



Doing Business in Hungary
2015

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Szabó Kelemen & Partners Attorneys is a leading full-service Hungarian law firm with a professional staff of more than 25 lawyers. The firm traces its origins back to Szabó & Partners Attorneys, which was established in 1996, and is the Hungarian member of the International Alliance of Law Firms.

The firm was the Hungarian member of the Ernst & Young Law Alliance from 1996 to 2003, and from 2004 worked in cooperation with Salans for two and a half years.

As of January 1, 2014, six attorneys of Vincze & Partners Law Office have joined Szabo Kelemen & Partners Attorneys. Vincze & Partners, a widely known and reputable practice, specialized and experienced in the areas of banking and finance, contributes to the further strengthening of the existing market positions of Szabo Kelemen & Partners Attorneys in the practice areas of business law.

The firm's impressive client base consists of multinationals, as well as large and medium-sized Hungarian companies. The firm's objective is to provide integrated solutions for its clients according to the most exacting of standards. The firm is particularly strong in corporate and commercial work, including corporate restructuring and insolvency, competition, banking and finance, employment, as well as in various industry sectors, including financial services and real estate.

Many of the firm's Hungarian lawyers have worked in law offices or barristers' chambers abroad, and many hold postgraduate qualifications from foreign institutions. The working languages of the firm are Hungarian, English and German.

The firm's core practice areas are:

- Antitrust/competition law
- Banking and Finance
- Corporate and commercial, including company group financing and royalty payment structures
- Corporate restructuring and insolvency
- Employment
- Gaming and betting
- Litigation and arbitration
- Information technology, telecommunications and e-commerce
- Intellectual Property
- Mergers and acquisitions
- Public procurement
- Real estate/commercial property
- Tax

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1. Country overview

| | |
|---|---|
| Language | Hungarian |
| Currency | Forint (HUF) |
| Capital | Budapest |
| Government type | Parliamentary democracy |
| Legal system | Civil law (Roman law) system |
| EU membership | Since 1 May, 2004 |
| Membership in international organizations | Council of Europe (EOC), International Monetary Fund (IMF), International Red Cross and Red Crescent Movement, North Atlantic Treaty Organization (NATO), Organization for Economic Co-operation and Development (OECD), United Nations (UN), World Intellectual Property Organization (WIPO) |
| Neighbouring countries | Austria, Croatia, Romania, Serbia, Slovakia, Slovenia, Ukraine |
| Public holidays | New Year's Day (1 January), 1848 Revolution (15 March), Easter Monday (date varies), Labour Day (1 May), Whit Monday (date varies), St. Stephen's Day (20 August), Republic Day (23 October), All Saints' Day (1 November), Christmas (24, 25 and 26 December) |

From 15 March 2014, the new Civil Code (Act V of 2013) fundamentally regulates the formation, organization and operation of companies with a registered office in Hungary, as well as the rights, obligations and liabilities of the founders and members of companies. Besides, several other acts contain provisions concerning the transformation, merger and de-merger of companies and the termination of such organizations without a legal successor.

Business associations are legal persons that may be formed for engaging in business or trade operations.

Business associations may take the company forms of unlimited partnerships ('Kkt. '), limited partnerships ('Bt. '), limited liability companies ('Kft. ') and companies limited by shares ('Rt. ').

Companies may be formed by foreign and domestic natural persons or legal persons, and such persons may join these companies as members/acquire participating interest therein.

Foreign legal entities that are shareholders or otherwise involved in a Hungarian company, as well as foreign natural persons with no place of residence in Hungary must appoint agents for service of process.

The Hungarian Act on Foreign Investment specifies that investments made by non-residents enjoy full legal protection and security. Bilateral treaties in force guarantee additional protection for foreign

¹ This Guide was prepared as of 1 October 2015. The HUF/EUR exchange rate used is HUF 300 = 1 EUR

investors. Foreign individuals and legal entities may establish new companies or acquire shares in existing companies in Hungary. Companies that are wholly or partly foreign-owned can, in practice, operate in all business areas. Where the chosen activity requires a permit (e.g. for banking activity) the same rules apply regardless of whether the owners of the entity are residents in Hungary or abroad.

2. Significant novelties and factors improving the economic environment for starting a business and investing in Hungary

2.1 *Investments of high importance from the perspective of the national economy*

In order to facilitate the projects financed by European Union subsidies by providing a faster, simpler and more unified procedural framework and to use the available resources more efficiently, the Hungarian Parliament adopted Act LIII of 2006 on the Acceleration and Simplification of the Implementation of Investments of High Importance from the Perspective of the National Economy.

The aim of the Act is to promote the forming of a regulatory environment which corresponds to the special needs raised by investments of high importance from the perspective of the national economy, by accelerating authority approval procedures and reducing the public administration deadlines.

A quick and efficient assessment of investments of high importance is required so that the subsidies granted by the European Union from the Cohesion Fund and the structural funds could be completely drawn down. Another objective of the Act is to promote the more efficient approving of investments financed from private resources, as well.

2.2 *Agreements on strategic partnership*

The Hungarian Government facilitates the conclusion of agreements on strategic partnership in order to strengthen cooperation with foreign investors in Hungary and with their Hungarian subsidiaries. The Hungarian Government is convinced that strategic agreements concluded with large enterprises will contribute to the competitiveness of Hungary, thus to increasing the performance of the Hungarian economy.

A system of criteria has been set up for the conclusion of such agreements. The aim of this is that only companies which will probably contribute to the country's economic and social development in the long run can be included in the scope of companies concluding such agreements. Elements of the system of criteria are: employing large Hungarian workforce, the company's commitment to increasing the number of employed, to enlarge and extend the business activities in Hungary. Large emphasis is laid on the improvement of the Hungarian R&D activities and the strengthening of the innovation capacity.

Agreements on strategic partnership are declarations on intent with no legal binding force in which the parties lay down the general aims of long-term cooperation. In such a way, they do not contain provisions on giving a specific financial support; they merely refer to the possibilities.

2.3 Funding for Growth Scheme

The National Bank of Hungary launched its Funding for Growth Scheme (NHP) in 2013, as an element of its means of monetary policy, in order to mitigate the disturbances experienced in the funding of small and medium-sized enterprises (SMEs) and to strengthen financial stability. With regard to the fact that NHP was successful, they decided to continue with the scheme and currently the credit facility available is between 1,000 and 2,000 billion forints.

In the framework of the 1st pillar of the Scheme, the central bank grants a refinancing HUF-loan with discounted interest to credit institutions. The credit institutions will on the one hand re-lend such funds to SMEs in the form of a loan, financial lease or factoring denominated in forints, against an annual fee having an upper limit, and, on the other hand, they refinance financial enterprises for achieving the same purpose. This discounted central bank financing granted in the framework of the Funding for Growth Scheme reduces the financing costs of SMEs and facilitates the implementation of projects which have so far been hindered by the high financing costs. Due to the decreasing debt services costs, the deterioration of the quality of bank credits is slowing down, thus the Scheme may also improve the lending capacity of credit institutions by way of their balance sheet positions.

The 2nd pillar of the Scheme is aimed on the one hand at decreasing the ration of foreign-exchange based financing and, on the other hand at reducing the financing costs of enterprises by replacing forint loans or financial lease raised originally for investment and current asset financing and pre-financing of EU subsidies.

When determining micro, small and medium-sized enterprises, the concepts of Act XXXIV of 2004 on Small and Medium-sized Enterprises and the Supporting of their Development are applicable. In the framework of the Scheme, loan may only be requested by SMEs with its registered seat in Hungary which meet the requirements determined by the Act.

