

Bird & Bird

Setting up a business in Hungary

2025



Market entry

Potential restrictions

Generally, no restrictions apply to entities entering the Hungarian market. If a foreign entity/franchisor pursues economic activity in Hungary, it might be required to set up some form of local presence. There is no general restriction on foreign entities owning equity in a local business. However, acquiring shares in a Hungarian company pursuing certain 'strategic' activities and above certain thresholds is only valid with the approval of the competent Minister (FDI Approval) in addition to other regulatory clearance processes (e.g., competition clearance, banking regulatory clearance, etc.) that may apply, depending on the sector and the deal size.

EU and EEA-based individuals and entities, and entities that enjoy the same treatment under an international treaty, can acquire title to Hungarian non-agricultural real estate under the same conditions as Hungarian nationals. Other foreign individuals or entities may acquire Hungarian non-agricultural real estate if they obtain a permit granted by the county or metropolitan government office. However, no foreign party, whether a private individual or company, may acquire title or any other right to Hungarian agricultural land or protected natural areas. The same restriction applies to acquisitions by Hungarian subsidiaries owned by foreign investors.

There is no general restriction on a foreign entity granting development rights to a local entity, although the parties to such agreements must comply with competition law provisions and some specific sectoral rules may also affect the relationship.

Registration

There are no specific registration requirements for foreign entities or franchises. There are certain general registration requirements that may be relevant:

- for the purpose of pursuing economic activities in Hungary, everyone can freely establish a company or a branch office (please see below). Companies and branch offices are registered by registry courts;
- before a newly established company or branch office can be registered by the competent registry court and its tax number issued, a preliminary tax registration procedure is completed by the tax authority;
- after their registration by the registry court, companies and branch offices must apply for registration at the competent chamber of commerce and industry within 15 days;
- companies and branch offices must also open a Hungarian bank account at a financial institution. The financial institution will perform a KYC screening and will report data on the ultimate beneficial owner of the company to the Hungarian UBO system for anti-money laundering purposes; and
- if the company or the branch office pursues a specific activity, additional registration (e.g., at chambers or authorities) may be required.

Choice of legal entity

A foreign entity can carry out business in Hungary either by incorporating a Hungarian subsidiary company or by establishing a Hungarian branch office. Below is a brief overview of the main differences and similarities.

Setting up a business in Hungary

Company	Branch
<p>Recommended options:</p> <ul style="list-style-type: none"> limited liability company (in Hungarian: "Korlátolt Felelősségű Társaság" or "Kft.") or private company limited by shares (in Hungarian: "Zártkörűen Működő Részvénytársaság" or "Zrt."). <p>The two company forms are very similar in terms of privacy, internal organisational structure, and operation.</p> <p>The key difference, in addition to different capital requirements, is that the registered capital of a Kft. is divided into quotas, while the registered capital of a Zrt. is divided into shares. Essentially, the difference between shares and quotas is that shares are materialised either physically (printed shares) or via a securities account (dematerialised shares), whereas quotas are not.</p> <p>A quota is recorded in the member's list managed by the Managing Director of a Kft. One quotaholder may hold several quotas, which can represent various quotaholder's rights (including preferential rights).</p> <p>A shareholder of a Zrt. can hold multiple shares of different types (e.g., non-voting shares, various preferential shares, etc.). Because shares, either printed or dematerialised, must be created at the Hungarian Central Clearing House and Depository, establishing a Zrt. takes a bit longer than that of a Kft., although the registry court will register a Zrt. within the same deadline as a Kft.</p>	<p>Options:</p> <ul style="list-style-type: none"> branch office (in Hungarian: "külföldi vállalkozás magyarországi fióktelepe" or "fióktelep") or commercial representation (in Hungarian: "külföldi vállalkozás kereskedelmi képvisellete" or "képviselet") <p>Both branch offices and commercial representations are businesses run in Hungary by their foreign parent company and do not have a separate legal personality. Therefore, the parent company has full liability for the debts of these businesses and there is no capital requirement for their establishment. However, their registration in the company registry is mandatory.</p> <p>The key difference between a branch office and a commercial representation lies in the nature of their activities. A branch office can perform all the activities under its own name as any other company, as if it were a separate Hungarian legal entity. On the other hand, a commercial representation is only entitled to carry out the following activities under the name of the parent company: mediating, preparing, and concluding contracts, as well as providing information to business partners and maintaining communication with them.</p>
Limited liability at subsidiary level.	Parent company retains direct liability.
Separate legal entity to contract.	No separate legal entity. Parent accounts show Hungarian revenue.
<p>Minimum registered capital:</p> <ul style="list-style-type: none"> HUF 3 million (approx. EUR 7,300) in the case of a Kft. HUF 5 million (approx. EUR 12,100) in the case of a Zrt. 	There is no requirement for a minimum registered capital amount, but for a branch office the assets provided by the parent company for the operation of the Hungarian branch should be indicated in the accounts and in the company register.
General meetings do not need to be held in Hungary. No need to hold general meetings if owned by one single quotaholder/shareholder.	No need to hold general meetings.

