VII. Exchange Arrangement and Capital Account Liberalization 1/

A detailed description of Hungary's exchange arrangements can be found in SM/95/51 (3/15/95). However, since then Hungary has implemented a number of liberalization measures that culminated in the acceptance of the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement on January 1, 1996. As a result, Hungary's exchange system became free of exchange restrictions on payments and transfers for current international transactions from that date.

On April 1, 1995 the surrender requirement for juridical persons of officially quoted convertible currencies was eliminated if the proceeds from exports or foreign loans were deposited in foreign currency accounts; otherwise, the surrender requirement remains in effect. In addition, export proceeds must be repatriated to Hungary immediately. From January 1, 1996, the tourism allowance was increased from US$800 per year to SDR 1,250 per trip abroad, and the amount of domestic currency that can be brought in or out of the country was significantly increased.

Moreover, a new foreign exchange law further reduced capital account restrictions on January 1, 1996. Most notably, foreigners were allowed to buy Hungarian securities with a residual maturity of greater than one year without requiring the permission of the National Bank of Hungary. In addition, no permission is now needed for outward equity investment, provided that an equity share of over 10 percent is acquired.

Hungary has taken further liberalization measures on capital account transactions starting on July 1, 1996 as part of its accession to the OECD. Most notably, foreign governments and firms are now able to issue bonds and shares in Hungary, although for the moment this has been restricted to governments of OECD countries and to OECD-registered firms with the highest credit rating (AAA). As of January 1, 1997, this privilege will be extended to OECD-based enterprises with investment grade rating. In addition, foreigners are now permitted to purchase Hungarian bonds and securities with an original maturity of 365 days or longer, irrespective of the remaining maturity.

The philosophy that appears to guide the banking regulations is that banks' investments abroad should be sufficiently liquid in case there is an urgent need for repatriating the foreign exchange. Thus, domestic banks can grant financial credits to nonresidents, but if these credits are for more than one year, permission from the Central Bank is still required. Domestic banks can grant commercial credits without limitations to nonresidents, and also buy securities abroad with maturity of less than one year. Prudential regulations apply to all these operations.

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Outward capital transfers by resident natural persons are generally liberalized in Hungary, except for the licensing of securities transactions noted above. Emigrants to OECD countries can take with them all their assets, but a ceiling of Ft 1 million applies for emigrants to other countries.

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