

Hungary: EXIM (Eximbank and MEHIB)

Quick facts

Number of employees (EXIM total, average of 2015)

192¹

Volume of business (balance sheet total 2016)

Eximbank: HUF 94 billion/EUR 3.01 billion²

MEHIB: HUF 17.66 billion/EUR 56.6 million³

Guarantees covered by the Republic of Hungary (MEHIB)

Legal maximum volume of exposure HUF 600 billion/EUR 1.91 billion⁴

Current volume of exposure (2016) ?

New guarantee contracts issued in 2016 ?

Failure liabilities ?

Export financing measures covered by the Republic of Hungary through Eximbank

- **Legal maximum volume of exposure Eximbank**

HUF 1200 billion/EUR 3,828 billion⁵

- **Volume of exposure**

HUF 8,99 billion⁶

- **Volume of exposure (2015)**

HHUF 876,7 billion/EUR 2.796 billion⁷

- **Written premium charges (2015)**

HUF 32.002 million/EUR 102.075 million⁸

- **New guarantees issued in 2015/16**

Information not found

Legal framework⁹

- Act XLII of 1994 on Hungarian Export-Import Bank Ltd. and on Hungarian Export Insurance Ltd.
- Act C of 2000 on Accounting
- Act CXXII of 2009 on the more efficient operation of publicly-owned companies
- Act CXII of 2011 on the Right of Informational Self-Determination and on Freedom of Information
- Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises

Political responsibility

Ministry of Foreign Affairs and Trade¹⁰



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Overview

Similar to the Czech Republic, Hungary also has two institutions responsible for official export promotion. MEHIB (Magyar Exporthitel 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 providing information to the public they appear jointly as EXIM.

Both institutions were founded simultaneously in 1994, and they are 100% owned by the state. The two ECAs work very closely, sharing one management structure, as well as their headquarters in Budapest and their joint website.¹¹

According to written response to our interview questionnaire, EXIM's mission is "to serve Hungarian exporters through the provision of effective financing and insurance facilities and support the export of goods and services of Hungarian origin. One of the most important requirements regarding the financed and insured export contracts is that the exporters are obliged to prove the Hungarian origin of the exported goods and services according to the applicable governmental decrees."¹²

Eximbank and MEHIB's general structure and main activities are regulated in Act XLII of 1994 on the Hungarian Export-Import Bank Corporation and the Hungarian Export Credit Insurance Corporation.¹³ Jointly, they offer export insurance, investment insurance, export promoting loans as well as tied aid loans,¹⁴ which links them closer to state-supported ODA-programmes (like in Austria, where OeKB provides tied aid loans for the Austrian Ministry of Finance) than is the case in most other ECA examples in this report.

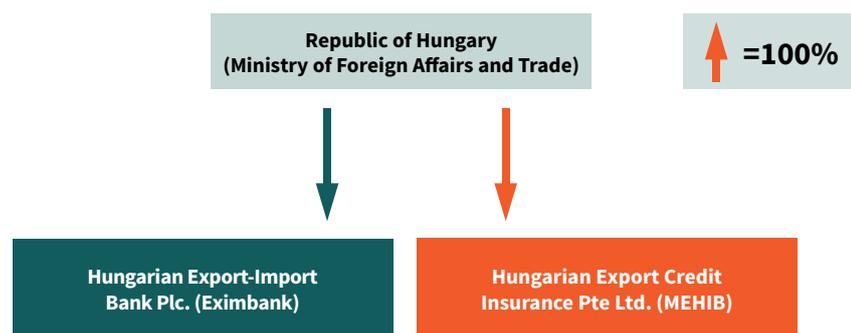
In support of its mandate, EXIM provides export loans and export insurance directly to exporters of Hungarian products/services as well as to suppliers or their foreign purchasers. It also provides refinancing facilities for domestic and foreign commercial banks who finance Hungarian export-related transactions. The majority of its loans are offered in accordance with OECD rules in the form of medium- to long-term credits at favourable fixed interest rates.¹⁵

In recent years Eximbank as part of EXIM has tried to significantly grow its loan portfolio by venturing onto the private financing market. In line with its objective on "the maintenance and creation of jobs in Hungary". The ECA 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.¹⁶

In recent years EXIM has been involved in a series of controversies which received significant publicity in the media, particularly concerning the finance of several questionable projects, as shown below.

It has also been the subject of discussion between Hungary and the European Union about whether it should be classified as governmental institution or in the financial corporations sector.