Company	Branch
Managing Directors must be appointed, or a Board of Directors must be established. Directors do not need to be Hungarian nationals.	No need to appoint a branch manager, but a representative must be appointed. The representative must be employed at or posted to the branch or must work under a long-term service contract and reside in Hungary.
Hungarian company accounts to be filed and may need to be audited (exceptions may apply).	Parent company accounts may need to be filed.
Higher operational costs.	Lower operational costs.
Corporate income tax rate is 9%.	A branch office is obliged to pay 9% corporate income tax based on its business activities conducted in Hungary.
Can benefit from double tax treaties.	
Tax losses can be carried forward, subject to certain limitations.	



Corporate law

Because a Kft. is one of the most common company types used for business purposes, partly because it can be incorporated quickly and cost-efficiently, this brochure focuses on the incorporation and characteristics of a Kft. The Hungarian Civil Code¹ governs the most important aspects of Hungarian corporate law.

Corporate governance

A Kft. may be established by one single founder in which case the founder/sole quotaholder passes its resolutions in writing and has the right to instruct the company's directors to carry out its resolutions. A multiple member Kft. must hold general meetings and its directors cannot be instructed by the quotaholders, but the directors must observe the general meeting resolutions.

A Kft. is managed by one or more managing directors who, as a general rule, do not form a body or a board and act individually and independently from one another. However, it is possible to confer joint representation (and signing) rights to the managing directors, which means that one managing director needs at least one other to act on behalf of the company. The quotaholders may decide, however, to establish a Board instead of having managing directors. Also, a managing director of a Kft. can either be a private individual or a legal entity. If the managing directors or Board members are foreign persons, they occasionally need to travel and pass decisions in Hungary to prevent/mitigate tax domiciliation issues. Managing directors or Board members are subject to a special liability regime.

Managing directors or the Board may appoint one or more company managers (in Hungarian: "cégvezető") who are employees of the Kft. and whose task is to support the directors in carrying out their duties (including representing the company or signing on behalf of the company).

The shareholders may appoint a Supervisory Board consisting of at least three members, who are either private individuals or legal entities, with the duty of supervising the management's activity. A Supervisory Board is mandatory only if the annual average number of full-time employees employed by the company exceeds 200 and employee participation in the Supervisory Board has not been waived by the employees.

Capital requirements

A Kft.'s registered capital may consist of: (i) cash and/or (ii) in-kind contributions. There are no limitations as to the ratio of cash and in-kind contributions. Founders can pay their cash contributions at a later stage, i.e., there is no need to pay in the cash contribution at the incorporation. The deadline to provide the cash contribution is three months from the approval of the annual accounts of the second complete financial year from the date of the Kft.'s registration. However, if at least half of the capital contribution consists of in-kind contribution, the in-kind contribution must be provided to the company by the submission of the company incorporation application to the registry court. A Kft.'s registered capital can be denominated in HUF, as well as in EUR or USD. If the registered capital is denominated in a foreign currency, the company must keep its books and prepare its financial statements in the currency of its registered capital.

Auditor

The appointment of an auditor is mandatory if: (i) the anticipated average annual net turnover of the Kft. in the coming two financial years will exceed HUF 600 million (approx. EUR 1,450,000) or (ii) the anticipated average number of employees will exceed 50 on average during the coming two financial years.

Registered seat

Having a registered seat is obligatory for the incorporation of a Kft. The registered seat of a company is the office registered in the company register, where the official documents and correspondence addressed to it are kept and the documents specified by law are accessible to the authorities concerned. The easiest and quickest way to arrange for a registered seat in Hungary is to mandate a registered seat service provider. In the latter case, further additional services may be required by the seat service provider, such as accounting or delivery agency services.

Time of registration

Unless a supplementary filing is requested by the registry court, a Kft. is usually registered within one week (counting from the date the tax number is issued by the tax authority). If the Articles of Association are prepared based on a standardised form, the registry court must register the Kft. on the working day that follows the issuance of the tax number. The Kft. may start its operation (with

¹ Act V of 2013 on the Civil Code.

certain limitations) as soon as the Articles of Association are executed and can start its commercial activities once the incorporation documents are submitted to the court.

Registration fees

For a Kft. the registration is free of charge and there is a EUR 7 publication fee.

Banking & Finance

Regulatory overview

The provisions regulating the lending activity in Hungary are set out in various laws and regulations. Whether the lending activity consists of granting intercompany loans by the parent to its Hungarian subsidiary or vice versa, the credit and loan operations are generally regulated as financial services in the Banking Act². Additionally, the National Bank of Hungary (NBH) monitors and ensures the good practices of service providers. While the NBH's recommendations and opinions are not legally binding, it expects regulated entities to adhere to them.

Licensing requirement

Credit and loan operations embrace the lending activity in the traditional sense which extends to the assessment of the creditworthiness of the borrower, drafting of the finance documents, provision of moneys to the borrower, and monitoring the outstanding amounts of the disbursed loans, including the recovery operations.

Pursuing lending activity in a business-like manner in Hungary is subject to the licence issued by the NBH acting as the supervisory authority.

