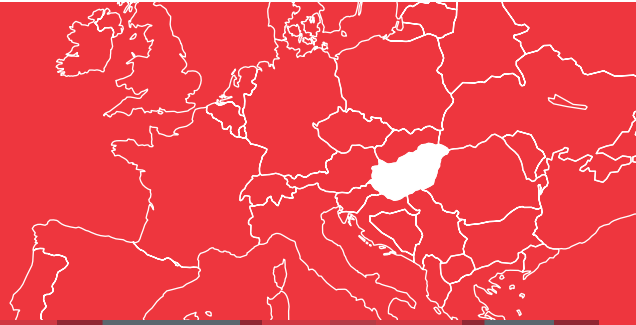


Protecting your credit sales in HUNGARY

November 2005



Economic overview

Current situation

Hungarian GDP growth increased to 4 % in 2004, driven by exports and domestic demand. Inflation has fallen considerably, from 6.6 % in 2004 to 3.6 % in 2005. The country's fiscal position is however a major cause for concern. In the election year 2002 the fiscal balance went out of control and the total public sector borrowing requirement reached 9.4 % of GDP. It was the intention to reduce this deficit down to 3.8 % in 2004, in order to qualify for an early EMU entry, however these targets have been widely missed. As a result, Hungary will probably not enter the EMU in this decade.

With more than 8 % of GDP the current account deficit is at an unsustainable level. This deficit is currently financed through borrowing on the international markets, making Hungary vulnerable to any changes in market sentiment.

Qualification of economic management

There is a constant budgetary under-performance, as the deficit for Q1 2005 was already 38 % of the whole 2005 target. Execution of the remaining privatisation are underway, while deeper reforms will be postponed until after the 2006 elections.

Insolvency development

Hungary has topped the league for insolvencies during 2004, with approximately 2 % of all companies becoming insolvent in 2004. This figure increased to 4 % in the first quarter of 2005 and is expected to increase further through the remainder of the year. Much of the problem stemmed from

the government's slowness in refunding VAT to small and medium sized companies. The delays have caused liquidity problems, leading to insolvency. But the Finance Ministry has recently instructed the tax authority to reimburse companies immediately.

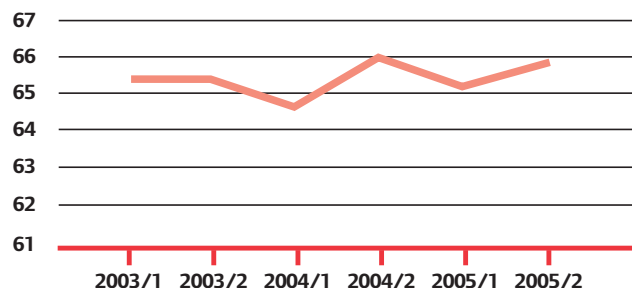
Outlook

In 2006, a GDP growth of 3-4 % can be expected, depending on the economic performance of Hungary's major trading partners within the EU. Consumer demand will be affected by restrictive fiscal measures.

The Forint is overvalued and if market sentiment becomes negative, any depreciation in the Forint would cause serious problems for Hungary, both on a country and a corporate level. Companies with large foreign denominated debt are in a vulnerable position, as any depreciation of the Forint would increase their debt and impact upon payment capacity, thus posing serious problems for the corporate sector.

Country Credit Rating (1-100)

Rank September 2005: 41



Source: Institutional Investor

Credit safeguards when trading with Hungarian companies

Check of creditworthiness (hitelképesség vizsgálata)

A check of creditworthiness through information agencies or credit insurers like Atradius before sealing a business contract with an Hungarian business partner and when trading on open account is strongly recommended.

Retention of title (tulajdonjog fenntartása)

Simple retention of title clauses are valid and insolvency resistant. The clauses have to be stipulated in writing with the sealing of the contract. No protection given in case of acquisition in good faith by a third party. It is insolvency resistant as there is an option on selection of the goods in case of buyer's insolvency.

Pledges and mortgages (zálog, jelzálog)

These security interests are widely used, especially mortgages and liens on financial assets. Pledges have to be stipulated and recorded in a register maintained by the Hungarian National Chamber of Notaries Public, while mortgages have to be recorded in the land register. In case of the debtor's insolvency, debts secured by pledges and claims have a higher priority, therefore increasing the chances to get paid at least a partial amount of the outstanding debt.

Other safeguarding measures

Guarantees: Common between parent companies and subsidiaries.

Bank Guarantees: Fairly common. But in most cases expensive for the debtor.

Irrevocable letter of credit

Export credit insurance

The commercial and political risks associated with commercial credit with customers in Hungary can be covered by Atradius.

Payment transactions

Mostly bank transfers. Cheques and bills of exchange are rather seldom used.

Collection of receivables

Out of court

Collection calls and payment reminders in written form. Possibly reminder signed by a Hungarian lawyer, strongly demanding settlement at a certain date and announcing legal measures in case of non-payment. Default interest rate: Hungarian National Bank's basic rate plus 7 %.

In principle, creditors may first seek an out of court settlement due to possibly long lawsuit terms in Hungary (sometimes several years). Arbitration is offered e.g. by the arbitration court of the Hungarian Chamber of Commerce and Industry.