2.4 Benefits from the perspective of antitrust law

The Government may - for reasons of public interests, more specifically, for preserving jobs and for securing supplies - declare the merger of companies of strategic importance at the national level. For such mergers the authorization of the HCA is not required.

Regarding anticompetitive agreements or concerted practices, block exemptions may be set out in Government decrees.

3. Business Entities

Changes in corporate law regulations

In 14 March 2014, a new Civil Code (Act V of 2013 on the Civil Code - 'Civil Code') came into effect. The new Civil Code reorganizes the whole Hungarian civil law into a consolidated structure, incorporating the corporate law rules - that were previously in separate acts - into the Civil Code as part of its Third Book on legal persons.

The most important novelty in the regulation of business entities by the Civil Code is that members are less bound by law than before when determining the contents of their Articles of Association, as the members may deviate from any relevant provision of the Civil Code freely, unless expressly prohibited

by the act (and there are not too many rules not permitting such deviation in the Civil Code; one for example is that members cannot be completely excluded from bearing the profit and the loss) or if the deviation obviously infringes the rights of creditors or employees, or if it impairs the rights of minority members or if it impedes exercising statutory supervision.

This means that members have a relatively broad scope for action when regulating the operation of their company. Based on this, it is possible that the customary "routine answer" to the questions which arise in practice from time to time will not be sufficient for the members any more; it is worth having each question answered again on the basis of the Civil Code.

A few examples in this respect:

- The reasons for exclusion from voting during the decision-making of the highest organ of business entities (members' meeting, quotaholders' meeting, shareholders' meeting) are extended by the Civil Code. One of these reasons will be if the relative of a member who is not a member of the company, or another company being under the majority influence of a member, is interested in the decision, or if a member is otherwise personally interested in the decision. It is evident that if the members wish to deviate from this provision, they may do this if they exclude the application of these rules in their Articles of Association, unless this seriously impairs the interests of creditors or minority members;
- An executive officer may be a legal entity now, without any restrictions;
- The executive officers have a stricter liability both against the company and against third parties: the executive officer may only be exempted from his liability against the company for the damage he caused to the company, if the damage was caused by a circumstance beyond his control which could not be foreseen when the executive officer had performed the action concerned, and it could not have even been expected from the executive officer to prevent the damage; while for any damage caused to a third party by the action/mission referred to in the foregoing, the executive officer shall be jointly and severally liable together with the company towards the third party;
- An executive officer must have either an employment contract or an engagement contract in respect of his position as such (it is not sufficient if he is merely appointed in the Articles of Association);
- The liability of supervisory board members against the company will be the same as that of the executive officer: thus, it will be stricter, as well;
- The limitation of the right of representation of the companies' organizational representatives may even be effective vis-à-vis third parties, what is more, any organization may be introduced at the company which is not specified by the Civil Code;
- The permanent auditor of a company, in the interests of ensuring his independency, cannot provide any services to the company and cannot form a cooperation with the management which could jeopardize the auditor's independency;
- The minimum registered capital requirement of limited liability companies is 3 million forints again, but it is not obligatory any more to make a declaration on the assessment of the in kind contribution by the members. The amount of the initial quota does not have to be exactly divisible by ten thousand and does not have to be expressed in forint;
- In the case of companies limited by shares, the public company limited by shares must be listed on the stock exchange, thus it is no more possible to found a public company limited by shares; only a private company limited by shares may change its company form by having been listed on the stock exchange. Whereas companies listed on the stock exchange which do not participate in the stock exchange any longer cannot operate publicly in the future;

- In addition to the customary types of shares, the members may introduce new types of shares in the Articles of Association which are not specified in the Civil Code. Another rule which is worth mentioning is that the company may opt not to indicate its business premises and branch office either in the Articles of Association or in the Companies Register.

3.1 *Forms of business entities*

3.1.1 Introduction

As of 15 March 2014, business entities are regulated in the Third Book of the new Civil Code. The procedures of founding and winding up of business entities, as well as the registration of changes in their data are still primarily governed by Act V of 2006 on Public Company Information, Court Registration Proceedings and Dissolution Procedures (the “Registration Act”).

The Third Book of the Civil Code provides for a variety of legal forms under which business entities may be established in Hungary.

Pursuant to the Civil Code, these forms are:

- general partnership (Kkt.)
- limited partnership (Bt.)
- private limited-liability company (Kft.)
- company limited by shares (Rt.), which may be privately founded (Zrt.) or publicly founded (Nyrt.)

Companies duly formed and registered under Hungarian law may undertake obligations and acquire rights in their own name (i.e. they have the right to acquire property, may conclude contracts, file lawsuits or be subject to actions brought against them). As a general rule, companies may freely pursue activities; however, a license of the competent authority is required for certain activities. Companies with foreign participation may be established in any business entity form without an authority license or permission.

3.1.2 General partnership (Kkt.)

In a general partnership, the liabilities of its members are joint and several for the partnership’s obligations. No minimum initial capital requirement is set forth by law and its members are not required to take part personally in the activities of the partnership. By law, every member is entitled to represent the partnership unless its articles of association state otherwise. The partnership must have at least two members.

3.1.3 Limited partnership (Bt.)

A limited partnership must have at least one general partner and at least one limited partner. The general partner’s liability is unlimited for the partnership’s obligations (multiple general partners are jointly and severally liable) while the limited partner’s liability is limited to the extent of his capital contribution. By law, only the general partner is entitled to represent the partnership unless its articles of association state otherwise.

3.1.4 Private limited-liability company (Kft.)

A Kft. is established with a predetermined amount of initial capital provided by its founders, and may have only one member (a single-member Kft.). The liability of its members is limited to the provision of the company's initial capital (and, if so stated in the articles of association, other contributions). As a general rule, members are not otherwise responsible for the company's liabilities. A Kft.'s members may not be solicited by public invitation. The members' rights and their title to the company's assets are represented by business quotas in the company. The rate of the business quota corresponds to the member's capital contribution. The same member rights relate to a business quota of the same rate. No securities may be issued in respect of the quotas, which may be (i) ordinary quotas (quotas providing identical membership rights) or alternatively (ii) specific (preferred) quotas (only if the company's articles of association so provide), which may entitle their holders to, for example:

- dividend preference
- preference in voting rights etc.

3.1.5 Company limited by shares (Rt.)

A Rt. is established with a predetermined amount and nominal value of shares. The liability of its members is limited to the provision of the nominal or issue value of the shares.

Companies limited by shares may only be founded as private companies (Zrt.). The public company limited by shares (Nyrt.) must be listed on the stock exchange, thus it is no more possible to found a public company limited by shares, it is only possible for a private company limited by shares to change its company form by having been listed on the stock exchange. Whereas companies listed on the stock exchange which do not participate in the stock exchange any longer may not operate publicly in the future.

Shares are securities that embody a shareholder's membership rights in the company. Only private Rt.s may issue printed share certificates, public Rt.s may only have dematerialized shares (registered in the shareholder's security account held by a financial institution).

Shares may be (i) ordinary shares, (ii) employee shares, (iii) interest-bearing shares, (iv) redeemable shares or (v) preference shares, which have the following sub-categories:

- dividend preference shares
- preference with respect to the liquidation ratio
- preference with respect to voting rights
- (only in the case of private Rt.s) preference with respect to the appointment of executive officers or members of the supervisory board
- (only in the case of private Rt.s) shares ensuring pre-emption rights
- two or more of the above preference rights simultaneously

However, the shareholders may issue types and classes of shares other than the above share types and classes of priority shares, not specified in the Civil Code provided that they specify in the statutes the content and extent of the member's rights represented by the shares to be issued.