The lending activity is deemed to be carried out in a business-like manner if (i) it is a profit-oriented activity made for consideration (e.g. interest is paid on the loan), (ii) it is performed by the lender on a regular basis (e.g. the lender is providing loan funds under several transactions), and (iii) it includes transactions that have not been individually specified in advance. It must be examined on a case-by-case basis if the contemplated finance transaction falls within such criteria. If any of these conditions are not met, the lending activity will not qualify as an activity performed in a business-like manner, thus, it will not be subject to the licence of the NBH.

Also, even if the lending activity is performed in a business-like manner in Hungary, certain exceptions apply where it is not required to obtain the licence of the NBH (e.g. group financing).

Loan agreement

Since the cross-border finance transactions include parties from different jurisdictions, one of the key questions to decide is which country's law shall govern the finance documents. In case the borrower is a business association registered in Hungary, it is advisable that the parties choose the laws of Hungary to govern the loan agreement regulating the contemplated finance transaction for the easier enforcement by the lender of its claims against the borrower. In case the borrower is a foreign entity, and the loan agreement is governed by foreign law, it is usual practice to secure such loan agreement with Hungarian law governed collaterals granted by the Hungarian subsidiary of the borrower.

Collateral pool

The governing law of the collaterals may differ from that of the loan agreement. Based on private international law rules, Hungarian law shall govern collaterals to secure finance agreements if the assets of the borrower (or any third-party security provider) to be encumbered are located or situated in Hungary. Such collaterals in rem may be granted by Hungarian as well as foreign entities. The most standard types of collaterals in rem under Hungarian law are the following:

- mortgage and call option over real estate;
- floating charge over movable assets, rights and receivables (e.g. rent, insurance proceeds);
- pledge over individual movable assets;
- pledge and security deposit over bank accounts;
- pledge over ownership interests (e.g. shares, business quotas) held in a Hungarian entity; and
- pledge over intellectual property rights.

Also, the following types of collaterals in personam may be granted by Hungarian entities and natural persons:

- guarantee; and
- suretyship.

² Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises.

Employment law

Regulatory overview

Hungary has a rather employer friendly legislative framework in the European Union. This approach is somewhat counterbalanced by the Hungarian labour courts that are more lenient with employees. The most important labour law rules are set out in the Hungarian Labour Code³, which applies if the employee habitually works in Hungary. EU Directives are generally implemented into the Hungarian Labour Code, therefore, Hungarian labour law is mostly compliant with EU regulations and standards. Since the rules around terminations have become more complex in the latest Hungarian Labour Code modifications and entail more legal risk for the employer, it is recommended to seek legal advice before terminating employment relationships.

Basic considerations

The basic employment conditions must be agreed in a written employment agreement. Further, a job description and an obligatory information notice with statutory elements should be provided to the employees. In addition, it is typical that various internal policies of the employer also regulate the conditions of the employment (e.g., code of conduct, bonus policy, remote working policy, etc.), which should be appropriately communicated to the employees.

The employer and employee may also agree on special forms of employment such as telework, remote work, fixed term employment, part-time employment, etc. Employers may also engage employees via temporary work agencies which provide a certain flexibility in managing their workforce.

Employers should always consider whether a newly hired employee qualifies as an executive employee under the Hungarian Labour Code, since special rules apply to such employment relationships.

Employment of third-country nationals (i.e., except EU/EEA citizens) is typically subject to a work permit or residence permit for employment. As of 1 January 2024, the Hungarian legislator replaced the former act on the residence and employment of third-country nationals with new rules. The current regime provides employers and certain third-country nationals more flexibility and various exemptions from the otherwise strict rules. Experts

and political analysts expect a policy change and a return to a more stringent regulation in the near future.

Employees are protected by mandatory provisions of the Hungarian Labour Code in many aspects (for example, how the employment may be terminated lawfully by the employer, how working time may be scheduled for employees, maximum overtime, minimum annual leave entitlements, etc.), which should be respected by employers. Otherwise, they may be subject to adverse legal consequences (including fines) in case of a labour inspection procedure.

Working time, minimum wage

It is in the employer's discretion to determine the working schedule of each employee, within the limitations set out by the Hungarian Labour Code. The normal daily working time is eight hours, while the normal weekly working time is 40 hours with a two-day or 48-hour weekly rest period and, according to the general working schedule, daily working hours are normally scheduled evenly for five working days from Monday to Friday. Many employers in the retail & consumer sector apply reference periods (in Hungarian: "munkaidőkeret"), instead of the general working schedule outlined above, in which case the employer is allowed to schedule daily working time and weekly rest periods unevenly, providing more flexibility for the employer to organise working time.

In relation to the allocation of working time, the Hungarian Labour Code also sets out complex salary supplement rules, for example, in case the employee is scheduled to work overtime, in shifts, at night, on a weekly rest period, on Sundays and on public holidays. If an employer applies reference periods, it is recommended to engage payroll specialists that keep track of the working schedules, salary supplements and leave entitlements of the workforce.

