressed in the 1998 examination that Hungary does not comply with its obligations under the Code in this respect.

b. The Provision of Asset Management Services to Voluntary Private Pension Funds by Branches of Non-Resident Financial Institutions

13. The provision of asset management services to voluntary private pension funds by branches of non-resident financial institutions is currently restricted in Hungary. This restriction is not reflected in a Hungarian reservation under item I/A of the Code. While noting the Hungarian authorities’ readiness to reconsider remaining exceptions to the principle of non-discrimination concerning asset management services to voluntary private pension funds, the Committees urged the Hungarian authorities in the June 1998 examination to take corrective action as soon as possible so as to achieve Hungary’s full compliance with its obligations under the Code. In their Progress Report, the Hungarian authorities declare that the relevant legislation (Act CXII of 1996 on Credit Institutions) is currently under review and will be amended as of 1 January 2001. The Committee welcomed this step.

c. Provision of asset management services by foreign branches to compulsory private pension funds

14. A similar restriction applies to the provision of asset management services by foreign branches to compulsory private pension funds. The Committees agreed in the 1998 examination that this measure did not constitute a breach of the standstill obligation of the Codes, because this type of pension fund was created after Hungary’s accession to the OECD. Therefore, Hungary could not have undertaken obligations in this regard at the time of accession. The Committees agreed that a new reservation to the Codes could be introduced pursuant to their Article 2 b. iii). At the same time, the Committees encouraged Hungary to consider early removal of this restriction.

15. In their Progress Report, the Hungarian authorities point to the fact that the operation of compulsory pension funds is a new field of insurance activity in the country; with the mandatory private pension system having become effective only as of 1 September 1997. Further, these institutions supplement the general pay-as-you-go pension system. Therefore, in view of the Hungarian authorities, the operations of this newly established private pension funds need to be closely monitored and evaluated by the financial supervisory authority. The Hungarian authorities are thus of the opinion that it is appropriate to maintain the existing restriction for the time being.

5. C(99)21, paragraph 23b.

6. See also DAFFE/INV/IME(98)3/REV2.
d. Provision of custodial and asset management services by foreign branches to Hungarian investment funds

16. The provision of custodial and asset management services by foreign branches to Hungarian investment funds is also restricted. The Hungarian authorities justify this restriction by prudential considerations. In their June 1998 meeting, the Committees agreed to return to this issue in due course – once a closer investigation of the regulatory regimes applicable in other OECD countries and their treatment under the Codes has been made. This investigation has not yet been completed. 

2. Privatisation

17. In their meeting in June 1998, the Committees welcomed the successful achievement of Hungary’s privatisation programmes envisaged by the time of accession and the large foreign participation in the sectors concerned, including the financial sector. They encouraged the Hungarian authorities to keep as limited as possible the list of those enterprises that might remain under state control pursuant to the Privatisation Act.

18. In their Progress Report, the Hungarian authorities confirm that they consider privatisation in the context of the transformation of Hungary into a full-market economy to be completed. According to the Hungarian authorities, between the end of 1997 and April 2000, the number of companies in which the Hungarian Privatisation State Holding Company (APV Rt) holds a stake has dropped from 286 to 192 (see also Annex 3). The Committee welcomed this progress, and the fact that the principle of non-discrimination had been respected.

III. Other Capital Movements

19. During the 1995-96 accession examination, the Committees expressed concern over the large number of remaining reservations concerning capital movements (other than foreign direct investment). In response to this concern, the Hungarian authorities considered that, if the macroeconomic situation continued to improve according to the government's expectations, the abolition of all remaining capital controls could be completed within a period of three to four years. Within the first two years, remaining restrictions on portfolio investment in foreign capital market securities by residents and the acquisition of real estate abroad by residents would have been abolished. The liberalisation of long-term outward financial credits would follow. The final steps would provide freedom for residents to operate deposit accounts abroad and for residents and non-residents to undertake operations in any securities and other financial instruments. Under this scenario, full liberalisation of capital controls would thus have been achieved by the end of 2000 at the latest. Meeting this timetable was not a legally binding commitment, but it was given a solemn character through its inclusion in the Hungarian Government’s Accession Declaration [C(96)73/FINAL]. Hungary “confirmed its objective to complete the abolition of remaining capital controls progressively over the next three or four years” [C(96)73/FINAL, page 6]. During the 1998 examination, the Hungarian authorities indicated that, under the present circumstances, the initially envisaged deadline for full capital control liberalisation – i.e. by the end of 2000 at the latest – could be maintained [C(99)21, para. 11].