3.1.6 Differences between a Kft. and an Rt.

Pursuant to the Civil Code, the following are the basic differences between a Kft. and an Rt.:

- *Management*

Kft.: one or more managing directors manage the company; i.e. the managing directors represent the company individually, there is no board of directors.

Rt.: a board of directors composed of three natural persons manages the company or, in the case of private companies limited by shares, the articles of association may provide that the rights conferred upon the Board of Directors should be exercised by the CEO as an executive officer. Also, where the articles of association of a public limited company so provide, the company may be controlled by the council of directors under a one-tier system instead of the management board and the supervisory board.

- *Recruitment of members through public offerings*

Kft.: not allowed

Rt.: other than a private Rt., the company may publicly advertise the sale of its shares

- *Required minimum initial capital*

Kft.: HUF 3 million (approximately EUR 10 000); Kft.s may be established without cash contributions and only in-kind contributions

Private Rt.: HUF 5 million (approximately EUR 17,000); private Rt.s may be established without cash contributions, only with in-kind contributions

Public Rt.: HUF 20 million (approximately EUR 70,000); public Rt.s may not be established without cash contributions

- *Supervisory board*

General: The members or the founder may prescribe the setting up of a supervisory board in the articles of association with the task of exercising control over the management in order to protect the interests of the legal entity. The supervisory board is made up of three members. The setting up of a supervisory board is an option in certain cases but an obligation in others.

If the annual average number of the company's full-time employees exceeds 200, then employees must make up one-third of the supervisory board.

All companies must have a supervisory board if the annual average number of full-time employees exceeds 200 and the worker's council did not waive the right of participation of the employees' representative in the supervisory board.

Kft.: not required, apart from the above mandatory case and if this is requested by shareholders holding, on an aggregate basis, at least 5 percent of the voting rights

Private Rt.: only if shareholders representing at least 5% of the voting rights so request (as well as the above mandatory case)

Public Rt.: mandatory, except for public Rt.s operating under the so-called one-tier company management system

- *Auditor*

General: The auditor shall be responsible for carrying out the audits of accounting documents according to the relevant regulations, and to provide an independent audit report to determine as to whether the annual account of the business association is in conformity with legal requirements, and whether it provides a true and fair view of the company's assets and liabilities, earnings, financial position and business profit or loss.

All undertakings keeping double-entry books must appoint an auditor, save for the cases specified in Act C of 2000 on Accounting (hereinafter: the “Accounting Act”) and in other legal regulations. According to the Accounting Act, the auditing of books shall not be compulsory for the undertakings if the following two conditions are jointly met:

- the annual net sales (calculated for the period of one year) did not exceed HUF 300 million on the average of the two financial years preceding the financial year under review, and
- the average number of people employed by the undertaking did not exceed 50 people on the average of the two financial years preceding the financial year under review.

Kft.: not mandatory, except if (i) the Accounting Act so requires, or (ii) the company’s articles of association so prescribe

Private Rt.: mandatory, unless the articles of association provide otherwise

Public Rt.: mandatory, any provision of the articles of association of a public limited company to the contrary shall be null and void

- *Quotas/shares*

Kft.: each quotaholder may have only one quota. If a quotaholder acquires another quota, its quota will be increased by the one it acquired, and as a result, the quotaholder will still only have one quota but with a higher value. Quotas may be freely transferred between members of the company. The members may give pre-emption rights to each other in the company’s articles of association. By law, with respect to a quota intended to be transferred through a sale and purchase contract, the other member(s), the company, or a third person so designated by the quotaholders’ meeting, in this order, have pre-emption rights, unless this is excluded (or restricted) under the articles of association. The articles of association may restrict, set conditions or prescribe the need for the company’s consent for the transfer of quotas to third persons.

As a main rule, a quota may also be transferred by inheritance, as a gift but the transfer of business quota against money to outsiders cannot be excluded validly.

Rt.: only registered shares may be issued. Unless otherwise provided by law, shares are freely transferable. However, a private Rt.’s articles of association may restrict the transfer of shares or may render it subject to the company’s consent. The transfer of registered shares is valid with respect to an Rt. and shareholders may exercise their shareholders’ rights with respect to the company only if such shareholders have been registered in the register of shareholders.

Unlike the quotas of a Kft. or the shares of a private Rt., a public Rt.’s shares may be traded on the stock exchange.

- *Securities (Shares)*

Kft.: printed securities representing the quotas may not be issued

Rt.: securities representing the shares may be issued (for private Rt.s: printed share certificates or dematerialized shares, for public Rt.s: only dematerialized shares)

3.2 *Establishing companies*

3.2.1 Introduction

The founders of a company must first sign the company’s constitutive document incorporated in a notarial deed or in a private document countersigned by an attorney-at-law (a member of the Hungarian bar) or the legal counsel of one of the founders. The foundation of a company must be announced to the competent Court of Registration within 30 days of the date of incorporation of the deed of foundation

in a notarial deed or the date of countersigning of the deed of foundation by an attorney-at-law or legal counsel. If an authority permit is required for the foundation of the business association, this announcement must take place within 15 days of the receipt of the effective permit. Technically and legally it is the court's act of registration that creates the company. A company's fundamental corporate data (i.e. its name, headquarters, members' names, addresses/seats, main activity, initial capital, members' contributions, the method and timing of providing the initial capital, method of representation and signature rights, the names and addresses of the executive officers, supervisory board members and the auditor etc.) and its internal regulations are set forth in its constitutive document, i.e. (i) articles of association, (ii) deed of foundation, or (iii) statutes.

Only Kft.s and private Rt.s may be one-member companies; other business entity forms must have at least two members.

3.2.2 Pre-company

Between the execution of the constitutive document and the court's act of registration, the company may operate as the pre-company of the company to be established. With certain limitations (e.g. regarding shares and that the pre-company may not establish a business association, nor may it join one as a member), the same rules apply to pre-companies as to registered business associations.

3.2.3 Registration fees

The duty levied for the registration of a:

- public Rt. is HUF 600,000 (EUR 2,142)
- private Rt. is HUF 100,000 (EUR 357)
- Kft. is HUF 100,000 (EUR 357)
- Kkt. or a Bt. is HUF 50,000 (EUR 178)

A notice on the establishment of a business entity must be published in the official companies' gazette, which entails a nominal publication fee.

Companies only have to pay once for their registration (i.e. there are no further payments to the courts to keep their registered data in the Companies Register), as long as their registered data remains unchanged. However, almost any amendment to the company's data must be registered in the Companies Register, which entails the payment of additional nominal duty.

3.2.4 Registration

Pursuant to the provisions of the Registration Act, the establishment of a company must be reported to the competent Court of Registration within 30 days of signing (or in the case of a public Rt., accepting) the constitutive document.

All filings with the Court of Registration must be done digitally (in a special form) by an attorney-at-law, with such legal representation by an attorney being mandatory. Scanned copies of the duly executed corporate documents must be enclosed with the request and the e-mail message must be endorsed with the filing attorney-at-law's certified digital signature and also with a time stamp.

Except for public Rt.s, all business entities may be established by filling in a template (the template is determined by law), which will be their constitutive document. In the case of this simplified procedure, the business association is registered by the Court of Registration within one working day of the receipt of the notice of the tax authority regarding the establishment of the tax number. The tax authority shall establish the tax number in the tax registration proceedings within one working day.

For entities not using the official template as their constitutive document, the competent Court of Registration must carry out the registration procedure within 15 days of filing the request (assuming the request and all related documents are present and correct).

The headings pertaining to the Companies Register (the indication of the data registered) may also be displayed in English, German, French and Russian. Furthermore, all corporate documents may be registered in any of the official languages of the EU provided that an official translation is enclosed for all the corporate documents filed.