In 2025, the gross mandatory minimum wage is HUF 290,800 (approx. EUR 700), while the guaranteed minimum wage (minimum wage for graduates) is HUF 348,800 (approx. EUR 850).

Collective bargaining and employee representation

Employees are entitled to form trade unions or works councils. Trade unions and employers may conclude collective bargaining agreements.

³ Act I of 2012 on the Labour Code.

Employees rarely take advantage of these opportunities.

Health and safety

Hungarian health and safety regulations prescribe various obligations for the employers, including providing information on health and safety to employees, securing a healthy and safe work environment, and conducting risk assessments.

Other

Currently, the Hungarian labour market faces a reduction in job opportunities and a rising rate of unemployment. Employers typically seek to fill vacancies with employees already employed by the company and employees are more reluctant about changing jobs.

Intellectual property

Hungarian law protects all traditional types of intellectual property, such as copyright, trademarks, designs, patents and trade secrets, and this area of law is largely harmonised with EU legislation.

Brand search

The Hungarian Intellectual Property Office (HIPO) – as well as the European Union Intellectual Property Office (EUIPO)⁴ – maintains an online database of all Hungarian and EU-registered intellectual property (IP) rights, such as trademarks, patents and design rights. The HIPO also operates a voluntary register for copyrighted works.

Before considering the use of a sign or device as a brand identifier, conducting a search in the HIPO and EUIPO databases is recommended. The search should cover not only the identical, but also the possible similar versions of the proposed sign to avoid any potential conflict with earlier registered rights and cancellation of the chosen trademark.

Although the existence of a company name does not hinder the registration of a similar or identical sign as a trademark, a preliminary assessment should include a search of the company register for any commercial and company names that have been in the market for a long time and may cause problems in the future. Notably, identical company

names will not be registered into the company register, which is why a search is also essential before settling on a company name. The principal data on Hungarian companies, including company names, is freely accessible through the online company register.

Any conflicting or earlier online presence can be identified by searching in the official .hu (dot hu) domain registry operated by the Council of Hungarian Internet Providers. As the Hungarian language uses accented letterforms (á, é, í, ó, ő, œ, ú, ü, ű) and such use is also allowed in domain names, a search for variations is strongly recommended to avoid cybersquatting.

Brand protection

A Hungarian trademark is obtained through registration with the HIPO. A sign can be registered as a Hungarian trademark, a European Union trademark or as an international trademark designating Hungary under the Madrid Agreement of 1891 Concerning the International Registration of Marks and the Madrid Protocol of 1989.

The use of a sign does not create trademark protection in Hungary; a trademark must be registered. The procedure for registering a trademark begins with filing a trademark application with the HIPO or the EUIPO. As a general note, all signs that are devoid of distinctive character are excluded from trademark protection and the HIPO has a rather strict practice when assessing descriptiveness. Thus, choosing the right brand or name is crucial for securing IP protection. Registration is granted for 10 years and may be renewed without limitation.

Design protection

Grants legal protection for the appearance of a product. Design protection is granted for any design that is new on a worldwide level and has individual character, and for which there are no grounds for refusal that exclude it from protection. Design protection is obtained by filing a design application with the HIPO, with the EUIPO or by filing an international application under the Hague Agreement Concerning the International Deposit of Industrial Designs. The term of design protection is five years, which may be renewed four times for an

⁴ <https://euipo.europa.eu/eSearch/> - The European Union Intellectual Property Office maintains a register on European Union trademarks and registered community designs. EUIPO also maintains TMView

(<https://www.tmdn.org/tmview/#/tmview>) and DesignView (<https://www.tmdn.org/tmdsview-web/#/dsview>) where national and international registrations are also listed.

additional five-year period each time (i.e., for 25 years altogether).

A licence for the use of a trademark or design must be given in writing, and to gain effect against third parties, it must be registered with the relevant registry (i.e., the HIPO or the EUIPO).

To complete online presence in Hungary, domain names under the Hungarian .hu top-level domain may be registered according to the Domain Registration Rules and Procedures of the Council of Hungarian Internet Providers.

Use of certain names, landmarks and copyright protected works

Use of city names, such as Budapest, are usually subject to a permit of the local municipality and possibly a fee. For landmarks or buildings, the use of outlines or pictures are in principle subject to the consent of the copyright holder. Certain exemptions may apply (e.g., panorama exemption), however due diligence is recommended prior to any commercial use. For some specific landmarks, e.g., the Parliament Building, a special consent is a must, which can be obtained from the Office of the Hungarian Parliament. The request is subject to a fee.

Data protection

General rules

The rules of the EU General Data Protection Regulation (GDPR)⁵ apply to the processing of personal data by data controllers or processors, if any of these have a presence in the EU, regardless of whether the processing takes place in the EU. Moreover, the GDPR applies to the processing of personal data of data subjects in the EU even if the controllers or processors, are not established in the EU, but their processing activities are related to: (1) offering goods or services, irrespective of whether or not connected to a payment; or (2) monitoring the behaviour of such data subjects, as far as their behaviour takes place within the EU.

However, all businesses established in Hungary must pay special attention to additional Hungarian legislation when processing personal data.

