

EXPORT CREDIT
FINANCING SYSTEMS
IN OECD MEMBER
COUNTRIES AND
NON-MEMBER
ECONOMIES

Hungary

HUNGARY

1. ORGANISATION AND STRUCTURE

1.1 Insurance and guarantee

1.1.1 *Representative organisation*

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1.1.1.1 *Function*

The Hungarian Export Credit Insurance Ltd. (MEHIB) and the Hungarian Export-Import Bank Ltd. (EXIMBANK) were established in 1994 by Act No. XLII as fully state-owned companies to promote the export of Hungarian goods and services by providing export credit insurance, guarantees and other financial facilities.

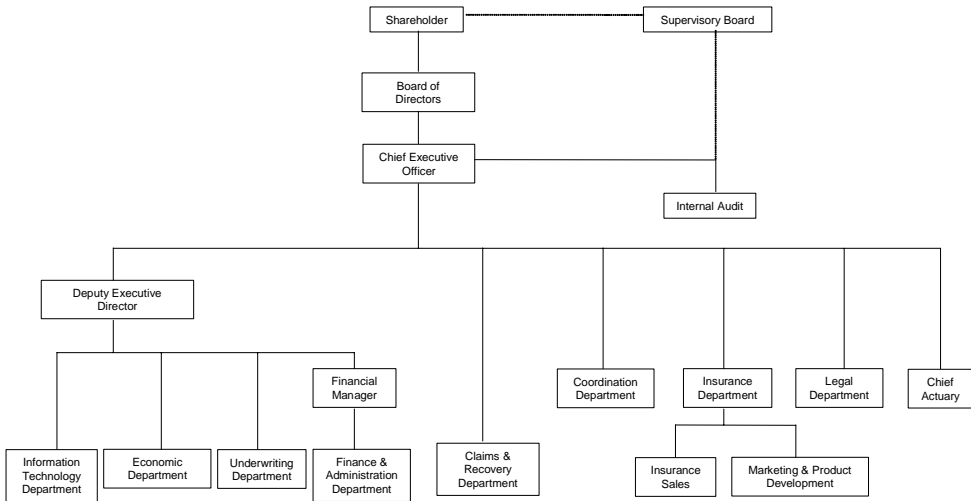
The export credit insurance activity of MEHIB includes cover for marketable risks for its own account and for non-marketable risks for the account of the state. The latter cover is governed by Government Decree No. 312/2001.

1.1.1.2 *Summary of organisation*

The governing bodies of MEHIB are: the Hungarian Privatisation and State Holding Company which exercises the rights of shareholder, the Board of Directors and the Supervisory Board.

The chief executive officer of MEHIB directs the day-to-day activity of the company and the execution of decisions of the Board.

The Board of Directors consists of ten members appointed by the Minister of Foreign Affairs, after consultation with the Prime Minister’s Office, the Minister of Finance, the Minister of Economy and Transport and the Minister of Agriculture. The chief executive officer of EXIMBANK is also a member.



1.1.1.3 Resources

In 2004, MEHIB has paid up equity of HUF 4.25 billion.

Non-marketable insurance commitments for the state account must not exceed the statutory liability limit fixed annually in the budget by the Parliament. In 2004, the amount of the overall limit was HUF 250 billion, while the limit set for claims payment arising from these commitments is HUF 1.8 billion.

1.1.1.4 Other organisations involved

None.

1.1.1.5 Relations with the state

MEHIB’s relations with the state are governed by Act No. XLII/1994, as amended. This Act defines the framework for the activities of MEHIB and EXIMBANK, the guarantee of the government and the system of appointing the

chairman of the Board of Directors, the chairman of the Supervisory Board, the chief executive officer and members of these boards.

1.1.1.6 Relations with the private sector

In Hungary, other private insurance companies are active in the field of marketable export credit insurance.

MEHIB has concluded reinsurance agreements with foreign reinsurers for marketable risks conducted on its own account.

