
A MAGYAR EXPORT-IMPORT BANK ZRT. (EXIMBANK) ÉS



A MAGYAR EXPORTHITEL BIZTOSÍTÓ ZRT. (MEHIB)

Hungary has two institutions responsible for official export promotion. MEHIB (Magyar Export hitel Biztosító Zrt./Hungarian Export Credit Insurance Plc.) acts as Hungary's state-backed export insurance provider. Eximbank (Hungarian Export-Import Bank Plc.) fulfills the role of Hungary's official export bank. When communicating to the public they appear jointly as EXIM.

Both institutions were founded simultaneously in 1994. The two ECAs work very closely, sharing a single management structure, as well as their headquarters in Budapest and their joint website.¹

Eximbank and MEHIB are 100 % owned by the Hungarian state, with ownership rights exercised through the Ministry of Foreign Affairs and Trade. The general structure and main activities are regulated by Act XLII of 1994 on the Hungarian Export-Import Bank Corporation and the Hungarian Export Credit Insurance Corporation.² Jointly, they offer export insurance, investment insurance, export promoting loans and tied aid loans.³ These tied aid loans link them more closely to state-supported ODA-programmes, which is not common among export-credit agencies. Most of their loans are offered in accordance with OECD rules in the form of medium- to long-term credits at favourable fixed interest rates.

Significant growth – Eastern and Southern Opening

In recent years, EXIM has tried to grow its loan portfolio significantly by venturing into the private financing market, in line with its objective on “the maintenance and creation of jobs in Hungary”. Exim now also indirectly provides equity financing to Hungarian exporting companies through investment in selected equity funds. It can itself establish venture capital and private equity funds or join as an investor.

The subscribed capital of Eximbank was boosted from HUF 4.25 billion in 2010 to HUF 146.315 billion in 2019. Loans and advances went up from HUF 207 billion in 2012 to HUF 864 billion by 2018 in nominal amount. The bank actively supports the Eastern and Southern opening

policies of the government, aiming for increased commerce with countries in the East and South, particularly China. In recent years, Exim established several official partnerships with eastern and southern governments and financial institutions.

In 2017, the export-import banks of Hungary and China agreed to establish a one billion dollar investment fund to which the Hungarian financial institution will contribute 70 million dollars of investment. In return, the fund will realise 140 million dollars' worth of investments in Hungary. Meanwhile, Eximbank has a 632 million dollar credit line to promote business ties between Hungarian and Chinese companies. In 2019, Eximbank opened a EUR 577 million credit line to foster cooperation with companies from the member states of the Turkic Council (Azerbaijan, Kazakhstan, Kyrgyzstan, Turkey, and Uzbekistan). However, the list is much longer when taking into account new credit lines for countries in the South, such as the 415 million dollar credit line to support partnerships between Hungarian and Brazilian companies, the 620 million dollar credit line to help Hungarian companies' activities in Mexico, the EUR 15 million credit line to support business ties between Hungary and Cape Verde or the EUR 555 million credit line to promote bilateral business ties between Hungary and Israel.

Increased activity, increased responsibility?

Debt sustainability

It has been a subject of discussion between Hungary and the European Union about whether Eximbank should be classified as a governmental institution or in the financial corporations sector, and as a consequence, whether the debt of Eximbank should be calculated as state debt or not.⁴ According to the Hungarian government, EXIM is an independent organisation, and therefore the bank's assets and liabilities are not to be included in the national budget. Eurostat argued to the contrary, and its opinion was backed by the EU's Committee on Monetary, Financial and Balance of Payments Statistics,⁵ which stated that Eximbank is a captive financial institution controlled by the government. After a

1. <https://exim.hu/en/about-exim>
2. <https://exim.hu/en/about-exim/regulatory-environment>
3. <https://exim.hu/en/products>
4. <http://ec.europa.eu/eurostat/documents/1015035/7142247/Advise-2016-HU-Statistical-classification-of-Eximbank-Letter-2.pdf/18404786-bb4b-4048-9932-005feec5aeb3>
5. <https://ec.europa.eu/eurostat/documents/1015035/7142247/Advise-2016-HU-Statistical-classification-of-Eximbank-Letter-%202.pdf/18404786-bb4b-4048-9932-005feec5aeb3>

long dispute, in line with a decision by Eurostat from 2018, Eximbank's debt was reclassified into the general government sector, and the National Bank of Hungary started publishing separate state debt ratios, with and without the balance sheet of Magyar Eximbank, which pushed the debt trajectory upwards by around 2 percentage points.⁶

Sovereign debt is not only a national issue. Since then, due to concerted effort by the government and the public, Hungary's sovereign debt is decreasing. This is not the case in the Global South. According to the Global Sovereign Debt Monitor 2019,⁷ currently 122 countries in the Global South are critically in debt. The situation has been at a dramatically high level for years and, at the same time, the debt has continued to rise. In recent years, the situation in three-quarters of the countries in critical debt has worsened further. This global debt crisis is being fuelled by excessive lending to poorer countries.