20. In the 1998 examination, the Committees welcomed the liberalisation measures so far taken by the Hungarian authorities beyond their legally binding accession commitments, concerning both capital
outflows,9 and capital inflows.10 They also welcomed Hungary’s determination to complete the abolition of remaining capital controls by the end of 2000 in accordance with the timetable indicated at the time of accession. At the same time, the Committees encouraged the Hungarian authorities to proceed by no later than 1999 with the planned liberalisation of remaining restrictions on capital flows (operations in collective investment securities, outward financial credits, and the non-prudential ceiling on lending abroad by domestic banks). The Committees came to the conclusion at that time that these restrictions no longer appear justified by the Hungarian government’s current policy priorities.

Recent Liberalisation Measures

21. In their Progress Report, the Hungarian authorities report the following recent liberalisation measures:11

- As of 1 January 2000 foreign currency denominated credits and loans – with a maturity of more than one year – granted by residents to non-residents located in OECD member states (items VIII(ii)/B and IX/B of the Code) were liberalised. This measure is based on Article 5, paragraph 3 of Government Decree 220/1999.

- As of 1 July 2000 further liberalisation measures were taken in the field of operations in collective investment securities. Pursuant to Art. 1 of Government Decree 220/1999, the admission of foreign collective investment securities on the domestic securities market (item VII/B of the Code) was liberalised on the following conditions:

  1. The fund manager of the non-resident investment fund is registered in a member country of the OECD;
  2. under the investment policy of the fund, at least 50 per cent of its assets are kept in instruments that are already liberalised and freely available for residents in Hungary;
  3. the initial offering of the collective investment securities has taken place in a member country of the OECD.

- Residents may freely purchase abroad the above-mentioned collective investment securities (item VII/D of the Code) through resident investment companies (Article 1 of Government Decree 220/1999).

- As of 1 July 2000 resident fund managers may keep the securities and the earnings abroad (item XI/B2 of the Code) in order to facilitate technical arrangement of the investment operations (Articles 2 and 3 of Government Decree 220/1999).

22. The Hungarian authorities therefore suggest amending Hungary’s reservations under the Code accordingly (see Annex 1). The Committees concurred.

9. Purchase of foreign securities denominated in foreign currency and real estate abroad.
10. Financial credits of one year or more and purchase of domestic stock index futures by non-residents.
11. The Hungarian authorities have already notified these measures in DAFFE/INV/RD(2000)3.
Future Liberalisation

23. The Hungarian authorities reported that recent international financial crises and their contagious effects had led to a revision of their initial plans for early removal of all remaining capital controls. They are of the opinion that the existence of specific restrictions on capital inflows played a positive role in coping with the risk of financial turmoil in Hungary. In their assessment, the sequencing of the removal of currently existing restrictions should be determined by their impact on the conduct of monetary and exchange rate policies.

24. The liberalisation of transactions not involving perceptible monetary policy risk is scheduled for the year 2001, while a limited number of restrictions involving substantial risk for the conduct of monetary and exchange rate policies is envisaged for a later stage. However, the Hungarian authorities emphasise that the phasing-out of this group of restrictions is conditional upon further improvement in international investors’ assessment of Hungary’s economic situation.

25. According to the Hungarian authorities, restrictions on capital outflows belong to those transactions that can be liberalised in the first stage. The Hungarian authorities have stated that they are currently drafting an amendment of the Foreign Exchange Act with a view to implement such liberalisation measures in the course of 2001. The envisaged liberalisation measures would eliminate most of the currently existing restrictions regarding the foreign exchange transactions of residents and would affect a considerable number of items under the Code of Liberalisation of Capital Movements. 12

26. In view of the Hungarian authorities, restrictions on capital inflows (particularly on investments into short-term, domestic currency denominated assets) can only be lifted at a later stage. They are of the opinion that this latter group of restrictions should be removed totally when an adequate prudential regulation and monitoring system has been put in place. The Hungarian authorities emphasise that several important elements of this system have already been established at the foreign exchange authority and at the financial supervisory authority. […] The Committee, while recognising that a series of international financial crises had intervened, regretted that liberalisation progress had not been possible at the pace envisaged and urged the Hungarian authorities to pursue the liberalisation process vigorously.