Pursuant to the Hungarian Civil Code, the making and use of any image or sound recording of a data subject requires its consent.

Employment related data processing

The Hungarian Labour Code regulates the processing of employees' personal data in the course of an employment relationship. It provides that an employer may only require an employee to provide personal data that is relevant to the establishment, performance, termination (cessation) of the employment. In the case of camera surveillance (CCTV) and device monitoring at the workplace, the Hungarian data protection authority (National Data Protection- and Freedom of Information Authority; the NAIH) has issued strict guidelines that need to be followed by employers in Hungary.

Privacy rules related to government agencies

If a company acts as a data controller for government agencies, certain special rules⁶ apply in relation to the protection of electronic information systems of the data controller. These include stringent information security and data localisation requirements.

Deviations from the GDPR

For certain data processing activities not covered by the GDPR, the provisions of the Information Act⁷ apply. The Information Act in certain aspects deviates from, and in others complements, the GDPR. Therefore, in Hungary, it is not sufficient to merely comply with the data processing rules as set out in the GDPR.

E-commerce service providers

The provider of information society services may only process personal data collected from users of a service for purposes technically necessary for providing that service.⁸ Other uses that are

⁵ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

⁶ See Act L of 2013 on electronic information security in state and local government bodies.

⁷ Act CXII of 2011 on the right to information self-determination and freedom of information.

⁸ See Act CVIII of 2001 on certain aspects of electronic commerce services and information society services.

technically not necessary for providing the service e.g., increasing the efficiency of the service, delivering electronic advertising or other addressed content to the user or market research can only be performed with the prior definition of the purpose of data processing and with the consent of the user.

Direct marketing

Advertisement may be communicated to a natural person as the recipient of the advertisement by means of direct solicitation (direct marketing), by electronic mail or other equivalent means of individual communication, only if the recipient of the advertisement has given prior, clear and express consent.⁹

Legal consequences

The GDPR imposes obligations on the controller and the processor regarding the documentation of data processing activities and transparent communication with data subjects, such as maintaining records of data processing, submitting data breach notifications or data protection impact assessments and obligations regarding the handling of data subjects' requests.

We strongly recommend paying special attention to privacy matters and seeking adequate legal advice, because if a company fails to comply with the GDPR, the authorities can impose extraordinarily high fines (up to EUR 20 million or up to 4% of the total global annual turnover for the preceding financial year, whichever is higher). The highest data protection fine in Hungary so far is HUF 250 million (approx. EUR 600,000) imposed by the NAIH on a bank, for the unlawful use of artificial intelligence.

Pursuant to the GDPR, any transfer of personal data to a third country or an international organisation can only take place if: (1) the European Commission has decided that the third country (or a territory or one or more specified sectors within that third country) or the international organisation in question ensures an adequate level of protection; or (2) the controller or processor has provided appropriate safeguards, and on condition that enforceable data subject rights and effective legal remedies for data subjects are available. If these conditions are not met, a transfer of personal data to a third country or an international

organisation can only take place subject to one of the special conditions set out in the GDPR.

E-commerce and social media

This area is primarily regulated by the general provisions of civil law, as well as the E-Commerce Act¹⁰ and the Unfair Commercial Practices Act.¹¹

The E-Commerce Act is fully harmonised with the related EU laws and regulates: (1) the service provider's obligations on the provision of data, (2) the service provider's liability, (3) the conclusion of contracts via electronic means and (4) the rules concerning electronic advertisements.

In relation to IP rights and know-how, the provisions of the Trademark Act, Copyright Act,¹² Patent Act¹³ and Trade Secret Act¹⁴ may apply.

The Hungarian Competition Authority has issued basic guidelines on social media content that is sponsored or endorsed in any way, and these serve as a cornerstone for all market participants. The Hungarian Competition Authority strictly assesses and enforces compliance with these guidelines and is not reluctant to impose fines for severe irregularities; in particular, where: (1) the 'paid-for' nature of social media is not communicated simply, clearly and unambiguously (i.e., the sponsored product or company must be clearly indicated as such in the content) and in a way that is emphasised, easily noticeable and understandable by consumers (the *#reklam*, or *#advertisement*, hashtag must preface the content description; or (2) the content is not an independent, neutral opinion or offer, but is in fact also paid for or the result of some other direct economic interest.

General prohibitions/restrictions on advertising and unfair commercial practices

Commercial advertising in this context means any form of communication, information or display aiming or having the direct or indirect effect of promoting the supply of goods. Hungarian law is

⁹ See Act XLVIII of 2008 on the basic conditions and certain limits of economic advertising activities.

¹⁰ Act CVIII of 2001 on certain issues of electronic commerce services and information society services.

¹¹ Act XLVII of 2008 on the prohibition of unfair commercial practices towards consumers.

¹² Act LXXXVI of 1999 on copyright.

¹³ Act XXXIII of 1995 on the protection of inventions by patents.

¹⁴ Act LIV of 2018 on the protection of trade secrets.

largely harmonised with EU laws in this area which is therefore highly regulated.