Four years after the crisis a report by Eurodad showed that export credit guarantees are at the root of most developing country debt owed to European governments. Eurodad assessed the debts owed by developing countries to four European countries and found that almost 80 percent of poor countries' debts to other governments come from export credits, not development loans, and 85 percent of the bilateral debts cancelled from 2005 to 2009 were debts resulting from export credit guarantees.⁸

Hungary has several decades of experience with high sovereign debt and its austerity consequences. Therefore, sustainable loan activity should be an important issue for Eximbank, as its buyer's credit facilities - including tied aid loans - have multiplied in recent years.

Environmental sustainability – sustainability proofing

Today Hungary claims it is only responsible for 0.1 % of global greenhouse gas emissions. Yet it was not always like this. At the end of the 19th century, Hungary was ranked 15th on the list of major greenhouse gas polluters, reaching a peak at the middle of the 20th century.⁹ On other hand, shared responsibility also calls Hungary to act meaningfully. It is very important in the area of export financing, where we support long term projects, which could lock-in systems and infrastructures for decades and determine the development path of countries in the South.

It is also worth mentioning that the governments behind export credit agencies often set goals in the global climate change negotiations that, unfortunately, are overlooked

later during their financial and commercial activities. This is a policy incoherence, which should be solved: industrialized countries emphasize the importance of managing carbon emissions in developing countries, while their economic interests supported by their export credit agencies favour investments that disproportionately benefit energy producers and carbon intensive industries.

Therefore, environmental and social impact and risk assessments and, moreover, proactive support for sustainable programs and projects aiming for adaptation and mitigation of climate change, should be a must for every state-owned financial institution.

Hungarian Exim's Strategy 2017-2021 document¹⁰ mentions sustainability and environmental issues as important to the bank without any detail, and there is no further clarification in the Organisational and Operational Regulations document¹¹ of the bank either. In the organisational structure, among the 29 individuals serving as president, vice-presidents and directors of the bank, there is no dedicated person responsible for environment, sustainability or CSR issues.

Rules regarding environmental assessment are regulated by the bank's Environmental Policy.¹² According to EXIM any environmental and social impacts and risks of a project potentially supported by export credit financing must be reviewed and assessed during the course of the application and decision on the project: "The Hungarian ECAs have to contribute to the environmental protection by ensuring the principle that EXIM's sources should not support projects with unacceptable adverse environmental impact. By law EXIM is obliged to take into account environmental and social considerations as well among the criteria of eligibility for insurance in line with the relevant regulation applied by the OECD."¹³

EXIM states that it has implemented the Common Approaches in its internal regulatory system. According to these, transactions are pre-monitored and ranked at an early stage. Based on the monitoring and questionnaires a decision is made: acceptance of the transaction, acceptance with provisions, or rejection.

Regarding disclosure of environmental and social impacts information, in its environmental policy the bank claims that, "For category A projects, the Environmental and Social Impact Assessment (or its key findings) has to be disclosed as far [in advance] as possible but at least 30 days prior to the commitment (issuance of policy). EXIM ensures - in view of the disclosure provisions in the national laws and

6. https://ec.europa.eu/info/sites/info/files/2018-european-semester-convergence-programme-hungary-en_0.pdf

7. <https://erlassjahr.de/wordpress/wp-content/uploads/2019/05/Global-Sovereign-Debt-Monitor-2019.pdf>

8. <https://eurodad.org/files/pdf/4735-exporting-goods-or-exporting-debts-export-credit-agencies-and-the-roots-of-developing-country-debt-.pdf>
<https://ourworldindata.org/grapher/cumulative-co-emissions?time=1751..2016>

9. <https://ourworldindata.org/grapher/cumulative-co-emissions?time=1751..2016>

10. <https://exim.hu/rolunk/exim-strategia-2017-2021/file> (Hungarian)

11. <https://exim.hu/rolunk/kozerdeku-adatak/altalanos-kozeteteli-lista/szervezeti-adatak/szervezeti-es-mukodesi-szabalyzat/2548-eximbank-zrt-szervezeti-es-mukodesi-szabalyzata-1/file> (Hungarian)

12. <https://exim.hu/en/bank-regulations/environmental-and-social-policy>

13. Written communication with EXIM (04.07.2017)

of business interests – ex post disclosure of the environmental information in case of category A and B projects. This ex-post disclosure may be accomplished via its web site.” However, there is no such information disclosed on the website of the bank, although the bank definitely has category B projects, as they acknowledged in response to an official information request made by Friends of the Earth Hungary.¹⁴

These rules, if implemented properly – for which we have no evidence – could guarantee, that some of the projects (i.e. those for which the project period exceeds 2 years, the value of the transaction exceeds 10 million SDRs, or the project is on or near a sensitive area) fall under the screening and classifications process, and therefore environmental or social risks could be prevented. But this is only a small number of projects and serves only the prevention of negative impacts. The aim of a state-owned financial institution should be broader, to foster not only financial and economical benefits, but also positive environmental and social impacts. Nevertheless, it appears that, for example, there are no specific climate-change related policies in place within EXIM or regarding officially supported export promotion other than sector-specific agreements in the OECD Sector Understandings.