IV. Cross-Border Financial Services

27. During the 1995-96 accession examination, the Committees expressed a concern that Hungary’s reservations with respect to cross-border trade in insurance, banking and other financial services were more comprehensive overall than was the case for most OECD countries. The Committees urged the Hungarian authorities to lift remaining protectionist measures and to proceed with an early and effective implementation of financial services legislation, which would facilitate further liberalisation of cross-border trade in financial services.

I. Cross-border insurance services

28. In its meeting on 24 June 1998, the Committees encouraged Hungary to amend as a matter of priority its Insurance Law so as to liberalise, as envisaged by the Hungarian authorities, insurance with non-resident insurers for risks not covered by domestic insurers and to relax other remaining restrictions

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12. In their Progress Report, the Hungarian authorities have referred to items V/B1,2, V/D1,2, VII/B1,2 and D1, VIII(ii)/B, IX/B, X(i)/A2, B2, X(ii)/A2, B2, XI/B2.
when the initiative to purchase insurance services is taken by the consumer without solicitation on the part of the non-resident insurer.

29. The Hungarian authorities have been concerned that the monitoring of activities of non-established financial service providers could exceed their current supervisory capacity. It is already heavily burdened in a context of a recent and rapid opening of the market, continuous regulatory reform, and arrival of many new players, including branches of foreign institutions. However, at the 1998 examination, the Hungarian authorities were ready to fully liberalise non-life insurance services in respect of risks not covered by domestic insurers. They were also willing to consider the scope for a further liberalisation of cross-border insurance services when the initiative to purchase insurance services is taken by the consumer without solicitation on the part of the non-resident insurer.  

30. In their Progress Report, the Hungarian authorities point out that a recently adopted amendment to the Insurance Act will bring further liberalisation by extending the possibility to cover the risk with a non-resident insurance company to the whole segment of non-life insurance. Accordingly, residents may conclude insurance contracts with non-resident insurance companies for non-life risks not covered by domestic insurers. This provision will enter into force on 1 January 2001. The Hungarian authorities are of the opinion that this will allow narrowing the scope of the reservation lodged by Hungary to item D/4 of the Code of Liberalisation of Current Invisible Operations (see Annex 1) by deleting paragraph 6 of Part I of Annex A to Annex I of this Code. The Committee welcomed this measure.

2. Other cross-border financial services

31. In the meeting on 24 June 1998, the Committees also encouraged the Hungarian authorities to consider liberalising other cross-border financial services as early as possible.

32. In their Progress Report, the Hungarian authorities refer to the envisaged amendment of the Foreign Exchange Act that will liberalise a considerable number of capital transactions. Furthermore, the Hungarian authorities intend to liberalise the operation of foreign exchange deposit accounts with non-resident financial institutions by residents, and banking and investment services purchased abroad by residents. The Committee reiterated its encouragement to Hungary to relax the remaining restrictions on cross-border financial services especially when the initiative to purchase is taken by the customer without solicitation on the part of the non-resident service provider.


14. See footnote 11.
ANNEX 1

DRAFT DECISION OF THE COUNCIL AMENDING ANNEX B TO THE CODE OF LIBERALISATION OF CAPITAL MOVEMENTS AND ANNEX B TO THE CODE OF LIBERALISATION OF CURRENT INVISIBLE OPERATIONS

THE COUNCIL,


Having regard to the Code of Liberalisation of Capital Movements.

Having regard to the report by the Committee on Capital Movements and Invisible Transactions on the modification of the position of Hungary under the Code of Liberalisation of Capital Movements [C(2000)…].

 DECIDES:

1. The following items shall be amended in the list of reservations by Hungary in Annex B to the Code of Liberalisation of Capital Movements to read as follows:

List A, Operations in collective investment securities:
VII/ B1 and 2, D

− Issue through placing or public sale of foreign collective investment securities on the domestic securities market.