3.3 *Management of companies*

3.3.1 Supreme body

The decision-making body of the members of the company is the meeting of the members, which has different names for specific forms of business associations. For unlimited and limited partnerships, the supreme body of the company is the members' meeting; for limited liability companies, it is the meeting of members; and for companies limited by shares, the general meeting. All members of a company are entitled to take part in the activity of the company's supreme body.

The supreme body is the decision-making body of the company, which adopts resolutions in the fundamental business and personal matters concerning the company. It is also the task of the supreme body to approve the report prepared pursuant to the Accounting Act and to adopt a resolution on the division of profits.

In case of certain forms of company, the subjects falling within the exclusive competence of the supreme body are determined by law, but these can also be defined by the members in the articles of association.

3.3.2 Management

The executive officers of a company provide for the company's management and day-to-day operation; by law, as a general rule, they may be elected for a definite period of time of a maximum of five years or, if the company's constitutive document specifically allows, for an indefinite period of time.

The executive officer(s) is/are called:

- managing director(s) (Kft.)
- management or a board of directors (Rt.) (or in the case of private Rt.s, a chief executive officer may be elected)
- member(s) are entitled to carry out the management (Kkt.)
- general partner(s) (Bt.)

In the course of their management activities, executive officers must act with the responsibility generally expected of persons holding such positions. Executive officers will be liable for any damage incurred

by their company due to their negligent or intentional breach of the above duty. Detailed rules apply in respect of the non-compatibility of executive officers.

The executive officers may be held liable towards third parties and towards the company. Pursuant to the Civil Code, executive officers may be held liable jointly and severally with the company, if the executive officers cause any damage to a third party in connection with their position. As for the legal relationship between a company and its executive officers, the Civil Code states that the liability of the executive officers against the company is regulated pursuant to the rules of causing contractual damage. Based on these rules, the executive officer is released from liability if he proves that the breach of contract was caused by a circumstance beyond his control unforeseeable at the time of the conclusion of the contract and avoidance of this circumstance or prevention of the damage could not be reasonably expected from him.

Following the occurrence of a situation which threatens the company with insolvency, the executive officers must conduct their managing duties based on the priority of the interests of the creditors of the company. During the liquidation proceedings any creditor or the liquidator may request the competent court to establish that the persons who were executive officers of the company during the three-year period immediately preceding the commencement date of the liquidation proceedings, failed to conduct their managing duties on the basis of the priority of the interests of the creditors after the occurrence of any situation threatening the company with insolvency, and, as a consequence of which, the assets of the company have been diminished to the extent specified in the request.

In the case where a company is terminated without a legal successor, anyone who is a member (shareholder) at the time of the company's termination may sue its company's former executive officers for damages. Such claims must be filed within one year of the company's termination. In the case where the liability of the member (shareholder) for the company's obligations was limited while the company existed, such member may claim damages according to the above only to the extent proportionate to the part of the company's assets that was due to it/him when the company was terminated.

3.3.3 Supervisory board

The formation of a supervisory board is mandatory for:

- public Rt.s (except if the company operates pursuant to a special regime called the one-tier company management system)
- private Rt.s, only if shareholders representing at least 5% of the voting rights so request
- all companies employing an annual average of 200 full-time employees

The basic role of the supervisory board is the supervision of management activities;

According to the Civil Code, the company may establish a peremptory supervisory board. In such case, the supervisory board is vested with the responsibility by the constitutive document to make or approve decisions which otherwise fall within the competence of the company's supreme body or management.

If, acting within such special competence transferred to it, the supervisory board has refused to give its consent to a resolution, the managing director or the board of directors is entitled to convene the quotaholders'/shareholders' meeting, which is the corporate body entitled to change the resolution of the supervisory board. For any damage caused to the company by resolutions made within the above powers of the supervisory board, its members and the executive officers will have joint and several liability vis-à-vis the company.

3.3.4 Auditor

All undertakings keeping double-entry books must appoint an auditor, save for the cases specified in the Accounting Act and in other legal regulations. According to the Accounting Act, the auditing of books shall not be compulsory for the undertakings if the following two conditions are jointly met:

- the annual net sales (calculated for the period of one year) did not exceed HUF 300 million on the average of the two financial years preceding the financial year under review, and
- the average number of people employed by the undertaking did not exceed 50 people on the average of the two financial years preceding the financial year under review.

If the company is not obliged by any legal regulation to appoint an auditor, it may still do so at any time. If the company appoints an auditor, it is the supreme body of the company that defines the essential content of the contract to be concluded with the auditor.

3.4 Pursuing business activities in a non-corporate form

3.4.1 Introduction

According to Act CXXXII of 1997 on Hungarian Branch Offices and Commercial Representative Offices of Foreign-Registered Companies (the “Branch Office Act”), a foreign investor may decide to establish a presence in Hungary in the form of a branch office or a commercial representative office.

3.4.2 Commercial representative office

According to the Branch Office Act, the commercial representative office is an organizational unit of a foreign enterprise having no separate legal entity. Foreign firms may establish commercial representative offices. A commercial representative office may start its activity after the competent Court of Registration has registered it. A commercial representative office may be entered in the Companies Register if the application for registration and its appendices conform to the requirements prescribed by the Branches Act and the Registration Act.

A commercial representative office’s activities are restricted to:

- mediating contracts in the name of the foreign parent company
- participating in the preparation of contracts
- performing data supply obligations, advertisement and promotional activities

The commercial representative office may enter into contracts in the name and on behalf of the foreign parent company in connection with its operation.

Commercial representative offices may not engage in business activities in their own name, and may not provide legal advisory services or foreign legal counseling services.

In contrast to branches, commercial representative offices may not conduct profit-making business activities in their own name.

The employees of a commercial representative office are in legal relationship with the foreign company and the employer’s rights are exercised by the foreign company.

3.4.3 Branch of a foreign company

A branch office is a separate organizational unit of a foreign company, without legal personality, vested with financial autonomy, and registered by the Hungarian Court of Registration. Through their branch offices, foreign companies are entitled to carry out entrepreneurial activities in Hungary. They are represented by their branch offices vis-à-vis authorities and third parties. A branch shall have full legal capacity; it may obtain rights and undertake commitments under its own corporate name, on the foreign company's behalf, for example, it may acquire property, conclude contracts, may sue and may be sued.

The law considers the branch to be a relatively independent part of the foreign company, and specifies that the foreign company must continuously provide the assets needed for the operation of the branch, and to settle its debts. The foreign founder and the branch will bear joint and several, unlimited liability for debts incurred in the course of the activities of the branch. With respect to debts incurred in connection with activities pursued via the branch, execution may be levied over all the foreign company's assets located in Hungary. Enforcement procedure may also be initiated directly against the branch office, and creditors may enforce their claims even in a liquidation procedure initiated against the foreign company.

The branch comes into existence and may start its operations when it is registered by the Court of Registration. However, it is possible for persons who are entitled to sign on behalf of the branch, to act in the name of and on behalf of the branch after filing the application for registration. However, the term "under registration" must be indicated on documents and during transactions.

It is not possible for the branch "under registration" to pursue activities that are subject to an authority license. If the branch's application for registration is rejected, it may not acquire further rights nor undertake further obligations and must promptly terminate its operations. The foreign founder will bear unlimited liability for debts incurred as a result of the obligations of the branch.