Collection enforcement of undisputed claims

As of 21 October 2005, a new EU-wide writ of execution process is valid for uncontested claims. It is designed for the inexpensive and timely enforcement of uncontested claims, abolishing an additional court authorisation for the enforcement in the debtor's country of a judgement given abroad (Exequatur). With a given form, a creditor may apply for the issue of the writ in his home country. With this document the enforcement procedure may immediately be initiated by the appropriate authorities in the EU country where the claim is due.

Legal proceedings

Summary proceedings (fizetési meghagyás)

For court order and to obtain a payment order. Application with a standardised form. In charge are the respective county courts (metropolitan court). Legal costs are 3 % of debt amount, maximum 100.000 Hungarian Forint (approx. 400 €). In case an objection is filed, the procedure turns into a lawsuit. Objections by the debtor often lead to an considerably extension of the lawsuit terms.

Duration of debt recovery case resolution*

Hungary:	365 days
Average OECD:	232 days

*Time is measured from the moment the plaintiff files the lawsuit in court, until the moment of actual payment—including days where actions take place and waiting periods between actions).

Source: World Bank – Doing Business 2005

The duration of lawsuits is usually longer at the district court of Budapest than at other county courts.

Recognition of foreign judgements

With the EU-accession, the recognition and execution of external judgements and titles has been facilitated.

Court and lawyer fees

Court fees are fixed by statute:

- First instance court cases: 6 % of the amount in dispute.
- Summary proceedings: 1 % of the amount in dispute.
- Compulsory enforcement: 1 % of the amount in dispute

Lawyer (ügyvédi) fees have to be fixed individually. Some lawyers ask for fees based on hourly rates (between 50 € and 300 €, depending on expertise and language skills). It is also possible to agree on a percentage fee of the amount in dispute (up to 5 %).

In general, the losing party is charged with all court fees, but only a share of the winning party's lawyers fees will be charged to the losing party (fixed by the court).

Insolvency procedure

Bankruptcy proceeding

The main purpose of a bankruptcy proceeding is company reorganisation. It can be requested by the debtor himself. In charge is a county court, which appoints an administrator who supervises the management activities. The debtor seeks the creditors' approval for a moratorium of 90 days for the sake of elaborating a restructuring program and making a composition agreement with the creditors. In practice, this procedure is rather seldom used, as often the debtors have no interest in restructuring their company.

Liquidation proceeding

The main purpose here is to dissolve the company of the insolvent debtor. Liquidation proceedings can be initiated by either the debtor, creditors or the liquidator. Creditors may apply for it in case a debt is non-disputed and overdue for 60 days. Their appliance of liquidation proceeding is often used as sort of final warning against a defaulting debtor.

The county court appoints a liquidator who is in charge of administrating the debtor's assets and to satisfy the creditors. The debtor may try to arrange a settlement with his creditors, which requires the involvement of the court. Regarding the order of payment, the creditors are split into seven defined groups.

In practice, in about 95 % of the proceedings creditors claims cannot be satisfied due to lack of assets, which in many cases even are not sufficient to cover the liquidation costs themselves. The current insolvency legislation is plagued by several major flaws, e.g. lack of a tight debtor control.

Average time to complete a insolvency procedure

Hungary: 2.0 years
Average OECD: 1.5 years

Source: World Bank - Doing Business 2005

Useful webpages

Atradius:	www.atradius.com
General country information:	www.odci.gov/cia/publications/factbook/index.html
Ministry of Economic Affairs:	www.ikm.iif.hu
Hungarian Chamber of Commerce and Industry:	www.mkik.hu
Hungarian Investment and Trade Development Agency:	www.itd.hu
Hungarian Central Statistical Office:	www.ksh.hu

Useful credit management terms in Hungarian

Ability to pay	Fizetőképesség, szolvencia
Assigned claim	Engedményezett követelés
Bad debt	Kétes követelés/kétes kintlévőség
Bailiff	Végrehajtó
Contract	Szerződés
Credit limits	Hitelkeret
Credit management	Követelés kezelés/management
Creditor	Hitelező/hitelező
Date of payment	Esedékesség napja, fizetés határnapja
Debtor	Adós
Debt collection	Követelések behajtása
Declaration of insolvency	fizetőképzetlenség megállapítása
Default of payment	Nemfizetés, késedelmes fizetés
Default summons	Fizetési felszólítás, mulasztási felszólítás, végrehajtási rendelkezés
Delivery	Szállítmány, szállítás
Dilatory player	Rossz fizető
Disputes regarding goods and services delivered	Nézeteltérések a szállított árukkal és szolgáltatásokkal kapcsolatban, vitás
Distraint	Foglalás
Due date	Esedékesség napja, fizetés határnapja
Instalment	Részlet, részleges fizetés, részlet(ek)ben történő fizetés
Intentional late payment	Szándékosan késedelmes fizetés
Interest of delay	késedelmi kamat
Invoice	Számla
Late payment	Késedelmes fizetés
Limitation	Elévülés
Liquidity squeeze	Gyenge (feszült) likviditás
Means of payment	Fizetőeszköz(ök)
Payment order	Fizetési meghagyás
Payment term	Fizetésre nyitva álló idő, fizetési haladék
Payments received	Beérkezett fizetés, kapott fizetések
Pre-collection call	Telefonos fizetési felszólítás
Promise to pay	Fizetési ígéret
Refusal to pay	Fizetés megtagadása, nemfizetés
Reminder charges	Emlékeztető díja
Sales ledger	Számlakönyv
Suspension of deliveries	A szállítások felfüggesztése
Unpaid invoices/debts	Kifizetetlen számlák, esedékes számlák

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