Remark: This reservation does not apply to collective investment securities denominated in foreign exchange provided that

− the fund manager of the non-resident investment fund is registered in an OECD member country;

− under the investment policy of the fund, at least 50 per cent of its assets are kept in instruments that are already liberalised and freely available for residents in Hungary;

− the initial offering of the collective investment securities has taken place in an OECD member country.
– Introduction of foreign collective investment securities on a recognised domestic securities market.

   **Remark:** This reservation does not apply to collective investment securities denominated in foreign exchange provided that

   – the fund manager of the non-resident investment fund is registered in an OECD member country;

   – under the investment policy of the fund, at least 50 per cent of its assets are kept in instruments that are already liberalised and freely available for residents in Hungary;

   – the initial offering of the collective investment securities has taken place in an OECD member country.

– Purchase abroad by residents.

   **Remark:** This reservation does not apply to collective investment securities denominated in foreign exchange provided that

   – the fund manager of the non-resident investment fund is registered in an OECD member country;

   – under the investment policy of the fund, at least 50 per cent of its assets are kept in instruments that are already liberalised and freely available for residents in Hungary;

   – the initial offering of the collective investment securities has taken place in an OECD member country.

List A, VIII(ii)/B

Credits directly linked with international commercial transactions or the rendering of international services, in cases where no resident participates in the underlying commercial or service transaction:

– Credits granted by residents to non-residents

   **Remark:** The reservation does not apply to credits with a maturity of more than one year, denominated in foreign currency granted by residents to non-residents located in OECD member-states. In case of authorised foreign exchange banks, the total of foreign debt securities and credits to non-residents, denominated in foreign currency, held by a bank should not exceed 50 per cent of the bank’s total foreign exchange liabilities, unless foreign exchange approval is granted.
List B, IX/B

Financial credits and loans:

- Credits and loans granted by residents to non-residents

*Remark: The reservation does not apply to credits with a maturity of more than one year, denominated in foreign currency granted by residents to non-residents located in OECD member-states. In case of authorised foreign exchange banks, the total of foreign debt securities and credits to non-residents, denominated in foreign currency, held by a bank should not exceed 50 per cent of the bank’s total foreign exchange liabilities, unless foreign exchange approval is granted.*

List B, XI/B2

Operation of deposit accounts:

- By residents in foreign currency with non-resident institutions.

*Remark: The reservation does not apply to authorised foreign exchange banks, residents working abroad, resident fund managers and other authorised cases.*

2. The following item shall be amended in the list of reservations by Hungary in Annex B to the Code of Liberalisation of Current Invisible Operations to read as follows:

D/4 All other insurance

Annex I to Annex A, Part I, paragraph 5

*Remark: The reservation does not apply to:

- Contracts entered into by residents employed abroad for risks located abroad.

- Property and third party insurance contracts entered into by residents for their real properties located abroad and personal effects received from abroad as gifts and inheritance.*
ANNEX 2

OTHER REMAINING RESERVATIONS OF HUNGARY
UNDER THE CODE OF LIBERALISATION OF CAPITAL MOVEMENTS

List A, I/A

Direct investment:

− In the country concerned by non-residents.

Remark: The reservation applies only to:

1. Acquisition of a license for domestic air transport, which is reserved to majority-owned and controlled Hungarian enterprises;

2. Acquisition of a shipping license to operate in international waters, which is reserved to firms majority-owned or controlled by Hungarians;

3. The provision of asset management services by branches of non-resident investors to domestic compulsory private pension funds.

List B, III/A1

Operations in real estate:

− Building or purchase in the country concerned by non-residents

List A, IV/B1 and 2, C1, D1

Operations in securities on capital markets:

− Issue through placing or public sale of foreign securities on the domestic capital market.

Remark: The reservation applies only to securities denominated in domestic currency issued by non-resident enterprises other than OECD-based enterprises with an investment grade rating.

− Introduction of foreign securities on a recognised domestic security market.

Remark: The reservation applies only to securities denominated in domestic currency issued by non-resident enterprises other than OECD-based enterprises with an investment grade rating.
- Purchase in the country concerned by non-residents.