If, in connection with the performance of a particular activity, a license is required for founding a company or for the performance of a specific activity by a company, this license must also be obtained by the branch for its establishment or for the performance of this activity. For a specific activity, in order to protect the interests of clients, consumers or business partners, separate financial guarantees may also be required by law, and such requirements must also be met by the branch and companies as well. Since Hungary's EU accession, statutory provisions may provide that a company established in the European Economic Area may - by way of its Hungarian branch - engage in activities subject to a foundation or operational license also if it is itself equipped with such a license from the competent authority of its home country, or may provide that the foreign company may satisfy the above requirements.

A branch may be entered in the Companies Register if the application for registration and its appendices conform to the requirements prescribed by the Branches Act and the Registration Act.

A branch may only be represented by a natural person employed at or assigned to the branch office, or having a permanent contract of employment and a domestic place of residence.

The laws applicable to companies with domestic registered offices apply to the business activities of branch offices, and its books shall be kept in accordance with the Hungarian Accounting Act or a government decree adopted under authorization of the Accounting Act.

The employees of the branch office are in employment relationship with the foreign company and the employer's rights are exercised by the foreign company through its branch office.

3.5 Transformation, Merger, De-merger of companies

3.5.1 Transformation

In the case of transformation of a legal person into another type of legal person, the transforming legal person ceases to exist and its rights and obligations are transferred to the legal person established by the transformation as its general successor. A company may transform to a business association of another company form, an association or a co-operative.

The detailed rules on the transformation of companies are included in Act CLXXXVI of 2013 on the Transformation, Merger and De-merger of Companies and the Act on Accounting.

3.5.2 Merger

A legal person may combine with another legal person by merger or acquisition.

- In case of a merger, the merging legal persons cease to exist, and a new legal person is established by way of universal succession.
- In case of a merger by acquisition, the acquired legal person cease to exist, and all its assets and liabilities are transferred to the acquiring legal person by way of universal succession.

In the event of a merger, the provisions of the Competition Act also have to be observed. In accordance with these provisions, merger clearance may also be requested from the Hungarian Competition Authority and the European Commission in certain cases.

3.5.3 De-merger

A legal person may be divided into two or more legal persons by de-merger or separation.

Demerger means when a legal person is split into two or more legal persons by way of division or separation.

- 1) Division: The original company ceases to exist and two or more separate companies come into existence with the assets of the original company. The new companies become the legal successors of the terminated original company (division de-merger).
- 2) There are two ways of separation:
 - a) a member joins another legal person with a part of the predecessor company's assets (separation by acquisition);
 - b) members join various existing legal persons and transfer their share of the predecessor company's assets to such successor companies (division by acquisition).

In the case of separation by acquisition and division by acquisition, the decision taken by the decision-making body on the de-merger is subject to the consent of the acquiring companies which the acquired members wish to join.

3.6 *Qualified majority, majority influence*

In the case of acquisitions, the aim to concentrate capital and/or business lines and/or strengthen the business position can be achieved by:

- having shares/quotas
- holding voting or other rights (e.g. the right to elect persons having key roles in the management of the target company)
- using the assets
- having other forms of influence

Acquisition of qualified majority, majority influence

Where a member of a Kft. or a shareholder of a Zrt. - directly or indirectly - controls at least three-quarters of the votes, the Court of Registration must be notified thereof within 15 days from the time of acquisition of such qualified majority for the purpose of registration and publication.

Within a 60-day limitation period reckoned from the date of notification of the acquisition of a qualified majority, any member (shareholder) of the company may request that his shares be purchased by the owner of the qualified majority. The owner of a qualified majority must purchase such shares at the market value prevailing at the time when the request was submitted, which value may not be lower than the value the shares represent in the company's own capital.

If the company is dissolved without succession, at the request of the creditors, the owner of the qualified majority shall cover any claim which had not been satisfied, provided that dissolution without succession was brought about in consequence of the poor business decisions of the owner of the qualified majority. This provision is not applicable in the case where the company is wound up without going into liquidation.

In the case of acquiring direct control by way of a merger or acquisition, the company shall be subject to the Act on Competition and, in certain cases, the authorization of the competent Competition Authority must be obtained for such a fusion.

For the purposes of Act LVII of 1996 on the Prohibition of Unfair Trading Practices and Unfair Competition (the "Act on Competition"), one or more companies acting jointly shall be deemed to have direct control if:

- a) it holds over 50% of the shares, stocks or voting rights in the controlled company; or
- b) it has the power to designate, appoint or dismiss the majority of the executive officers of the other company; or
- c) it has the power, by contract, to assert major influence over the decisions of the other company; or
- d) it acquires the ability to assert major influence over the decisions of the other company.

Group of companies

There are two types of group of companies defined by the Civil Code: recognized and group of companies and de facto group of companies.

Recognized group of companies means a form of cooperation featuring a common business strategy between at least one dominant member that is required to draw up consolidated annual accounts and at least three members controlled by the dominant member under a control contract. A group of companies may consist of Rt.s, Kft.s, trade associations and cooperative societies.

Following registration, the provisions relating to members with a qualifying holding shall not apply to the group of companies and its members.

Any company which is required to draw up consolidated annual reports according to the Accounting Act (dominant member) and any public or private Rt., or Kft., over which the dominant member effectively exercises a dominant influence according to the Accounting Act (controlled company) may decide to enter into a control contract to join forces in pursuing their common business interests and continue operating in the form of a recognized group of companies. Having a recognized group of companies registered in the Companies Register will not result in creating a separate legal entity from the companies belonging to the recognized group. The dominant member must notify the creditors of any of the companies in the recognized group by an announcement to be published twice in the official companies' gazette (Cégközlöny). The members of a controlled Kft. or shareholders of a private Rt. which participate in setting up the recognized group may request that their quotas/shares be purchased by the dominant member.

De facto groups of companies

If the conditions for the control contract prevail for at least three consecutive years, at the request of either of the parties with legal interest, the court may order the de facto dominant member and the controlled companies to conclude the control contract and to apply to the Court of Registration for the registration of the group of companies.

If a group of companies de facto operates for at least 3 consecutive years, the court - at the request of either of the parties with legal interest - shall have authority to apply the regulations governing the relations between the managements of the dominant member and the controlled member even in the absence of a control contract and without being registered as a group of companies.

The Capital Markets Act contains special rules (for example, reporting and publishing obligations) that are applicable for the take-over of public Rt.s, i.e. an Rt. operates as a public company if partial or total subscription of its shares is open to the public.

According to the Capital Markets Act, before acquisitions related to a public Rt. (which has a registered seat in Hungary or whose shares are admitted to trading on a Hungarian-regulated market) exceeding 33% (or 25% if there is no shareholder in the public Rt. other than the bidder holding more than 10% of the voting rights, whether directly or indirectly) can begin, a public take-over bid must be made for all shareholders who have voting rights and all shares with voting rights. The bid must be approved by the State Supervisory Authority in advance. A special procedure must also be conducted under the supervision of the State Supervisory Authority. If the bidder has acquired 90% or more of the voting rights and provided that further conditions of the Capital Markets Act are met, then he may exercise his option to purchase the remaining shares of the public Rt. If the bidder's holding in the public Rt. exceeds 90% of the voting rights when closing out the take-over bid, the bidder must purchase the remaining shares if so requested in writing by the owners of these shares. The Capital Markets Act also contains an obligation to report and publish acquisitions related to public Rt.s. Since Hungary's accession to the European Union, certain acquisitions must be published in all Member States of the European Union where the Rt.'s shares are officially listed on a regulated market.

The acquisition of listed shares may be rendered conditional upon additional requirements stipulated in the bylaws of the Budapest Stock Exchange approved by the State Supervisory Authority.

In the course of planning the acquisition, details of the relevant legal rules, such as for example the Civil Code and the Capital Markets Act, should also be considered.

