



EMN Legislative Mapping Report HUNGARY



November 2023

This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:

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- 7 Digital transformation



Regulation of Lending Activity

The lending activities in Hungary are regulated by the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises. The Act regulates the operation and lending activities of two types of profit-oriented money market operators: (1) commercial banks that are authorised to collect deposits and (2) financial enterprises who are not authorised to collect deposits. Both types of financial institutions are supervised by the Hungarian National Bank.

However an exception to Act CCXXXVII has enabled not-for-profit entities to engage in the provision of microfinance. The scope of the Act does not extend to microlending activities of the county and metropolitan enterprise development foundations (Article 2, 1, f).¹

This legal framework allows foundations to serve riskier clients with microcredits (e.g., those who lack an entrepreneurial track record or guarantee) while credit institutions and financial enterprises focus on safer clients to comply with the provisions of the Act protecting investors and depositors.²

The microcredit sector started in Hungary in 1992 thanks to the EU-funded PHARE Programme (Poland-Hungary Assistance for Restructuring the Economy). As part of the PHARE Programme, the Small and Medium Enterprises Development Programme was launched in Hungary through non-profit foundations with the participation of the Hungarian Enterprise Development Foundation (MVA) as a resource intermediary. In the framework of this initiative, microcredit is offered by foundations outside the scope of the financial market regulation. This legislative mapping report focuses exclusively on the regulatory requirements applied to these entities.

1. The scope of the Act does not extend to the activities of the Hungarian Enterprise Development Foundation to provide loans from the National Microcredit Fund. However, the Hungarian Enterprise Development Foundation does not currently provide microcredits due to a lack of funding, which is connected to the unavailability of the National Microcredit Fund.

2. It is worth noting that some financial institutions currently offer microcredit loan products but the type clientele served is very different compared to those served by foundations.

2

Supervisory Framework for Non-Bank Lending

In Hungary, the basic rules for the operation of foundations are established by Act V of the 2013 Civil Code and Act CLXXV of the 2011 right of association, the status of public benefit and the operation and support of NGOs. The operations of foundations are supervised by the Public Prosecutor's Office.

3

Products

Foundations only disburse business microloans. There are no rules regarding the products that can be offered under the current regulation with respect to maximum loan size or an interest rate cap (see point 5 below).

4

Incentives and Support

Microcredit is currently only provided through organisational equity as lending from banks is too expensive for foundations. However, government support is not available in the form of equity.

The current legislation provides tax incentives for individuals to support organisations operating in the form of foundations. Existing data show that microfinance foundations receive only a small fraction of this type of support.

5

Development of the Existing Framework for Non-Bank Microcredit Provision

According to Hungarian Microfinance Network (HMN) it would be important to settle the legal framework regarding the provision of microcredit. This will increase transparency and enshrine the primacy of social objectives in microcredit provision into law. In particular, the current legislation does not regulate:

- The concepts of microcredit and microlending or additional definitions necessary to interpret the legislation;
- The scope of activities for county and metropolitan enterprise development foundations with respect to microcredit and business development services;
- The general rules for microcredit activities; or,
- The designation of the appropriate authority to supervise microcredit providers.

To fill this legal gap, the Székesfehérvár Regional Enterprise Development Foundation (Fejér Enterprise Agency), which is the consortium leader of the HMN, has drafted a bill at the request of the Prime Minister's Office. A draft of the bill is available in the study, "[Improving microfinance in Hungary - Challenges and Opportunities - 2021-2027.](#)"

6

Inclusive Entrepreneurship and Microenterprise Development

There are several programmes that support microenterprises in Hungary. However, their characteristics differ significantly from microfinance. Moreover, in certain cases, the characteristics of schemes declared and transmitted by the government differ substantially in practice.

7

Digital Transformation

Hungarian foundations are required, like other companies in Europe, to implement GDPR on data protection. This can have an impact on online sales, marketing, and subsequent data management (security and storage).

Additional information on the impact of regulation on the digital transformation of MFIs is not available due to a lack of instructions in the law related to the implementation of microcredit activities.



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