General prohibitions

advertising is prohibited

- if it contains violence, or if it encourages any conduct that is likely to endanger personal or public safety;
- if it encourages any conduct that is likely to endanger the natural or man-made environment;
- if it is capable of harming the physical, intellectual or moral development of children and young persons;
- if it displays sexuality in a gravely indecent manner (pornographic advertisement);
- for goods whose production or marketing is illegal;
- if it is a covert advertisement;
- for free gifts, discounts, bonuses, financial advantages and draws relating to direct sales of goods.

Unfair commercial practices

A commercial practice is considered unfair if: (i) the person carrying out the commercial practice does not act with reasonable professional knowledge and with due diligence pursuant to the principle of good faith and honest market practice; and (ii) it materially distorts or is likely to materially distort the opportunity of an average consumer to make an informed decision in possession of the necessary information concerning the product and thereby causes or is likely to cause the consumer taking a decision that the consumer would not have taken otherwise.

Unfair commercial practices in general are as follows:

- misleading advertisement;
- aggressive commercial communication;
- comparative advertisement;

- other type of unfair commercial practices listed under “black list” practices in the Unfair Commercial Practices Act.¹⁵

“Green Marketing” as recent focus area

The Hungarian Competition Authority has a “Green Marketing” guidance assisting companies in developing appropriate advertising practices regarding the environmentally friendly and sustainable nature of their products and services by summarising the criteria to be kept in mind when designing advertisements and sets out, *inter alia*, the requirements for providing proof of certain typical green claims (e.g. “recyclable”, “bio”, “organic” or “biodegradable”) and the legal framework of using certification marks. In early 2024, the Hungarian Competition Authority conducted a ‘sweep’ investigation into green claims on the Hungarian market, which led to opening investigations.

The Hungarian Competition Authority operates an online price monitoring database introduced in 2023 to monitor pricing behaviours of market players in the food retail sector. This database is promoted by the authority as an efficient tool to deal with food price inflation.

Competition law

General prohibition to restrict competition

The Competition Act is fully harmonised with Article 101 of the TFEU and further related EU regulations. Accordingly, it sets out that: (1) agreements; (2) concerted practices between undertakings; and (3) decisions by social organisations of undertakings, public corporations, associations or other similar organisations that have as their object or potential or actual effect the prevention, restriction or distortion of competition are prohibited.

Exceptions

An exception to this general prohibition is set out in the EU Vertical Block Exemption Regulation¹⁶ and its Hungarian equivalent regulation.¹⁷ This exception applies to vertical agreements

to categories of vertical agreements and concerted practices.

¹⁷ Government decree no. 306/2022. (VIII. 11.) on the exemption of certain groups of vertical agreements from the prohibition of competition restrictions.

¹⁵ Act XLVII of 2008 on the prohibition of unfair commercial practices towards consumers.

¹⁶ Commission Regulation (EU) 2022/720 of 10 May 2022 on the application of Article 101(3) of the Treaty on the Functioning of the European Union

concluded between a group of companies and its members, or between such group and its suppliers, if all its members are retailers of goods and if no individual member of the group, together with its affiliated companies, has a total annual turnover exceeding the sum of Hungarian forints equalling EUR 50 million. The exemption, however, applies only if the agreement's aim is not to restrict competition and the parties are not competitors concerning the production of goods or the provision of services. Finally, to be exempted, the market share of the parties may not exceed 30% on the relevant market.

There are several scenarios where agreements may not be granted exemption from the prohibition. For example, agreements or practices to fix prices or division of the market are prohibited and cannot be exempted. It is important to note that compliance with competition law must be assessed by the parties themselves. Improper formulation of agreements may entail significant legal risks. Therefore, it is strongly recommended to seek proper legal advice and prepare an economic analysis on a case-by-case basis.

ESG

Hungary adopted the new ESG Act¹⁸ in December 2023, laying down the rules for ESG due diligence obligations and incorporating sustainability reporting obligations for subject companies. The ESG Act has implemented the CSRD Directive (Directive (EU) 2022/2464) into Hungarian national law.

Subject companies

The ESG Act applies to the following companies headquartered in Hungary:

- Large companies of public interest, which, on the balance sheet date of the financial year preceding the business year, exceeded any two of the following three indicators: (1) balance sheet total of HUF 10 billion (approx. EUR 25 million), (2) annual net revenue of HUF 20 billion (approx. EUR 50 million), (3) an average number of employees of 500.
- Large companies which, on the balance sheet date of the financial year preceding the business year, exceeded any two of the following three indicators: (1) balance sheet total of HUF 10 billion (approx. EUR 25 million),

(2) annual net revenue of HUF 20 billion (approx. EUR 50 million), (3) an average number of employees of 250.

- Small and medium-sized companies of public interest.

Companies of public interest means those companies whose transferable securities are admitted to trading on a regulated market of any Member State of the EEA, and any other companies designated by law as public-interest entities, which are of significant public relevance.