4. Regulations for foreign investment

4.1 General legislation

The legislation for foreign investments in Hungary represents a set of laws meant to regulate the activity of foreign investors in the country and also protect them. Hungary presents many advantages for foreign investors and businessmen interested in performing business activities here, such as: a highly efficient workforce, a well-developed infrastructure and a strategically geographical position.

The most notable legislation is Act XXIV of 1988 on Foreign Investment, which represents a set of laws providing the main legal framework that guarantees foreign investors will benefit from the same treatment that Hungarian investors have. This act has been amended over the years with the aim of ensuring greater protection both for foreign and domestic investors. The Foreign Investment Act in Hungary focuses on three directions:

- to create suitable grounds for international cooperation between Hungary and foreign investors coming in the country;
- to encourage the injection of foreign capital;
- to boost the country's technological development.

Bilateral treaties in force guarantee additional protection for foreign investors.

Hungarian legislation makes no distinction between domestic companies and companies with foreign participation. For the establishment, accounting, employment supervision, and insolvency of companies with foreign participation, the legal provisions applicable to domestic companies must also be applied, i.e. they are treated the same as wholly Hungarian-owned entities. A permit from the foreign exchange authority is not required for the foundation of, or participation in, a Hungarian company by foreigners.

As for the foundation of new companies or acquisition of shares in existing companies by foreign investors, foreign individuals and legal entities may establish new companies or acquire shares in existing companies in Hungary. Companies that are wholly or partly foreign owned can, in practice, operate in all business areas. Where the chosen activity requires a permit (e.g. for banking activity) the same rules apply regardless of whether the owners of the entity are residents in Hungary or abroad.

Companies with foreign participation may be established for any type of economic activity, unless precluded by law. Prohibitions and restrictions are limited to some specific areas, for example, water transport, where a shipping license may be subject to majority Hungarian or EU ownership.

Permission is not required for foreign investments in financial institutions or insurance companies, but solely through the investor's foreign domicile, regardless of the size of the investment.

European Economic Area nationals and companies, registered in the European Economic Area, may perform cross-border services under the conditions and detailed rules laid down in specific legislation.

4.2 Acquisition of agricultural land by foreign persons

In Hungary, arable land may only be purchased by natural persons.

Notwithstanding the above, nationals of EU Member States, European Economic Area Member States, and other similar States treated equally on the basis of an international treaty, who plan to settle in Hungary as private entrepreneurial agricultural producers and who have been lawfully residing and

pursuing agricultural activities in Hungary for a minimum of three years, will enjoy the same treatment as Hungarian citizens with the proviso that they will have to provide the necessary documentation as stipulated in Act CXXII of 2013 on Arable Land (Arable Land Act).

4.3 Acquisition of non-agricultural real estate by foreign persons

In general, the acquisition by foreign persons (natural persons and legal entities) of non-agricultural real estate requires the authorization of the competent authority. This rule does not apply to nationals and legal entities of EU Member States, European Economic Area Member States, and other similar States treated equally on the basis of an international treaty. All such nationals and legal entities will be treated in the same manner as Hungarian citizens and legal entities.

A new government decree, (the “Decree”) came into force in October 2014, which governs the acquisition of non-agricultural real estate by foreigners. The rules of the Decree apply to the citizens of third countries, who may only acquire the ownership of real estate on the basis of an authorization by government office. However, there are some exceptions to this rule, e.g. in principle, no authorization is required for any real estate necessary for a company established in a third country whose business activities are performed by said company’s Hungarian branches.

4.4 Foreign exchange controls

The foreign exchange authority is the National Bank of Hungary. Former restrictions relating to transactions in foreign exchange and foreign currency were mostly lifted with the enactment of a series of laws, the latest being the Act XCIII of 2001 on Foreign Exchange Liberalisation which provides that the transactions and acts of foreign residents and foreign non-residents performed with foreign currency, Hungarian currency and claims in Hungarian currency may be freely pursued. Other laws continue to contain certain obligations affecting foreign exchange transactions (regulations on money laundering, supplying data for statistical purposes to the National Bank of Hungary, etc.)

The Act CXCIV of 2011 on the Economic Stability of Hungary states that taxes, public dues and other payments ordered by public authorities must be paid in the Hungarian currency (HUF).

4.5 Banking obligations

Companies doing business in Hungary must open a bank account in a Hungarian bank. Nevertheless, there is nothing to prevent a Hungarian company or any Hungarian individual from holding a bank account outside of Hungary.

Hungarian legislation allows dividend remittances and, if applicable, capital repatriation to foreign investors. The Hungarian currency (HUF) is converted at the foreign-exchange rate set by the commercial bank engaged in the transaction.

5. Banking and capital markets

5.1 *Banking system*

Hungary has a two-tier banking system, which means that the functions of the central bank and other specialized banks (commercial banks and specialized institutions) are separate.

The National Bank of Hungary (NBH) is the central bank and a member of the European System of Central Banks (ESCB). The NBH and the members of its decision-making bodies perform their duties and carry out their obligations independently from the government. With the exception of the European Central Bank, the NBH (and the members of its decision-making bodies) may not ask for or follow instructions from the government, the institutions and bodies of the European Union, the governments of other EU Member States or any other institution or body.

According to the definition of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Financial Enterprises Act), credit institution means a financial institution whose business *inter alia* includes - from among the financial services - to take deposits or other repayable funds from the public (not including the issue of bonds to the public as specified in the relevant legislation), and to grant credits and loans. The following activities may be pursued by credit institutions only:

- a) taking deposits and other repayable funds from the public in excess of their own funds, without a guarantee or without any surety facilities provided by a credit institution or the State for guaranteeing repayment;
- b) currency exchange services.

Credit institutions may be banks or specialized credit institutions, or credit institutions incorporated as limited companies or set up as cooperatives.

Banks are credit institutions the business of which is to carry out the activities defined below on a commercial scale:

- taking deposits and receiving other repayable funds from the public;
- credit and loan operations;
- money transmission services.

A commercial bank may only operate in Hungary as a company limited by shares (Rt.) or as the branch office of a foreign bank. A permit from the Authority (Hungarian National Bank – Supervisory Authority) is required before a commercial bank may be established and the commencement of operations in Hungary is allowed. In the case of a branch office of a foreign bank, a license for banking activities issued by its foreign authority is also required. The Financial Enterprises Act determines the range of financial services that commercial banks may provide.

In Hungary, foreigners may only perform financial services in one of two ways: by establishing a company limited by shares and registered in Hungary, or by founding a registered branch office. Banks – including the branch offices of foreign credit institutions – may be founded with a minimum of HUF 2 billion (EUR 7.1 million) in initial capital. A foreign registered credit institution may also establish bank representation, but may not perform any kind of business activity.

Since Hungary's accession to the European Union, credit institutions registered in another Member State of the EU may engage in cross-border services.

From October 1, 2013, the National Bank of Hungary carries out the supervision of the money, capital and insurance markets, furthermore the functions of consumer protection and market supervision. The former Hungarian Financial Supervisory Authority merged into the National Bank, as well.

5.2 *Capital market*

After closing its doors in 1919, the Budapest Commodity Exchange (BCE) resumed operations in November 1989 in order to promote free trade in agricultural products. Less than a year later, the Budapest Stock Exchange (BSE) opened on 19 June 1990. The BSE and BCE merged in the autumn of 2005. In 14 January 2010 BSE became subsidiary of the CEESEG AG holding company, holding 50.45% of the shares of BSE. CEESEG AG holding company is even shareholder of the Vienna, Prague and Ljubljana stock exchanges, and the aggregate average monthly turnover of the holding group amounts to around two-thirds of the equity turnover in the CEE region (data of July 2009). In December 2013, the Budapest Stock Exchange launched a new trading platform (Xetra trading system). With the introduction of the new platform, companies listed on the Budapest Stock Exchange are connected to the traders and investors of 18 European countries while Hungarian investment providers and investors have direct access to thousands of new instruments, thereby the possibility of further market expansion opens up.