*Remark:* The reservation applies only to the purchase of shares and other securities of participating nature which may be affected by regulations on inward direct investment and establishment in air transport and in companies licensed to operate in international waters.

- Purchase abroad by residents.

*Remark:* The reservation applies only to purchases by:

i) Non-bank residents of securities denominated in domestic currency issued by non-resident enterprises other than OECD-based enterprises with an investment grade rating.

ii) Resident authorised foreign exchange banks of debt securities denominated in foreign exchange issued by non-residents to the extent that the total of foreign debt securities and credits to non-residents, denominated in foreign currency, held by a bank may not exceed 50 per cent of the bank’s total foreign exchange liabilities without prior foreign exchange approval.

List B, V/A1 and 2, B1 and 2, C1, 3 and 4, D1, 3 and 4

Operations on money markets:

- Issue through placing or public sale of domestic securities and other instruments on a foreign money market.

*Remark:* The reservation does not apply to issue through placing by authorised resident foreign exchange banks.

- Introduction of domestic securities and other instruments on a recognised foreign money market.

- Issue through placing or public sale of foreign securities and other instruments on the domestic money market.

- Introduction of foreign securities and other instruments on a recognised domestic money market.

- Purchase of money market securities in the country concerned by non-residents.

- Lending through other money market instruments in the country concerned by non-residents.

- Borrowing through other money market instruments in the country concerned by non-residents.

*Remark:* The reservation does not apply to borrowing of a maturity of less than one year from resident authorised foreign exchange banks, provided that the total of foreign debt securities and credits to non-residents, denominated in foreign currency, held by a resident
bank does not exceed 50 per cent of the bank’s total foreign exchange liabilities, unless foreign exchange approval is granted.

− Purchase of money market securities abroad by residents.

**Remark:** The reservation does not apply to authorised foreign exchange banks, provided that the total of foreign debt securities and credits to non-residents, denominated in foreign currency, held by a bank does not exceed 50 per cent of the bank’s total foreign exchange liabilities, unless foreign exchange approval is granted.

− Lending through other money market instruments abroad by residents.

**Remark:** The reservation does not apply to lending of a maturity of less than one year by authorised foreign exchange banks, provided that the total of foreign debt securities and credits to non-residents, denominated in foreign currency, held by a bank does not exceed 50 per cent of the bank’s total foreign exchange liabilities, unless foreign exchange approval is granted.

− Borrowing through other money market instruments abroad by residents.

**Remark:** The reservation does not apply to borrowing by authorised foreign exchange banks.

List B, VI/A1 and 2, B1 and 2, C1 and 3, D1 and 3

Other operations in negotiable instruments and non-securitised claims:

− Issue through placing or public sale of domestic instruments and claims on a foreign financial market.

− Introduction of domestic instruments and claims on a recognised foreign financial market.

− Issue through placing or public sale of foreign instruments and claims on a domestic financial market.

− Introduction of foreign instruments and claims on a recognised domestic financial market.

− Purchase in the country concerned by non-residents.

**Remark:** The reservation does not apply to:


5. *Outright forward, options and futures transactions denominated in convertible foreign currencies between non-residents and resident authorised foreign exchange banks.*
– Exchange for other assets in the country concerned by non-residents.

*Remark: The reservation does not apply to swap transactions denominated in convertible foreign currencies concluded by non-residents with resident authorised foreign exchange banks.*

– Purchase abroad by residents.

*Remark: The reservation does not apply to the purchase of:*

i) **Foreign instruments and claims of a maturity of less than one year by authorised foreign exchange banks on their own account, provided that the total of foreign debt securities and credits to non-residents, denominated in foreign currency, held by a bank does not exceed 50 per cent of the bank’s total foreign exchange liabilities, unless foreign exchange approval is granted.**

ii) **Foreign negotiable instruments representing shares and other securities of a participating nature and meeting the criteria for direct investment abroad.**

iii) **Foreign negotiable instruments representing government debt securities issued by OECD Member countries, any capital market securities issued by OECD-based enterprises with an investment grade rating, and capital market securities denominated in foreign currencies issued by OECD-based enterprises.**

– Exchange for other assets abroad by residents.