Eximbank/MEHIB (EXIM)



Corporate structure

The Hungarian state owns 100% of both Eximbank and the Hungarian Export Credit Insurance Pte Ltd. (MEHIB), and since 2014 the Ministry of Foreign Affairs and Trade holds all shareholder rights. The owner's (shareholder's) rights in respect of the shares held by the state in Eximbank and MEHIB are exercised by the minister in charge.¹⁷

The two ECAs jointly provide export and export-related financing (directly through lending or indirectly through venture capital and/or private equity funds) and export-related insurances and guarantees. They operate jointly within an integrated framework and carry out their duties with a shared organisation and corporate identity under the name of EXIM.¹⁸

As a specialised credit institution Eximbank also provides loans - in addition to its state-backed activities - through private-business-backing.¹⁹ In this case the source of financing for export project loans stems from private equity.²⁰ Since the change in ownership from the state-owned Hungarian Development Bank to direct ownership by the Hungarian state in 2012 Eximbank "has sought to meet its medium- and long-term funding needs primarily through issuing debt securities in the international capital markets and money markets, [...], rather than loans from the Hungarian state or state-owned entities."²¹

Eximbank owns shares in the following enterprises:²²

- Exim Exportösztönő Magántőkealap (100 % ownership)
- Exim Növekedési Magántőkealap (100 % ownership)
- PortfoLion Regionalis Magantőke-alap (50 % ownership)
- Kazakhstan Hungarian Investment Private Equity Fund (49.50 % ownership)
- IFC Financial Institutions Growth Fund, LP (11.72 % ownership)
- China-Central and Eastern Europe Investment Co-Operation Fund (6.90 % ownership)
- China-CEE Management S.a.r.l. (10 % ownership)
- Garantiqua Hitelgarancia Ltd. (0.15 % ownership)

MEHIB, as an export insurance institution, provides export credit insurance to exporters or their banks, including also Eximbank's borrowers.²³ The activities of MEHIB extend to non-marketable risk insurance and reinsurance policies of insurance in the branches of credit, suretyship and various financial losses. MEHIB performs its activities generally in relation to export-oriented foreign trade transactions.²⁴ Export insurance coverage can be provided for pre-shipment risks, post-shipment risks and outstanding debts as well as for manufacturing risk, supplier credit, buyer credit, leasing, bank guarantee, and investment.²⁵

Under the joint label EXIM the two institutions perform the tasks of Hungary's export credit agency, which are regulated by the legislative frameworks of the OECD and the EU, with the basic objective of facilitating the sale of Hungarian goods and services in foreign markets.²⁶

EXIM also holds offices abroad in Istanbul, Moscow and Belgrade.²⁷

Decision making structures within EXIM acting as officially-supported export credit agency

EXIM's main corporate bodies of are (according to the "EXIM Act"²⁸):

- The "Founder": The Minister in charge of foreign economic affairs.
- The Board of Directors as governing body of Eximbank and MEHIB.
- The Supervisory Board, performing oversight of the management and administration of Eximbank and MEHIB.
- The functional units of Eximbank and MEHIB are headed by the Chief Executive Officer, whose duties and powers are determined by the Board of Directors.²⁹ Apart from the CEO, the Executive Board consists of the Deputy CEO, Executive Director for IT and the Executive Director for Risk Management.³⁰

Environmental and human rights screening

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 the 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."³¹

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.³²

According to EXIM's answers to our questionnaire, the Guiding Principles of the Hungarian environmental and social policy applied by EXIM are: to comply with relevant Hungarian legislation, including international commitments and environmental agreements undertaken by Hungary; to be in observance of the legal regulations pertaining to commercial confidentiality and business interests, in line with relevant rules of public disclosure; and to have procedures and rules flexible enough and suitable for continued enhancement in order to follow international rules and trends. When assessing environmental and social impacts of projects EXIM should work in cooperation with stakeholders and respect the rights of buyer countries.³³

With regards to the question whether public participation by project affected people is sufficient, EXIM states: "According to the Recommendation, the information to be supplied should include, but is not limited to e.g. the results of any public consultations with local communities directly affected by the project and/or their legitimate representatives and of any engagement with other parties, such as civil society organisations, that have expressed an interest in the project. It is the responsibility of the buyer/project sponsor to undertake any such public consultations and/or engagements with interested parties. For

the purposes of public consultations, environmental and social impact information should be made available to affected communities in a language accessible to them.”

EXIM also states that it has no experience with cases where a public participation process has not been satisfactory. In such a case, EXIM would require the applicant to present its suggestions for a solution that may be prescribed in the underlying documentation as well.³⁴

With regards to its screening procedures for potential environmental or human rights impacts, EXIM gave a detailed description concerning what the insurer should do according to OECD recommendations, as well as according to its own policy guidelines (see above).

Unfortunately, there was no description about whether or to what extent these guidelines have actually been followed on a day-to-day basis. To be sure, there is no separate structure responsible for environmental and social assessment, as its legal department is responsible for the assessment.