The main activities of the stock exchange are as follows:

- Listing services;
- Trading services;
- Dissemination of market information;
- Product development.

The aim of Act CXX of 2001 on Capital Markets (Capital Market Act) is:

- to promote development and to improve the competitive edge of capital markets on the international stage,
- to ensure transparency,
- to improve regulations pertaining to parties involved in capital markets,
- to improve the security of investments and to protect investors,
- to improve the efficiency of the supervision of capital markets.

The Capital Market Act sets out rules inter alia on securities issued as part of a series and offered in Hungary, on offering such securities by a Hungarian issuer in EU, on the admission of securities to trading on the Hungarian capital market, on the acquisition of a participating interest in the capital of any public limited company, on the capital market activities, on clearing houses (etc.) and on the supervisory activities.

The National Bank of Hungary acts within its function as the supervisory authority of the financial intermediary system.

From December 2007, regulations governing the activities of investment service providers and commodities brokers, formerly contained in the Capital Markets Act, can be found in separate legislation, i.e. in Act CXXXVIII of 2007 on Investment and Commodity Brokers and on the Regulations Governing their Activities.

Among others, Government Decrees Nos 250/2000 (XII. 24.) and 348/2004 (XII. 22.) impose special accounting rules concerning the stock exchange, clearing houses and banks.

6. Foreign trade

6.1 General

With regard to the EU Membership of Hungary, as well as its participation on various international organizations and cooperation activities, a foreign enterprise may find similar regulatory environment and conditions to most of the countries with developed economies.

The European Union law fundamentally determines the rules on foreign trade, similarly to the OECD and WTO membership of Hungary. The area of foreign trade mostly does not belong to the scope of national competence, and is regulated on EU and international level. Hungary meets its international commitments and complies with all the expectations that can be raised against an ambitious European country operating smoothly and developing dynamically.

6.2 Import and export rules

Products and services may be imported freely into Hungary, subject to certain restrictions.

Trade with other Member States takes place within the framework of the EU's internal market.

Trade between the EU and third countries is also regulated by EU legislation, within the framework of the EU's common commercial policy.

Under Hungarian law, Government Decree No 52/2012 (III. 28.) on the Trade of Goods, Services and Rights of Material Value Traversing the State and Customs Frontier (Trade Decree) and Government Decree No160/2011 (VIII.18.) – in line with Council Regulation (EC) No 1236/2005 of 27 June 2005 concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment - provide for certain exceptions from the EU free trade rules. According to these decrees, export or import transactions of certain products require a license from the Hungarian Trade Licensing Office, e.g. transactions with armaments, radioactive materials, recyclable or harmful waste, parts or derivatives of endangered animal and plant species, devices used in surveillance, and military engineering defense technology.

Other important regulations with respect to drugs (including psychotropic drugs), chemicals, waste, and nuclear products are contained in the decrees of the competent ministers.

7. Competition / Anti-trust regulations

The Hungarian anti-trust regime consists of both domestic and EU rules of law which regulate market conduct and ensure consumer protection. Apart from the general rules, some specific products or branches of business are subject to special regulations.

The most important domestic source is Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices (Competition Act). Further rules can be found in sectoral legislation, such as the rules concerning telecommunications, public utility services and electricity. Standalone provisions regarding the prohibition of the abuse of buyer power of certain undertakings are set by Act CLXIV of 2005 on Trade. Chapter XLII (on crime against consumer rights and any violation of competition laws) of the Hungarian Criminal Code (Act C of 2012) contains important anti-trust rules, as certain cartels may

induce the application of criminal penalties against both the natural and legal person participants. In addition, bid rigging also constitutes a crime.

The Competition Act deals with anti-trust rules (prohibition of anticompetitive agreements, abuse of dominant position and merger control) as well as the rules of unfair competition.

7.1 Merger control

The Hungarian Competition Authority (herein after referred as: HCA) has the power to investigate the creation of mergers, acquisitions and certain joint ventures, and may prohibit them if they would significantly impede effective competition on the relevant market, in particular, as a result of the creation or strengthening of a dominant position (SIEC test).

In the case of company mergers, the Competition Act requires the threshold triggering authorization if:

- the combined net sales revenue of all the groups of companies involved, and the net sales revenues of the companies controlled jointly by members of the groups of companies involved with other companies in the previous financial year exceeded HUF 15 billion (approx. EUR 50 million); and
- among the groups of companies involved there are at least two groups with net sales revenues of HUF 500 million (approx. EUR 1.67 million) or more in the previous year together with the net sales revenues of companies controlled jointly by members of the same group with other companies.

The Competition Act establishes special rules for calculating the relevant revenues for insurance corporations and financial institutions.

The Government may - for reasons of public interests, more specifically, for preserving jobs and for securing supplies - declare the merger of companies of strategic importance at the national level. For such mergers the authorization of the HCA is not required.

The merger of media entities requires the consent of the Media Council if the merger is notifiable under the Competition Act.

Pursuant to the Competition Act, mergers subject to notification requirement shall not be implemented until the HCA's authorization. Implementation before the authorization triggers heavy fine and the HCA might order divestiture.

There is no deadline for filing except for mergers of financial institutions, but the prohibition of implementing the merger shall be respected.

When competition concerns are raised, the HCA has wide discretion in either applying structural remedies (e.g. the divestment of assets or shares, termination of exclusive distribution agreements, or severance of vertical links with customers, etc.), or requesting behavioral undertakings (e.g. licensing certain products/brands, or granting access on equal terms, etc.).

7.2 Prohibition of agreements restricting competition

The Competition Act prohibits companies from entering into agreements or concerted practices, which have as their object or potential or actual effect, the prevention, restriction or distortion of economic competition. It is forbidden to enter into agreements that directly or indirectly fix purchase prices, limit distribution, exclude groups of consumers from purchasing certain goods, and hinder market entry, among other things.

Exemptions from the general rule of prohibition are:

- Agreements of minor importance, i.e. where the joint participation of the contracting parties and their subsidiaries does not exceed 10% of the relevant market. This exemption does not apply to agreements aimed at price fixing between competitors or the division of the market by competitors, but contrary to the EU law apply to vertical agreements.
- Block exemptions may be set out in Government decrees with regard to the criteria set out in the Competition Act.

If the negative consequences of the agreement are outweighed by certain positive effects, individual exemption may be granted by the HCA in its investigation, which conditions are laid down by the Competition Act.

Investigations are started ex officio and the procedure is conducted by the HCA; though private enforcement - both stand-alone or follow-on claims - through the courts is also available.

In the framework of the HCA's leniency policy based on the Competition Act, the HCA shall not impose or shall reduce the fine in respect of a company that notifies any horizontal agreement or concerted practice violating the Competition Act. The HCA also rewards financially natural persons for providing indispensable documentary evidence concerning anticompetitive agreements or practices, or information that enables the court to authorize a site search to the HCA.

7.3 Prohibition of the abuse of a dominant position

The existence of a dominant position is not prohibited in itself. However, the Competition Act forbids the abuse of a dominant position and provides examples of abusive practices, i.e. hindering market entry or predatory pricing.

The definition of a dominant position as well as certain abuses heavily rely on EU law.

Investigations are started based on the HCA's knowledge of any abusive practices; private enforcement through the courts is also possible in certain matters. If the abusive conduct is manifested in the dominant company's refusal to enter into an agreement with another undertaking, the undertaking, so refused, may go to court requesting the conclusion of the agreement.