Unfortunately, the bank misunderstands its role, focusing instead on organising environmental quizzes for employees and garbage-picking actions, which could be considered greenwashing in this situation.¹⁵

Reporting and transparency

EXIM provides project information to the ECG forum at least semi-annually, in accordance with the OECD recommendation.¹⁶ As per the EU ECA Regulation, the Hungarian government is obliged to also report on their state-backed export promotion to the European Commission. The quality of this EU reporting procedure was questioned by the European Ombudsman.

The Hungarian ECA has not published all its annual and financial reports in English. In particular, MEHIB’s annual reports are available in Hungarian only.¹⁷

In order to better understand the activities of the bank, in the first half of 2017 Friends of the Earth Hungary requested information on tied aid loans (e.g. the name of the project, nominal value and disbursed loan amount) based on the Hungarian Freedom of Information Act. The state-owned bank refused to release it on the basis of banking secrecy.

After the case was taken to court, in October 2017,

at the first and second instance the Budapest-Capital Regional Court ordered the bank to publish the requested information. In matters of public money and data of public interest, banking secrecy, as a special type of business secret, cannot be automatically excluded from the regulations about freedom of information, i.e. monitoring by the public.¹⁸ According to the Budapest-Capital Regional Court decision, a borrower using public money should be aware of the fact that the transaction can be made public due to constitutional provisions.

In April 2019, contrary to the decisions of the Courts of First and Second Instances, the Curia ruled that in regard to the Act CXXXVII of 2013 on credit institutions and financial undertakings which defines the scope of banking secrecy, the requested data cannot be handled under the Act CXII of 2011 on the right of informational self-determination and freedom of information. This means that banking secrecy of a state-owned bank overrides the provisions of the Freedom of Information Act, whereas such data must be publicly available information in the sake of public interest.

The position of Friends of the Earth Hungary is that when it comes to public money or data of public interest, banking secrecy cannot be excluded automatically from the regulations on informational freedom that equate to a form of public control. The Courts of First and Second Instances had a similar opinion: borrowers using public money should have been aware that their credit transactions might be made public under the relevant constitutional provisions, and the information should have been provided. The legal process continues at the Constitutional Court of Hungary.

Complaint mechanisms

According to EXIM’s internal regulation, clients are entitled to file a written complaint to EXIM and should receive a response in 30 days. If the complaints are rejected, then the clients are allowed to submit their complaints to the National Bank of Hungary or to the Hungarian Competition Authority.

The Business Regulation of MEHIB claims that “The procedure for handling complaints is regulated by the Insurer’s Complaint Handling Regulations, which are published by the Insurer on its website (www.exim.hu) and in its registered office.” We could not find more detailed information on the website.

There is no information about whether EXIM has any procedure for handling complaints from people affected by the projects it finances.

14. https://mtvsz.hu/the_courts_decision_eximbank_has_to_disclose_the_data

15. <https://exim.hu/elerhetosegek/sajtokozlemenyek/900-dijzatak-a-kornyezetvedelmikviz-nyerteseit>

16. Written communication with EXIM (04 July 2017)

17. <https://exim.hu/en/about-exim/public-information/annual-reports-en/mehib>

18. https://mtvsz.hu/the_courts_decision_eximbank_has_to_disclose_the_data

Conclusion

As a 100% state-owned financial institution, EXIM should be more proactive regarding environmental and social impacts, not only to prevent negative impacts, but also to finance economically, environmentally and socially sustainable projects supporting climate adaptation and mitigation, biodiversity, lower resource use and local small-scale developments. Therefore, assessment of only a limited number of potentially harmful project is not enough. For example, climate/sustainability-proofing of all project is needed, and the more beneficial projects should receive financial advantages.

Taking into account the national and global climate goals, and Hungary's plans to commit itself to phase out coal from energy production, is it also necessary to phase out coal and fossil fuel from export financing. From economic point of view, it also advantageous to support Hungarian economic sectors like renewables and energy-efficiency, with a longer-term perspective.

EXIM should increase transparency, starting with the full implementation of OECD guidelines regarding the publishing of category A and B projects, and publish all relevant information of tied-aid loans and other financed projects.
