REPORT BY THE HUNGARIAN AUTHORITIES TO THE CMIT ON PROGRESS TOWARDS FULL LIBERALISATION

(Note by the Secretariat)

This note by the Secretariat is circulated for discussion at the CMIT meeting on 12 October 2000.

Contact: Joachim Karl, tel. 33-1 45 24 15 22, fax 33-1 44 30 61 35, e-mail: joachim.karl@oecd.org
REPORT BY THE HUNGARIAN AUTHORITIES TO THE CMIT ON PROGRESS TOWARDS FULL LIBERALISATION

(NOTE BY THE SECRETARIAT)

I. Introduction and Summary

1. At their joint meeting on 24 June 1998, CIME/CMIT discussed the position of Hungary under the Codes of Liberalisation. 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 this report on 20 September 2000 [DAFFE/INV (2000)13].

2. This Secretariat note examines the responses of the Hungarian authorities in their progress report in light of the pending issues raised in the June 1998 meeting. The main results can be summarised as follows:

3. With regard to foreign direct investment, Hungary still does not allow branches of non-resident mortgage banks to acquire property of arable land. The Hungarian authorities consider that the restriction is covered by the existing reservation on real estate (item III/A), but they propose to lodge an additional reservation under item I/A of the Code of Liberalisation of Capital Movements and item E/7 of the Code of Liberalisation of Current Invisible Operations for transparency reasons. The Committees had urged the Hungarian authorities in the 1998 examination to take corrective action as soon as possible.

4. A restriction also 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. In the 1998 examination, the Committees had urged the Hungarian authorities to take corrective action as soon as possible. As far as compulsory private pension funds are concerned, the Hungarian authorities consider that time is not yet ripe for liberalisation. In the 1998 examination, the Committees had encouraged Hungary to consider an early removal of this restriction which affects operations under item I/A of the Code.

5. With regard to other capital movements, the Hungarian authorities report about recent 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). Furthermore, cross-border insurance services have been partially liberalised (item D/4 of the Code of Liberalisation of Current Invisible Operations). The Hungarian authorities therefore suggest amending Hungary’s position under the Codes accordingly\(^2\).

---

\(^1\) See C(99)21 and Background Report DAFFE/INV/IME(98)3/REV2.

6. As far as remaining *capital controls* are concerned, the Hungarian authorities had declared its determination in the 1998 examination to abolish them by the end of 2000. The Hungarian authorities now report that due to recent 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.

7. Concerning *cross-border financial services*, the Hungarian authorities report that, besides the liberalisation of cross-border insurance services (see para. 5), a considerable number of related capital transactions will be liberalised in the context of the revision of the Foreign Exchange Act.

8. The Committee is invited to consider these matters and to make appropriate recommendations (see Annex 1).

II. Foreign Direct Investment

1. **Foreign Branches**

9. At the time 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, meet the requirements of the Codes in most respects. However, certain restrictions remain:

   a. **Ownership of Arable Land**

10. Branches of non-resident mortgage banks cannot, unlike subsidiaries, acquire arable land. Branches of non-resident enterprises are otherwise allowed to acquire real estate in Hungary. 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.

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. Against this background, the Hungarian authorities propose in their Progress Report to lodge a reservation with regard to item I/A of the Code of Liberalisation of Capital Movements, and item E/7 of the Code of Current Invisible Operations. They have justified this request as follows:

---

3 C(99)21, paragraph 23b.
• Hungary has a reservation concerning the acquisition of real estate by non-residents (item III/A). In the view of the Hungarian authorities, this reservation can be interpreted as to cover the acquisition of arable land as a collateral.

• The Hungarian authorities refer to the conclusions of the post-accession examination of the Czech Republic where the establishment and operation of foreign branches as mortgage banks was one issue under discussion. In that case the Committees agreed that the Czech authorities introduce a new, specific reservation under items I/A and E/7 of the Codes with respect to mortgage banking branches for the sake of greater transparency [C(98)7].

13. There is the issue of what item(s) under the Code are affected by the existing Hungarian restriction. The fact that branches of foreign mortgage banks cannot acquire arable land for the purpose of their business activities - i.e. mortgage banking - can be interpreted as a de facto (indirect) discrimination concerning the establishment and operation of such branches. This is an item I/A issue. In fact, in the 1998 examination, the Committees were of the opinion that the restriction relates to direct investment. As the Hungarian reservation on branches under item I/A had ceased to apply on 31 December 1997, the Committees came to the conclusion that Hungary does not comply with its obligations under the Code.