Obligations under the ESG Act

Companies must establish a sustainability-focused risk management system and conduct regular risk assessments, which must be extended not only to their own operations but also to their entire value chain, including their suppliers. Additionally, an ESG strategy must be developed, identifying the relevant social responsibility and environmental areas, and creating an ESG data collection and measurement system for the identified areas. Companies must also prepare an annual ESG report, have it audited by an ESG certifier, and publish it on their website within six months after the end of the financial year. The first report must be prepared (i) for the 2024 financial year by large companies of public interest, (ii) for the 2025 financial year by large companies and (iii) for the 2026 financial year by small and medium-sized companies of public interest. With the amendment of the Hungarian Accounting Act¹⁹ certain companies are also obliged to prepare a sustainability report and deposit it beside the ESG report after the annual audit.

Supervision and regulatory control

The Supervisory Authority for Regulated Activities monitors the adequacy of companies' compliance with sustainability-related due diligence obligations and the transparency of ESG data reporting processes in terms of sustainability issues. In case of non-compliance, the authority may impose administrative fines starting from 2026. The authority also maintains a register of companies subject to ESG data reporting obligations, ESG certifiers, ESG consultants, companies distributing and manufacturing ESG software in Hungary, ESG raters, and companies subject to ESG data reporting obligations that have business

¹⁸ Act CVIII of 2023 on the rules of corporate social responsibility that promote sustainable financing and unified corporate responsibility, taking into

account environmental, social, and societal aspects, and on the amendment of related laws.

¹⁹ Act C of 2000 on accounting.

relationships with state bodies or state-owned companies.

Financing aspects

The National Bank of Hungary (the “NBH”) issued a recommendation on the questionnaire assessing ESG information in credit risk control and management. According to the recommendation, financial institutions will be required to assess the ESG risks of companies applying for corporate loans before granting the loan, as they will have to use the established standardised questionnaire. The NBH developed the questionnaire in cooperation with the Supervisory Authority for Regulated Activities, which oversees compliance with ESG reporting under the Hungarian ESG Act. The regulatory requirement will apply to corporate loans exceeding HUF 500 million (approx. EUR 1,200,000) from July 2025, with progressively lower thresholds in subsequent years.

Dispute resolution

Commercial disputes are mostly referred to ordinary Hungarian courts. More complex commercial agreements or those that are based on a standard form often contain arbitration tribunals as forums for resolving disputes. While mediation is a recognized form of alternative dispute resolution, it is not mandatory under Hungarian law and parties are usually reluctant to choose this method for resolving their disputes.

Ordinary courts vs arbitration

Under the Hungarian Civil Procedure Code,²⁰ companies can file claims with ordinary courts without an obligation to attempt resolution by way of mediation. Ordinary court proceedings, including first and second instances, may last for several years, although the aim of the Hungarian Civil Procedure Code is to increase the efficiency of civil proceedings. To this end, the Hungarian Civil Procedure Code applies a bifurcated structure to the procedure (a so-called pre-trial phase and a merits phase) and requires mandatory legal representation before the courts of general jurisdiction and in appellate proceedings to increase professionalism.

As a general rule, litigation costs, e.g., filing fees, attorney fees, travel expenses, etc., have to be borne by the losing party to the litigation. These costs are not statutorily capped; however, excessive attorney fees and court costs may be reduced by the court. Ordinary courts recognise

and enforce foreign choice-of-law or jurisdiction clauses, if the clauses comply with relevant Hungarian laws and EU laws, especially if these are not against public order or mandatory Hungarian legislation.

Under the Hungarian Arbitration Act,²¹ parties are free to submit to arbitration for almost every type of commercial dispute (one of the exceptions is when a party is a consumer). Parties are entitled to stipulate the jurisdiction of either a domestic or an international arbitral institution (e.g., the Arbitration Court attached to the Hungarian Chamber of Commerce and Industry, ICC, LCIA, etc.) or to submit their dispute to an ad hoc arbitration tribunal. Arbitral awards have the same legal effect as the final decision of ordinary courts. Therefore, the parties have no right to file an appeal against an arbitral award and may only initiate set aside proceedings under extraordinary circumstances (e.g., violation of the right to be heard, etc.). In general, arbitration proceedings are faster and more commercially minded than ordinary court proceedings. However, in most of the cases, the total costs of arbitration proceedings are significantly higher than those of ordinary court proceedings.

Preliminary injunction

A request for preliminary injunction/interim relief is available in Hungary under certain circumstances. Such circumstances are: (1) to prevent a change in the status quo, if subsequent restitution would not be possible; (2) to safeguard the applicant's subsequent exercise of rights; (3) to prevent imminent damages the applicant may be exposed to; or (4) in other exceptional circumstances (especially in case of imminent infringement of an IP right). Regardless of which of these grounds are relied on, there is an additional general precondition: the disadvantages caused by the injunction should not exceed the advantages achieved. A request for injunction can be filed before a claim is filed with the court. In this case, the applicant must file its claim within a maximum of 45 days after an injunction is granted. Parties, of course, can file a request for a preliminary injunction together or even following the filing of their main claim. The court decides on such request in expedited proceedings and usually issues a ruling within two to three weeks.

Enforcement of foreign decisions

To enforce foreign ordinary court judgments and arbitral awards, the following requirements must be

²⁰ Act CXXX of 2016 on the Civil Procedure Code.