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 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 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.” But there is no such information disclosed on the website of the bank, although the bank definitely has category B projects, as it was acknowledged in response to an official information request made by Friends of the Earth Hungary.³⁵

The seriousness of the ex-post evaluation is also questionable. For instance, the question “Are there post-project monitoring and evaluation processes [concerning environmental information and human rights]? How are they implemented in practice? If no, have such measures been considered within your ECA?” was answered: “In case of Category A projects, EXIM should require regular ex post reports and related information to be provided during their involvement in the project to ensure that relevant potential environmental and/or social impacts are addressed according to the information provided by applicants during the environmental and social review. In the case of non-compliance with the conditions of official support, EXIM should take actions that they deem appropriate in order to restore compliance, in accordance with the terms of the contract for official support. EXIM should, where appropriate, encourage project sponsors to make ex post monitoring reports and related information including concerning how environmental and/or social impacts are being addressed publicly available at regular intervals, including in forms accessible to local communities directly affected by the project and other relevant stakeholders.”

From the answers received by EXIM, it is hard to estimate whether there are for example field visits undertaken, how large the screening team is, or whether there is an internal post-project-monitoring system in place.

The only actual reference to screening in practice by EXIM was the following: “EXIMBANK is ready to participate in the exchange of information with foreign partner institutions as well as in its joint insurance undertakings and in any other partnerships (re-insurance, co-insurance, etc.) [on social and environmental information].”³⁶

Exclusion lists

EXIM states that it does not underwrite the following projects (pursuant to the MIGA exclusion list):

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement).
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20 percent.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.³⁷

Furthermore each EXIM product description contains a detailed list of excluded activities.³⁸

Climate mitigation measures

Concerning climate-change related policies within EXIM, the ECA stated in response to our questionnaire: “The purpose of the Sector Understanding on export credits for renewable energy, climate change mitigation and adaptation and water projects is to provide adequate financial terms and conditions to projects in selected sectors identified including under international initiatives as significantly contributing to climate change mitigation, including renewable energy, greenhouse gas (GHG) emissions’ reduction and high energy efficiency projects, climate change adaptation, as well as water projects.

The Participants to this Sector Understanding agree that the financial terms and conditions of the Sector Understanding, which complements the OECD Arrangement, shall be implemented in a way that is consistent with the purpose of the OECD Arrangement.”³⁹

It appears that 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.

Reporting and transparency

EXIM provides project information to the ECG forum at least semi-annually according to the OECD recommendation.⁴⁰ 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 Hungarian ECA has not published all of its annual and financial reports in English. In particular, MEHIB's annual reports are available in Hungarian only.⁴¹

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 (eg. 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 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.⁴² 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.

However in a similar case – the verdict of the Curia (Supreme Court of Hungary) resulted in the opposite decision, whereby Exim does not have to release the information.⁴³

Complaint mechanisms

According to EXIM's internal regulation, clients are entitled to fill 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.”⁴⁴, but we could not find the more detailed information on the website.

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

EXIM in focus: The Hungarian ECA needs more transparency and to remember its roots

By Ákos Éger, Magyar Természetvédők Szövetsége/Friends of the Earth Hungary

While the subscribed capital of the Hungarian ECA EXIM was boosted from HUF 4.25 billion in 2010 to HUF 133.7 billion in 2016, the bank was involved in several cases that received significant publicity in the media. EXIM financed several questionable projects not directly linked with export, and at the same time, Eurostat, the European Commission's statistical agency, pressed the Hungarian government to calculate its public debt levels, including the debt of EXIM.

The questionable projects included a loan to buy Hungary's second largest commercial television station TV2. The deal raised criticism for not being related to the bank's official mission. The same argument applied to another project supported with a HUF 16.5 billion loan to an office and residential development in the south of Budapest. In 2016 news reports said that the bank was criticised for loaning money (HUF 41 and 25.5 billion) to companies that do not have a relationship with export business. According to the bank, these loans were legal, and supported the purchases of

the borrowers from foreign sources.⁴⁵

Another disputed issue is whether the debt of Eximbank should be calculated as state debt or not.⁴⁶ According to the Hungarian government EXIM is an independent organisation, therefore the bank's assets and liabilities are not to be included into the national budget. Eurostat argues to the contrary, and its opinion was backed by a recent decision of the EU's Committee on Monetary, Financial and Balance of Payments Statistics that Eximbank is a captive financial institution controlled by the government⁴⁷.

In these circumstances transparency of the bank is crucial, which is currently not the case. This urgently needs to change if EXIM is to use public money in the most effective and transparent way.