1.2 Export finance

1.2.1 Representative organisation

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1.2.1.1 Function

EXIMBANK was established by Act No. XLII of 1994 with equity capital of HUF 1 billion. EXIMBANK's roots go back to the early 1990s, when Export Guarantee Ltd. was set up. Following separate and detailed legislation for financing and insurance activities, two institutions (EXIMBANK and MEHIB) became the legal successors of Export Guarantee Ltd. After two years of experience, some modifications of the law were deemed necessary, and Act No. CXIII of 1997 attributed to EXIMBANK a wider range of activity in order to serve Hungary's export-oriented economic policy. EXIMBANK, a wholly state-owned institution, offers various loan facilities and guarantees and fills gaps left by commercial sources of export credit financing. The conditions of contracts with a maturity of two years or more are in accordance with the Arrangement.

EXIMBANK provides the following services to its customers:

- Short-term export financing for agricultural products
- Export pre-financing
- Refinancing
- Supplier's credit
- Buyer's credit
- Credit lines
- Project finance
- Financing of working capital needs of Hungarian companies investing abroad
- L/C confirmation
- Forfaiting
- Unconditional guarantee
- Risk sharing

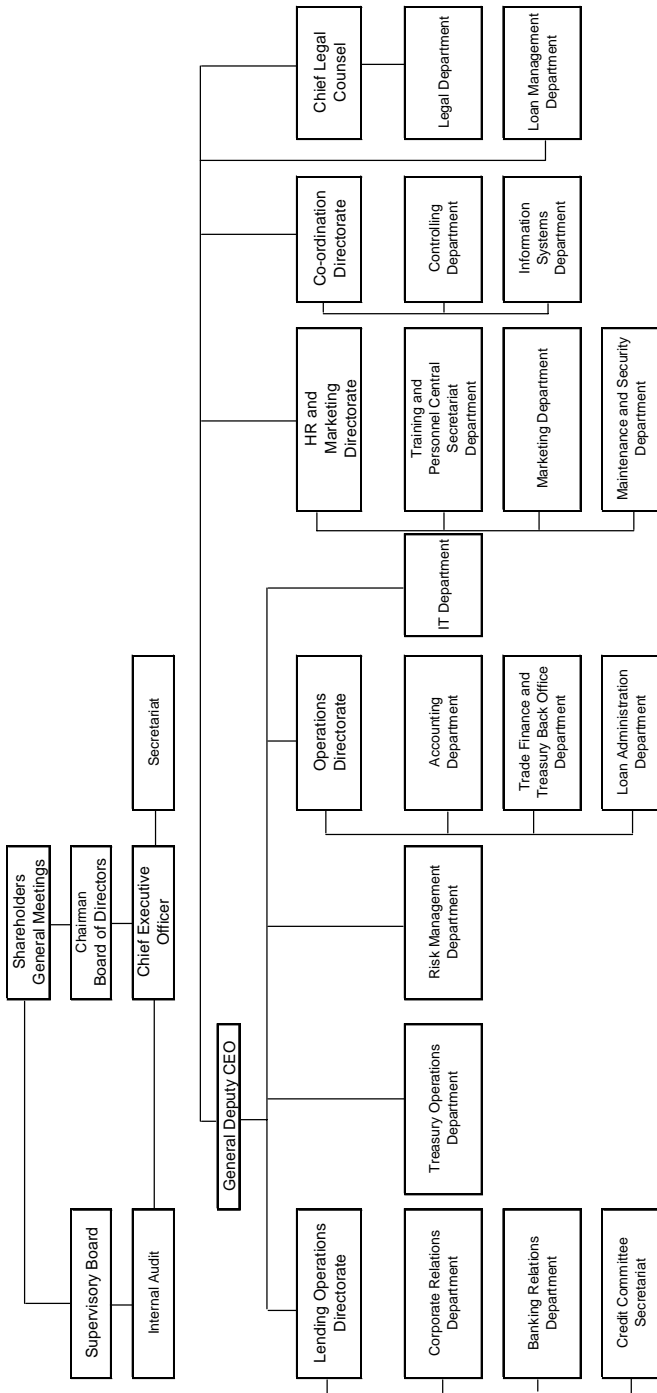
EXIMBANK's aim is to help the government of Hungary to achieve its economic policy objectives by stimulating exports. EXIMBANK's services are available for all types of enterprises.