²¹ Act LX of 2017 on Arbitration.

met: (1) a foreign court must have jurisdiction over the subject matter; (2) that court's decision must be legally binding or have equivalent effect; and (3) the decision must meet none of the grounds for refusal, such as violation of public order.²² Hungarian courts readily recognise foreign arbitral awards from other member states of the New York Convention,²³ although violation of Hungarian public order may serve, inter alia, as grounds for refusal.

Tax

Corporate income tax (CIT)

Hungarian tax resident companies are subject to 9% CIT on their worldwide income, while non-resident companies are taxed only on their Hungarian source income. A company is resident in Hungary for CIT purposes if it is incorporated under Hungarian law and has its place of management in Hungary.

A foreign company is also deemed to be resident in Hungary if its place of effective management is in Hungary. The taxable income of both resident and non-resident corporate taxpayers is based on the pre-tax profit calculated in the profit and loss statement prepared in accordance with the Hungarian accounting or IFRS rules.

Hungary has tax treaties in place with dozens of countries. Therefore, Hungarian taxpayers can often benefit from tax treaty protection in their cross-border operation.

Withholding tax

No withholding tax is levied in Hungary on dividends and interest payments made to corporate entities. In certain cases, subject to conditions and limitations, Hungary levies withholding tax on capital gains realized on the sale of shares in companies owning Hungarian real estate.

Transfer pricing

Transfer pricing regulation in Hungary follows the concept of the OECD and in certain cases imposes the obligation to prepare transfer pricing documentation on associated enterprises to prove the arm's length nature of their internally applied prices.

Local business tax

In addition to CIT, local business tax (LBT) is imposed by local municipalities where the company has its registered seat or permanent establishment for LBT purposes. The base of the LBT is the net sales revenue, adjusted with certain tax base decreasing items. The LBT rate varies between 0% to 2%, depending on the local regulation of the local municipalities.

Real estate tax

Acquisition of Hungarian real estate, or certain rights to Hungarian real estate, or shares of companies qualifying as Hungarian real estate holding entities under the Hungarian tax regulation may be subject to 4% or 2% transfer tax (capped at approx. EUR 480k per plot as registered in the land registry).

VAT

The Hungarian value added tax (VAT) regulation is consistent with the EU VAT Directive. The general VAT rate in Hungary is 27%. In addition to this general tax rate, two reduced tax rates (5% and 18%) apply to certain products and services.

Global minimum tax (GloBe)

In addition to CIT, global minimum corporate income tax is also levied on certain taxpayers in line with EU Directive 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the European Union, if, as a general rule, their consolidated income is equal to or exceeds EUR 750 million in at least two of the four tax years preceding the tax year in question. The aim of GloBe is to limit harmful tax competition by ensuring a minimum of 15% taxation on the profit in the case of the relevant enterprise groups. For calculating the effective tax rate CIT, LBT, innovation contribution and the so-called 'Robin Hood tax' are recognised as covered taxes.

Other

Hungary also levies various industry specific or minor taxes, such as innovation contribution tax, occasional extra profit taxes, environmental tax, etc.

²² Act XXVIII of 2017 on Private International Law.

²³ United Nations Convention on the Recognition and Enforcement of Foreign Arbitration Awards,

implemented into Hungarian law by Law Decree No. 25 of 1962.

Your contacts



Pál Szabó

Partner

+3613018926
pal.szabo@twobirds.com



Bálint Halász

Partner

+3613018903
balint.halasz@twobirds.com



László Nanyista

Partner

+3613018907
laszlo.nanyista@twobirds.com



Thank you

twobirds.com

Abu Dhabi • Amsterdam • Beijing • Bratislava • Brussels • Budapest • Casablanca • Copenhagen • Dubai
• Dublin • Dusseldorf • Frankfurt • The Hague • Hamburg • Helsinki • Hong Kong • Lisbon • London
• Lyon • Madrid • Milan • Munich • Paris • Prague • Riyadh • Rome • San Francisco • Shanghai
• Shenzhen • Singapore • Stockholm • Sydney • Tokyo • Warsaw

The information given in this document concerning technical legal or professional subject matter is for guidance only and does not constitute legal or professional advice. Always consult a suitably qualified lawyer on any specific legal problem or matter. Bird & Bird assumes no responsibility for such information contained in this document and disclaims all liability in respect of such information.

This document is confidential. Bird & Bird is, unless otherwise stated, the owner of copyright of this document and its contents. No part of this document may be published, distributed, extracted, re-utilised, or reproduced in any material form.

Bird & Bird is an international legal practice comprising Bird & Bird LLP and its affiliated and associated businesses.

Bird & Bird LLP is a limited liability partnership, registered in England and Wales with registered number OC340318 and is authorised and regulated by the Solicitors Regulation Authority (SRA) with SRA ID497264. Its registered office and principal place of business is at 12 New Fetter Lane, London EC4A 1JP. A list of members of Bird & Bird LLP and of any non-members who are designated as partners, and of their respective professional qualifications, is open to inspection at that address.