Hence, the Hungarian ECA should increase transparency and return to its original mission.

Conclusion

Eximbank has a rapidly increasing role in Hungary's development financing and most of its activities contribute to shaping the future of developing countries.

For this reason it is important to:

- implement all the requirements of the OECD guidelines in practice;
- increase the transparency of the institution and its projects for Hungarian taxpayers and for affected people in the recipient countries;
- integrate environmental and social sustainability criteria in all the phases of the project pipeline.

Only in this way can it be guaranteed that projects financed by Eximbank support real solutions to global problems.

Endnotes

- 1 Signed Financial Statements 2015, p. 53 <https://exim.hu/en/about-exim/public-information/annual-reports-en/eximbank/1625-signed-financial-statements-ifs-2015/file>
- 2 <https://exim.hu/en/about-exim/details>
- 3 Ibid.
- 4 Signed Financial Statements 2015 p. 46
- 5 EXIM Annual Report 2016 <https://exim.hu/rolunk/kozerdeku-adatok/eves-jelentesek/eximbank/1630-eximbank-beszamolo-2016/file>
- 6 Ibid.
- 7 Signed Financial Statements 2015, p. 42
- 8 Ibid., p. 81
- 9 According to written communication with EXIM (04 July 2017) and <https://exim.hu/en/about-exim/regulatory-environment>
- 10 <http://exim.hu/en/eximrol/adatok/>
- 11 See: <https://exim.hu>
- 12 Written communication with EXIM (04 July 2017)
- 13 Ibid.
- 14 <https://exim.hu/en/products>
- 15 Signed Financial Statements 2016, p. 9 <https://exim.hu/rolunk/kozerdeku-adatok/eves-jelentesek/eximbank/1809-eximbank-2016-evi-ifs-beszamolo/file>
- 16 Ibid.
- 17 Written communication with EXIM 04 July 2017
- 18 Ibid.
- 19 Decree 85/1998 (V.6.) on the Interest Equalisation System of the Hungarian Export-Import Bank; Decree 435/2012. (XII. 29.) on Guarantees Assumed by the Hungarian Export-Import Bank with a State Payment Guarantee and on the Conditions and Detailed Regulations of the Replacement and Interest Costs of Foreign Currency and Interest Swap
- 20 Written communication with EXIM 04 July 2017
- 21 <https://exim.hu/dokutar/1113-eximbank-gmtn-programme-offering-circular-16sep2014-1/file> p.1 (08.03.2017)
- 22 Hungarian Export-Import Bank Private Limited Company Financial Statements with Independent Auditors' Report, for the year ended 31 December 2016, <https://exim.hu/en/about-exim/public-information/annual-reports-en/eximbank/1810-eximbank-ifs-kpmg-report-2016/file>
- 23 <https://exim.hu/en/about-exim/public-information/annual-reports-en/eximbank/1625-signed-financial-statements-ifs-2015/file>
- 24 Written communication with EXIM 04 July 2017
- 25 <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=13624095>
- 26 Ibid.
- 27 <https://exim.hu/en/about-exim> (08.03.2017)
- 28 Act XLII of 1994 on Hungarian Export-Import Bank Ltd. and on Hungarian Export Insurance Ltd.
- 29 According to written communication with EXIM (04.07.2017)
- 30 <https://exim.hu/en/about-exim/management>
- 31 Written communication with EXIM (04.07.2017)
- 32 Ibid.
- 33 Ibid.
- 34 Ibid.
- 35 https://mtvsz.hu/the_courts_decision_eximbank_has_to_disclose_the_data
- 36 Written communication with EXIM (04 July 2017)
- 37 Written communication with EXIM (04 July 2017)
- 38 See the Hungarian version of EXIM's website: <https://exim.hu/szabalyzatok-kondiciok/bank/miga-kizarolista/file>
- 39 Written communication with EXIM (04 July 2017)
- 40 Ibid.
- 41 see: <https://exim.hu/en/about-exim/public-information/annual-reports-en/mehib>
- 42 https://mtvsz.hu/the_courts_decision_eximbank_has_to_disclose_the_data
- 43 Kúria Pfv.IV.21.551/2016/4.
- 44 <https://exim.hu/en/insurance-regulations/business-regulations>
- 45 <http://www.origo.hu/gazdasag/20160121-eximbank-vajna-tv2-garancsi-kopasz-gat.html>
- 46 <http://ec.europa.eu/eurostat/documents/1015035/7142247/Advise-2016-HU-Statistical-classification-of-Eximbank-Letter-2.pdf/18404786-bb4b-4048-9932-005feec5aeb3>
- 47 <https://drive.google.com/file/d/0B7KR6N2WmVDRzcwDmR3b3pEQ3c/view>