1.2.1.2 Summary of organisation

EXIMBANK is a wholly state-owned financial institution. The Hungarian Privatisation and State Holding Company acts as representative of the owner; the chart on page 5 shows EXIMBANK's organisational structure.

1.2.1.3 Resources

The Bank's HUF 1 billion equity capital is fully paid up and increased to HUF 10.1 billion by 2001. The central budget ensures an appropriation fund as an upper threshold in case of any losses in EXIMBANK's lending and guarantee activities. This threshold is determined for each fiscal year on the basis of EXIMBANK's business prospects. In 2004, the budget guarantee on EXIMBANK's liabilities is HUF 220 billion. The budget guarantee on EXIMBANK's assets (*i.e.* the state-backed unconditional guarantee) is HUF 80 billion. The central budget has set aside HUF 3.25 billion for interest make-up schemes for 2004. The interest make-up scheme for short-term financing for agricultural products receives HUF 900 million in 2004.



1.2.1.4 Other organisations involved

The Hungarian export financing system involves two export credit agencies: EXIMBANK and MEHIB. The two companies co-operate but also have independent partners. In case of EXIMBANK's lending, forfaiting and project financing activities, MEHIB generally covers the risk.

1.2.1.5 Relation with the state

The state is responsible for and ensures the long-term, stable operation of EXIMBANK. Government policy is transmitted to management through the Board of Directors and the Supervisory Board. The state supports EXIMBANK's borrowings and bond issues through an unconditional guarantee and sets annual limits on these transactions.

1.2.1.6 Relations with the private sector

EXIMBANK has developed good connections with 24 domestic commercial banks and with some foreign banks.

1.3 Aid finance

See 4.

2. INSURANCE AND GUARANTEE PROGRAMMES

2.1 Cover for exporters

2.1.1 Policies available

MEHIB offers short-, medium- or long-term cover for commercial and political risks for either the pre-shipment or post-shipment period of export transactions with supplier credit or financed by buyer credit.

MEHIB covers short-term commercial risks mainly on a whole turnover basis with proportional reinsurance coverage. These policies cover insolvency and protracted default. MEHIB also offers short-term comprehensive cover for commercial and political risks.

The pre-shipment policy covers production costs, and the post-shipment policy covers the value of the export contract less any advance payment.

Foreign exchange risk insurance provides cover against exchange losses to the exporter. Two types of modalities are available depending on whether the exchange profit is repayable to MEHIB or not.

A special SME policy is available for small and medium-sized exporters.

A short-term policy designed for factoring companies has been introduced. The cover is basically the same as for the normal short-term whole turnover policy.

The insurance for short-term supply credit for agricultural products covers export sales of agricultural products to non-marketable countries on a short-term basis.

2.1.2 Eligibility

A minimum national content of 50% is normally required. All companies registered in Hungary are eligible. Commercial and political risks are covered up to a maximum of 95% of the loss.

For officially supported export credits, terms and conditions must be in compliance with international agreements, such as the Arrangement.

2.1.3 Cost of cover

The premium depends on country and buyer risk, horizon of risk and quality of cover. For marketable whole turnover policies a flat rate is applied, and the characteristics of insured portfolio and the exporter's claim records are also taken into account. For long-term export credits, minimum premium rates are applied, with buyer risk surcharges. In principle, the premium is payable in advance whether up front or proportional to actual shipments.