*Remark: The reservation does not apply to authorised foreign exchange banks acting on their own account.*

**List A, VII/A1 and 2, C1**

Operations in collective investment securities:

– Issue through placing or public sale of domestic collective investment securities on a foreign securities market.

*Remark: The reservation applies only to open-end investment fund units.*

– Introduction of domestic collective investment securities on a recognised foreign securities market.

*Remark: The reservation applies only to open-end investment fund units.*

– Purchase in the country concerned by non-residents.

*Remark: The reservation applies only to open-end investment fund units.*
List B, IX/A

Financial credits and loans:

- Credits and loans granted by non-residents to residents.

Remark: The reservation applies only to credits and loans with a maturity of less than one year granted to residents other than authorised foreign exchange banks.

List A, X(ii)/A2

Sureties, guarantees and financial back-up facilities in cases not directly related to international trade, international current invisible operations or international capital movement operations, or where no resident participates in the underlying international operation concerned:

- Sureties and guarantees given by residents in favour of non-residents.

Remark: The reservation does not apply to:

i) Sureties connected to customs duties.

ii) Sureties and guaranties granted by authorised foreign exchange banks.

iii) Sureties and guarantees in connection with residents’ liabilities towards non-residents which result from underlying transactions not requiring prior approval or reporting.

List B, X(ii)/B2

Sureties, guarantees and financial back-up facilities in cases not directly related to international trade, international current invisible operations or international capital movement operations, or where no resident participates in the underlying international operation concerned:

- Financial back-up facilities granted by residents in favour of non-residents.

Remark: The reservation does not apply to:

i) Financial back-up facilities granted by authorised foreign exchange.

ii) Financial back-up facilities in connection with residents’ liabilities towards non-residents which result from underlying transactions not requiring prior approval or reporting.
List A, XI/A1  Operation of deposit accounts:

− By non-residents in domestic currency with resident institutions.

*Remark:* The reservation applies only to the conversion into foreign currency and transfer of funds abroad from "non-convertible" forint accounts. Proceeds from any permitted current or capital transactions may be freely deposited in convertible forint accounts and subsequently converted into foreign currencies and transferred abroad.

List B, XI/B1  Operation of deposit accounts:

− By residents in domestic currency with non-resident institutions.

List B, XII/B1 and 2  Operations in foreign exchange:

− Purchase of foreign currency with domestic currency abroad by residents.

*Remark:* The reservation applies only to purchases, in excess of HUF 350 000, not linked to any particular underlying transactions.

− Sale of foreign currency for domestic currency abroad by residents.

*Remark:* The reservation applies only to foreign currency acquired abroad which must be repatriated to the country, except in specific cases.
ANNEX 3

COMPANIES IN PERMANENT PUBLIC OWNERSHIP IN HUNGARY

As noted in the Background Report [DAFFE/INV/IME(98)3/REV2], the Privatisation Act of 1995 identifies general categories of enterprises which may remain under (full or partial) permanent public ownership. The categories in question include the following: a) national public utility provider; b) a company of “strategic significance with consideration to the national economy”; c) a company which performs national defense or other special duties and/or serves such purposes; d) any company share required to safeguard the ownership of the state and its voting rights as provided by the law on concessions. The extent of the permanent public stake in such an enterprise may vary between 100 per cent, and one single share (the so-called golden share). Currently 172 companies are considered to fall within the categories identified above according to the Appendix of the Privatisation Act. Of these companies, 93 belong to ÁPV Rt. – among them 3 banks, 19 forestry companies which are to remain in 100 per cent state ownership, and 27 agricultural companies, most of which are to remain in 75 per cent state ownership. As far as MVM (Hungarian Electricity Works), owner of the national electricity grid and responsible for the nuclear energy industry and the 24 Volán regional transport companies are concerned, 50 per cent + 1 vote is to remain in state hands in the long-term. The others (e.g. research institutions) fall within the competence of the relevant ministries.
Of the companies in permanent public ownership, the state has one golden share in 30 companies.