14. In the 1998 examination, the Committees discussed the restriction on the acquisition of arable land also under the topic "capital inflows/real estate" [see DAFFE/INV/IME(98)3/REV2, paragraph 79]. However, the Background Report remains silent on the question whether the Hungarian reservation under item III/A actually covers this restriction. If the Committees had been of the opinion that this is the case, they could not have come to the conclusion that Hungary is not in compliance with its obligations under the Code.

15. Another question is whether one can compare the Hungarian case with the situation in the Czech Republic. It appears that there exist the following differences:

- Whereas in Hungary, the operation of branches of foreign mortgage banks is permitted, this is not the case in the Czech Republic⁴;

- Whereas in Hungary, foreign branches can acquire real estate in principle, this is not the case in the Czech Republic⁵.

16. Despite these differences, the situation is similar in both countries with regard to the specific issue of acquisition of arable land by branches of foreign mortgage banks. Both in Hungary and the Czech Republic, acquisition is prohibited. And both Hungary and the Czech Republic have a reservation with regard to item III/A. One might therefore argue that like in the Czech case, Hungary may be entitled to lodge a reservation under items I/A and E/7 for transparency reasons.

17. However, contrary to the approach taken vis-à-vis the Czech Republic⁶, the Committee has not yet come to the conclusion that the Hungarian reservation with regard to item III/A covers the existing restriction. This was actually the justification to permit the Czech Republic to lodge a new reservation with regard to items I/A and E/7 for transparency reasons. One explanation why the Committees did not feel a

---

⁴ See the Czech reservation under item I/A in DAFFE/INV(2000)14, page 9.
⁵ See the Czech reservation under item I/A in DAFFE/INV(2000)14, page 9.
⁶ For the Czech Republic, see C(98)7, paragraph 8.
need for a final decision in the 1998 examination of Hungary might be that Hungary at that time envisaged to amend its relevant legislation in order to comply with its obligations under the Code.

*Question: Does the Committee agree that the situation in Hungary and the Czech Republic is comparable? If yes, does the Committee agree that Hungary should be permitted to lodge a new reservation with regard to items I/A and E/7 for transparency reasons?*

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

18. 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.

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

19. 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.

20. 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. 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.

*Question: When might the current evaluation process be terminated?*

---

7. The precise wording of this reservation still needs to be decided.

8 C(99)21, paragraph 23b.

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

21. 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\(^{10}\).

2. Privatisation

22. 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\(^{11}\).

23. 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).

Question: It appears that tensions have arisen in some recent cases of privatisation (e.g. in connection with the partly privatised energy company MOL, and Tisza Power Company) that might affect future privatisation decisions. Could the Hungarian expert comment?

III. Other Capital Movements

24. 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].

\(^{10}\) DAFFE/INV/(99)15/REV1.

\(^{11}\) C(99)21.
25. 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\(^\text{12}\), and capital inflows\(^\text{13}\). 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 that these restrictions no longer appear justified by the Hungarian government’s current policy priorities.

**Recent Liberalisation Measures**

26. In their Progress Report, the Hungarian authorities report the following recent liberalisation measures\(^\text{14}\):

- **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:
  - i. The fund manager of the non-resident investment fund is registered in a member country of the OECD;
  - ii. 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;
  - iii. 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).

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

\(^{12}\) Purchase of foreign securities denominated in foreign currency and real estate abroad.

\(^{13}\) Financial credits of one year or more and purchase of domestic stock index futures by non-residents.

\(^{14}\) The Hungarian authorities notified these measures already in DAFFE/INV/RD(2000)3.
Future Liberalisation

28. With regard to possible liberalisation steps in the future, the Hungarian authorities point out that recent international financial crises has resulted in a revision of their initial plans for an 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.

29. Hungary currently maintains a reservation on operations on money markets concerning lending through other money market instruments abroad by residents (item V/D3 of the Code). According to the Hungarian authorities, it was envisaged to eliminate this restriction in the context of the overall revision of the foreign exchange regulation pertaining to commercial banks. In their Progress report, the Hungarian authorities state that this limit can be lifted only in the final stage of foreign exchange liberalisation.

30. 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.

31. 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.15

32. 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. With regard to further improvement, the Hungarian authorities wish to rely on the recommendations and proposals recently developed by a number of international organisations and fora, including the IMF.

Question: Can the Hungarian expert give some more details concerning liberalisation of capital inflows? Is there a timetable for further liberalisation? Which Hungarian reservations would be affected?