2.2 Cover for banks

2.2.1 Policies available

MEHIB provides insurance for Hungarian banks offering credits to foreign buyers or banks financing the export of Hungarian goods or services. These policies are available for:

- *Bank-to-bank credit*: credit agreement between the Hungarian bank (as insured) and the foreign financial institution (as debtor) for an export transaction.
- *Buyer credit*: credit agreement between the Hungarian bank (as insured) and the importer (as debtor) for an export transaction.

The maximum percentage of cover is 95%.

2.3 Other insurance programmes

2.3.1 Policies available

Investment insurance covers political risks related to direct investments abroad.

Export lease insurance covers the amount of debt originating from a lease agreement. Cover is based on the total amount of payments, *i.e.* the value of the goods leased (full pay-out leasing). The indemnification relates to losses occurring as a result of the usual causes of loss.

Insurance for goods on consignment covers losses for a specified value of goods delivered to a consignment store of a foreign consignee which occurred as a result of the ordinary causes of loss.

Bond support covers exporters against the risk of unfair calling of bid bonds, advance payment bonds, performance bonds.

3. EXPORT FINANCE PROGRAMMES

EXIMBANK's mission is to be a partner for exporters and commercial banks in realising export transactions by offering the most appropriate facilities. The advantage of EXIMBANK over other commercial banks is that it can undertake long-term risk as well.

3.1 Direct credits

This banking service provides financing for short-/medium- and long-term credits, tailored to the specific needs of the export deal in order to facilitate the export of goods.

3.1.1 *Types of contract available*

Short-term export financing for agricultural products with maximum maturity of one year. This facility can be extended for an additional six months in special circumstances. It is available to Hungarian incorporated companies for financing agricultural export sales.

An *export pre-financing credit facility* for short-term transactions is available to Hungarian incorporated companies to finance working capital needs and cover temporary shortfalls in funds before final payment for the delivered goods.

3.1.2 *Eligibility*

All enterprises registered in Hungary are eligible for EXIMBANK financing of export contracts.

3.1.3 *Resulting interest rates*

Interest rates on credits with a maturity of two years or more are calculated in accordance with the terms of the Arrangement.

Interest rates on short-term business are based on LIBOR + margin.

3.2 **Refinancing**

3.2.1 *Types of contract available*

EXIMBANK assists small, medium and large companies indirectly in their export activity by offering medium-/long-term refinancing credit lines, for export purposes, to other financial institutions, thereby providing competitive export credits. This service is available to suppliers and buyers through Hungarian commercial banks.

Short-, medium- and long-term buyer's credit is offered for foreign buyers of Hungarian goods or services with appropriate security collateral, usually from a bank. The purpose of this credit is to finance the purchase of Hungarian goods. The medium- and long-term refinancing system is in conformity with the interest rate provisions of the Arrangement.

The buyer's credit line facility is a unique financing option offered by EXIMBANK which facilitates Hungarian exports to certain countries.

3.2.2 Eligibility

See 3.2.1.

3.2.3 Resulting interest rates

See 3.1.3.

3.3 Interest rate support

An interest equalisation scheme is available for exports on credit terms of two years or more.

Government Decree 311/2001 (XII.28) on interest make-up schemes to be offered and on state-backed guarantees to be issued by EXIMBANK entered into force on 5 January 2002. The previous Government Decree 85/1998 (V.6) was amended as follows. Interest make-up schemes can be used for financing purposes only if:

- It is in accordance with the Arrangement.
- Parties to the loan agreement declare that they were not involved in bribery and are not aware of any corruption concerning the transaction.
- An environmental survey and an environmental impact study are prepared and the transaction financed by EXIMBANK does not cause significant negative impact on the environment.
- State-backed guarantees with a maturity of over two years issued by EXIMBANK must be in accordance with the Arrangement.
- The percentage of cover is a maximum of 85% of the commercial contract amount or 95% of the credit amount.
- The guarantee fee can not be lower than the applicable minimum premium rate and must reflect all the risks and must cover EXIMBANK's costs.
- For guarantees, international recommendations about bribery and environment are complied with.
- The national content requirement is 70%.