7.4 Prohibition of unfair competition

It is in principal prohibited to pursue any unfair business activity that would violate or jeopardize the lawful interests of customers, buyers and users (referred to as trading parties), as well as competitors, or which conflicts with the requirements of business integrity. In addition to this general clause, the Competition Act specifies five types of conduct as illegal in section 3-7.

Unfair competition rules are not chased by the HCA, but remain in the competence of courts.

Further unfair competition rules are established by section 8-10 of the Competition Act regarding the prohibition of misleading trading parties and comparative advertising, which – contrary to the foregoing – belong to the competence of the HCA, but only encompass B2B relations.

8. Consumer protection

One important aim of Act CLV of 1997 on Consumer Protection (Consumer Protection Act) is to ensure the safety of goods placed in the market, with another being to protect the life, health and safety of consumers. Separate legal regulations or prescriptions by the European Union may set forth safety requirements regarding different products, and if so, these products may only be distributed if such requirements are fulfilled.

The Consumer Protection Act also states that consumers must be properly informed, and that products must be suitably packaged. If the legal regulations on information and packaging are violated, the consumer, at his discretion, may enforce his rights against the manufacturer, or any distributor, regardless of whether or not the manufacturer was identified. In the latter case, the distributor is entitled to enforce a claim for reimbursement against the manufacturer.

According to the Consumer Protection Act, a complaint made by a consumer shall be examined and answered within 30 days by the business entity. Should the negotiations between the consumer and the business entity be unsuccessful, the Consumer Protection Act has established a special Arbitration Board to settle disputes between a business entity and the consumer or, should this fail, to decide on the matter expeditiously in order to effectively enforce consumers' rights. Generally, the procedure of the arbitration board does not prevent the business entity or the consumer from enforcing its/his rights in court.

The Hungarian Consumer Protection Authority supervises whether the provisions of the Consumer Protection Act are properly applied in consumer (B2C) relationships. Should the authority find that the business entity did not comply with the relevant provisions, it may impose legal sanctions, e.g. impose a consumer protection fine or temporarily close the business. If certain conditions exist, the imposition of a penalty is mandatory on the basis of the Consumer Protection Act.

Since 2007, the Consumer Protection Act has also contained rules regarding the cooperation of the consumer protection authorities of Hungary and other countries in the European Economic Area, and regarding the enforcement of the European Union's most important pieces of consumer protection legislation.

Other important legislation also protects the rights of consumers, e.g. Act XLVIII of 2008 on Business Advertising Activities and Act XLVII of 2008 on the Prohibition of Unfair Trade Practices Against Consumers, which is the implementation of the UCP directive of EU. The latter Act establishes a general prohibition of unfair practices via any active or negative conduct that results in the distortion of consumers' conduct.

The new Civil Code of Hungary and various sectoral laws also incorporates provisions on consumer protection.

Sectorial supervising authorities are empowered to monitor and sanction the breaches of consumer protection rules laid down in sectoral legislation.

9. Government-owned industries and re-privatization

9.1 *Government-owned industries*

The new Constitution of Hungary, adopted in 2011, fundamentally reformulated the concepts in connection with state property. Act CXCVI of 2011 on the National Property (the "**National Property**

Act”) determined – in line with the provisions of the new Constitution of Hungary – the concept of national property (property owned by the State and the local governments), its destination (primarily ensuring the carrying out of public duties), the framework rules of property management, as well as it classified the national property into categories. The National Property Act rules that the method of exercising ownership rights over state-owned property, as well as the rules of property management shall be regulated – in line with the principles determined in the Act – by Act CVI of 2007 on the State Property (the “**State Property Act**”).

The properties owned by the Hungarian State consist of:

- treasury property, which serves the public (e.g. historical buildings, forests, state-owned shares in companies which became state-owned property by using funds originating from the central budget and state-owned funds); and

state-owned entrepreneurial assets

The Hungarian National Asset Management Company (MNV Zrt.) exercises the ownership rights and obligations due to the State over the state property entrusted to it.

MNV Zrt. is one of the most important background institutions of the Ministry of National Development, by exercising the ownership rights due to the State over the state property amounting to 16 thousand billion forints. During the management of the property entrusted to it, MNV Zrt. exercises its ownership rights over state-owned companies according to strategic aspects. MNV Zrt. carries out the supervision of highly important enterprises such as Hungarian Electricity Ltd. (Magyar Villamos Művek Zrt.), Gambling Ltd. (Szerencsejáték Zrt.), five water utilities companies with state majority holding as well as traffic services centers.

9.2 Re-privatization/Nationalization

During the second and third Orbán governments (2010-2014 and from 2014 onwards), former state-owned companies privatized earlier has been “reclaimed” in the value of almost 1,500 billion Hungarian Forints.

Recently, the Hungarian State strove to increase its ownership role especially in areas that are of strategic importance or where the winners of former privatization activities could achieve a monopolistic position. According to economic experts, a stronger state participation might be useful in areas where social aspects must also be taken into account. An example is the increase of energy prices for the consumers by two- or threefold between 2002 and 2010. In response to this, the Hungarian State strived to become more represented in the energy sector.

In 2014, all the Hungarian gas storage facilities are state-owned, giving a better negotiation position in gas price disputes with Russian suppliers, assisting the government at reducing energy prices and strengthening the security of supply. This latter was the reason for the repurchase of the part of MOL Zrt. (Hungarian Oil Company) held by Russian investors, which the government financed from an IMF loan. In the meantime, the state-owned MVM Zrt. obtained the gas wholesale business. The government wishes to obtain control over additional elements of the public utility sector, thus drinking water supply and waste disposal services. The Hungarian State does not only buys out, but it also uses legal regulations for this purpose: for example by determining the final consumer price and by retailing ownership structures.

The aim of the above mentioned measures is to decrease not only the energy and public utility fees for the consumers, but also for the industrial market players in order to increase the international competitiveness of the Hungarian companies by way of reducing the operational costs.

The “nationalization” model building on concession rights completely transforms the markets and ownership structures in various sectors. By referring to the protection of the health of young people, the retail of tobacco products has been taken over by the state and the concession rights have been distributed to new market players. Gambling machines have been prohibited by way of the casino concession procedure and online gambling has been restricted, as well.

As regards the bank sector, the Orbán government set the goal to create a Hungarian banking system half of which is owned by Hungarians. Specific measures have been taken in this respect: purchasing a part or the whole of certain banks by the state (FHB Bank, MKB Bank, Budapest Bank).

The biggest result of nationalization was the redemption of the private pension fund asset in the amount of over HUF 3000 milliards for the purpose of reducing their operation costs and securing the future payment of pensions. According to calculations the governmental measure of abolishing the system corrected the balance of the budget with over HUF 1100 milliards.

In the digital broadcasting sector, the government purchased Antenna Hungária to obtain the right of broadcasting due to the digital conversion, namely Antenna Hungária owns digital broadcasting rights.

In summary, the priorities of the Orbán government are reducing the external vulnerability of the country and re-seizing the ability of self-financing. One of the signs is that in August 2013, the government prematurely paid out the last repayment installment of the IMF loan of more than 8 billion euros prior to its due date which had been drawn down due to the 2008 financial crisis. In the long run, Hungary tries to finance itself from the money markets in order to reduce the state debt. Another objective of the economic policy is to decrease the proportion of foreign exchange within the state debt. Measures include that the State Debt Management Center offers much more attractive interest rates on state securities than the interest rates offered by commercial banks on bank deposits. The National Bank of Hungary has a complex package of measures in place to promote state securities.

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