**Companies with golden shares at the end of 1999**

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Golden Share Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AES-Tiszai Eromu Rt.</td>
<td>AES Tisza Power Plant Ltd.</td>
</tr>
<tr>
<td>2</td>
<td>Bakonyi Eromu Rt.</td>
<td>Bakony Power Plant Ltd.</td>
</tr>
<tr>
<td>3</td>
<td>Budapesti Elektromos Muvek Rt.</td>
<td>Budapest Electricity Plc.</td>
</tr>
<tr>
<td>4</td>
<td>Budapesti Eromu Rt.</td>
<td>Budapest Power Plant Ltd.</td>
</tr>
<tr>
<td>5</td>
<td>Dél-Alföldi Gázsolgalátor Rt.</td>
<td>South West Hungarian Electricity Supply Company Ltd.</td>
</tr>
<tr>
<td>6</td>
<td>Dél-Dunántúli Áramszolgáltató Rt.</td>
<td>South Hungarian Electricity Supply Company Ltd.</td>
</tr>
<tr>
<td>7</td>
<td>Dél-Magyarországi Áramszolgáltató Rt.</td>
<td>Dunamenti Power Plant Ltd.</td>
</tr>
<tr>
<td>8</td>
<td>Észak-Dunántúli Áramszolgáltató Rt.</td>
<td>North West Hungarian Electricity Supply Company Ltd.</td>
</tr>
<tr>
<td>9</td>
<td>Észak-Magyarországi Áramszolgáltató Rt.</td>
<td>North Hungarian Electricity Supply Company Ltd.</td>
</tr>
<tr>
<td>10</td>
<td>Közép-Dunántúli Gázsolgalátor Rt.</td>
<td>Middle Transdanubian Gas Distribution Company Ltd.</td>
</tr>
<tr>
<td>11</td>
<td>Mátra Eromu Rt.</td>
<td>Mátra Power Plant Company Ltd.</td>
</tr>
<tr>
<td>12</td>
<td>Országos Villamos Távvezeték Rt.</td>
<td>National Power Line Company Ltd.</td>
</tr>
<tr>
<td>13</td>
<td>Paksi Atomeronu Rt.</td>
<td>Paks Nuclear Power Plant Ltd.</td>
</tr>
<tr>
<td>14</td>
<td>Pécsi Eromu Rt.</td>
<td>Pécs Power Plant Ltd.</td>
</tr>
<tr>
<td>15</td>
<td>Tiszántúli Áramszolgáltató Rt.</td>
<td>East Hungarian Electricity Supply Company Ltd.</td>
</tr>
<tr>
<td>16</td>
<td>Tiszántúli Gázsolgalátor Rt.</td>
<td>Tiszántúli Gas Supply Corporation (TIGÁZ Corp.)</td>
</tr>
<tr>
<td>17</td>
<td>Vértesi Eromu Rt.</td>
<td>Vértes Power Plant Ltd.</td>
</tr>
<tr>
<td>18</td>
<td>CD Hungary Ingatlanforg. És Szolg. Rt.</td>
<td>CD Hungary Ltd.</td>
</tr>
<tr>
<td>19</td>
<td>Magyar Távközlési Rt.</td>
<td>Hungarian Telecommunications Company Ltd.</td>
</tr>
<tr>
<td>20</td>
<td>Herzs Salámigýar Rt.</td>
<td>Herz Salami Company Ltd.</td>
</tr>
<tr>
<td>21</td>
<td>Hungarian Gyógyszer-kereskedelmi Rt.</td>
<td>Hungaropharma Ltd.</td>
</tr>
<tr>
<td>22</td>
<td>Kalocsai Fűszerpaprika Rt.</td>
<td>Kalocsi Spices Ltd.</td>
</tr>
<tr>
<td>25</td>
<td>Országos Takarékpénztár és Kereskedelmi Bank</td>
<td>OTP National Savings and Commercial Bank</td>
</tr>
<tr>
<td>26</td>
<td>HUNGEXPO Vásár és Reklám Rt.</td>
<td>HUNGEXPO Exhibition and Advertisement Co.</td>
</tr>
<tr>
<td>27</td>
<td>Magyar Olaj- és Gázipari Rt.</td>
<td>Hungarian Oil and Gas Plc MOL</td>
</tr>
</tbody>
</table>

Source: Hungarian authorities.