3.4 Other programmes

3.4.1 *Types of contract*

EXIMBANK offers various export-related unconditional guarantee facilities:

- The guarantee on loans supports exports by granting export financing credit to exporters. EXIMBANK fulfils the obligation if the borrower cannot make payment.
- A performance bond can be issued at the request of the exporter of the equipment. EXIMBANK guarantees payment for the customer if, before the deadline, the exporter is unable to fulfil his obligation.
- An advance payment guarantee for EXIMBANK's clients is offered to the buyer prior to transport. If the goods are not shipped, the buyer can obtain reimbursement.
- The tender guarantee helps exporters who participate in tenders.

3.4.2 *Eligibility*

See 3.1.2.

3.4.3 *Resulting interest rates*

The guarantee fee is calculated according to the Arrangement (minimum premium rate) if the risk horizon is more than two years. Short-term guarantee fees are determined by EXIMBANK's List of Terms and Conditions.

The premium is generally paid semi-annually.

4. AID FINANCE PROGRAMMES

4.1 Associated financing

Within the framework of Hungary's development co-operation policy, the government has set the legislative, administrative and financial conditions for tied aid financing. Government decree 232/2003 XII.16), in force since 1 January 2004, enables EXIMBANK to provide tied aid credits and MEHIB to cover the related export credit risks.

For international competitive bidding for projects valued at up to EUR 20 million, the Minister for Foreign Affairs gives a preliminary offer for tied aid financing. For final commitments and in other cases tied aid credits require the government's approval.

Decisions and positions for tied aid financing are prepared by a working group of representatives from the relevant ministries and institutions (Ministry of Foreign Affairs, Ministry of Finance, Ministry of Industry and Transport, Prime Minister's Office, Ministry of Environment and Water Management, EXIMBANK and MEHIB). This working group also supervises the implementation of the tied aid programme.

4.1.1 Funds available

Hungary provides concessionary credits in the form of mixed credits, which are funded from two sources. EXIMBANK raises funds on the capital market. The central budget sets aside an annual appropriation to finance interest support and the grant part of the mixed credit which is administered by the Ministry of Foreign Affairs. As a basic principle tied aid credits should comply with the Arrangement.

4.1.2 Eligibility

Beneficiary countries are designated by the Inter-ministerial Committee for International Development Co-operation from among countries that are eligible for tied aid. The concessionality level of the individual tied aid credit is calculated in line with the Arrangement.

Tied aid financing is available for projects that meet the eligibility criteria of the Arrangement and suit the priorities of the recipient country's development programmes.

Inter-governmental framework agreements on tied aid financing have to be concluded with the recipient countries.

ABBREVIATIONS

Arrangement	Arrangement on Officially Supported Export Credits
CIRR	Commercial Interest Reference Rate
DAC	Development Assistance Committee
EC	European Communities
ECA	Export Credit Agency
HIPC	Highly indebted poor country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
L/C	Letter of Credit
LDC	Less Developed Countries
LIBOR	London Interbank Offered Rate
LLDC	Least Less Developed Countries
ODA	Official Development Aid
SDR	Special Drawing Rights

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ANNEXES*

- I. The Arrangement on Officially Supported Export Credits (2005)
- II. European Community Procedures Concerning Export Credits (formerly Annex III)
- III. Export Credits and the Environment: Work Plan (formerly Annex IV)
Action Statement on the Environment (2000)
Agreement on Environmental Information Exchange for Larger Projects (1999)
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- IV. Action Statement on Bribery and Officially Supported Export Credits (2000) (formerly Annex V)
- V. OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits (formerly Annex VI)

* Annex II in earlier publications, *i.e.* Terms and Conditions Applicable to Project Finance Transactions, is now incorporated in Annex I; accordingly all annexes herein have been renumbered.