---

15 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.
IV. Cross-Border Financial Services

33. 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.

1. Cross-border insurance services

34. 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 when the initiative to purchase insurance services is taken by the consumer without solicitation on the part of the non-resident insurer.

35. 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.

36. 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 issuers. 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).

2. Other cross-border financial services

37. 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.

38. 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.

16 C(99)21.
17 See footnote 14.
Questions: What impact would the liberalisation of certain capital transactions have on the liberalisation of cross-border financial services? What is the timeframe for this envisaged liberalisation of financial services?
Annex 1

DRAFT DECISION OF THE COUNCIL AMENDING ANNEX B TO THE CODE OF LIBERALISATION OF CAPITAL MOVEMENTS

THE COUNCIL,

Having regard to Article 5 a) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

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, VII/B1 and 2, D

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

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

-- Purchase abroad by residents.

Remark: These three reservations do not apply to collective investment securities denominated in foreign exchange and issued by investment funds registered in a member state of the OECD provided that
- 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 a member state of the OECD.

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 percent 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 percent 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:

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:

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

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

iii) 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:

i) The purchase of Budapest stock index ("BUX") futures;

ii) 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.
Operation of deposit accounts:

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

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%, 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

1. AES-Tiszai Eromu Rt. AES Tisza Power Plant Ltd.
5. Dél-Alföldi Gázszolgáltató Rt. Southern Lowlands Gas Supplying Ltd. (DÉGÁZ Ltd.)
6. Dél-Dunántúli Áramszolgáltató Rt. South West Hungarian Electricity Supply Company Ltd.
7. Dél-Dunántúli Gázszolgáltató Rt. South Transdanubian Gas Supply Ltd.
8. Dél-Magyarországi Áramszolgáltató Rt. South Hungarian Electricity Supply Company Ltd.
10. Észak-Dunántúli Áramszolgáltató Rt. North West Hungarian Electricity Supply Company Ltd.
11. Észak-Dunántúli Gázszolgáltató Rt. North Transdanubian Gas Distribution Plc. (ÉGÁZ Plc.)
12. Észak-Magyarországi Áramszolgáltató Rt. North Hungarian Electricity Supply Company Ltd.
13. Közép-Dunántúli Gázszolgáltató Rt. Middle Transdanubian Gas Distribution Company Ltd.
<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Paksi Atomromu Rt.</td>
<td>Paks Nuclear Power Plant Ltd.</td>
</tr>
<tr>
<td>17</td>
<td>Pécsi Eromu Rt.</td>
<td>Pécs Power Plant Ltd.</td>
</tr>
<tr>
<td>18</td>
<td>Tiszántúli Áramszolgáltató Rt.</td>
<td>East Hungarian Electricity Supply Company Ltd.</td>
</tr>
<tr>
<td>19</td>
<td>Tiszántúli Gázzolgáltató Rt.</td>
<td>Tiszántúli Gas Supply Corporation (TIGÁZ Corp.)</td>
</tr>
<tr>
<td>20</td>
<td>Vértesi Eromu Rt</td>
<td>Vértes Power Plant Ltd.</td>
</tr>
<tr>
<td>21</td>
<td>CD Hungary Ingatlanforg. És Szolg. Rt.</td>
<td>CD Hungary Ltd.</td>
</tr>
<tr>
<td>22</td>
<td>Magyar Távkölzési Rt.</td>
<td>Hungarian Telecommunications Company Ltd.</td>
</tr>
<tr>
<td>23</td>
<td>Herz Szalámiigyár Rt.</td>
<td>Herz Salami Company Ltd.</td>
</tr>
<tr>
<td>24</td>
<td>Hungaropharma Gyógyszer-kereskedelmi Rt.</td>
<td>Hungaropharma Ltd.</td>
</tr>
<tr>
<td>25</td>
<td>Kalocsai Fűszerpaprika Rt.</td>
<td>Kalocsai Spices Ltd.</td>
</tr>
<tr>
<td>28</td>
<td>Országos Takarékpénztár és Kereskedelmi Bank</td>
<td>OTP National Savings and Commercial Bank</td>
</tr>
<tr>
<td>29</td>
<td>HUNGEXPO Vásár és Reklám Rt.</td>
<td>HUNGEXPO Exhibition and Advertisement Co.</td>
</tr>
<tr>
<td>30</td>
<td>Magyar Olaj- és Gázipari Rt.</td>
<td>Hungarian Oil and Gas Plc MOL</td>
</tr>
</tbody>
</table>

Source: Hungarian authorities.