

## Questions and Answers Regarding Financing

**MR. SALANS:** Could Dr. Salusinszky describe briefly how Western partners in industrial cooperation contracts or in joint ventures can look to Eastern banks such as your own to help finance these projects? In other words, to what extent can Western partners look to the Eastern banks to help finance these investment projects?

**DR. SALUSINSZKY:** Banks in our country act just as banks in yours. They are giving guarantees to foreign investors and they are financing their Hungarian clients, both for local expenses and expenses in foreign countries. Let us say there is an American partner and a Hungarian partner and the bank of the American partner gives financing to this client and receives the guarantees of the Hungarian bank, which is one thing we do. Now the Hungarian partner gets financing from his bank (which can be the National Bank of Hungary, the Hungarian Foreign Trade Bank, and in certain cases, a third bank, which in Hungary is financing local expenses through State budget means, and which is called the State Development Bank), but besides that, the Hungarian bank may lend the Hungarian some additional external financing to finance expenses in a third country, not in the United States and not in Hungary, but, say, in France.

**QUESTION:** Dr. Salusinszky: How do you fix the interest rate?

**DR. SALUSINSZKY:** There has been a change in our attitude concerning rate of interest that took place a few months ago. Previously in Hungary there was a fixed rate of interest which varied between 6 and 8 percent, depending on the character of the transaction and also the period of credit granted. This was quite independent from the rates of interest prevailing on the Western money market. Now there has been a change, so that this Hungarian basic rate changes according to the changes that take place on the Western money market, within a spread established not to exceed the local rate by more than 1½ percent. But within this 1½ percent, who gets the money cheaper, and who has to pay more? Those who, when investing, create through their investment some additional possibility of getting additional convertible foreign exchange, get a lower spread, say, 1 percent; whereas others don't get such a preference and they have to pay the basic rate plus 1½ percent.

**QUESTION:** If I understand correctly, you said you make loans directly to the joint venture entity itself, is that correct?

**DR. SALUSINSZKY:** Well, yes. We make both. We might grant the credit to our Hungarian client or to the joint venture, or "association," as we call it. The law

permitting joint ventures says, in paragraph 10(2), that the "association" may raise credits in accordance with regulations applicable to the Hungarian economic organizations. Of course, joint ventures are brand new and neither of the first two joint ventures has as yet asked us for financing, but we would be prepared to lend to both of them.

QUESTION: What does Volvo do in its new joint venture in Hungary? I thought your joint venture legislation did not allow manufacturing.

DR. SALUSINSZKY: I simply refer to the Decree. It says that the joint venture itself does not become owner of the means of production, but is absolutely free to make a contract with a producing plant, and that is true in the specific case of Volvo. This joint venture is not producing itself, but it has a contract with a Hungarian company that is producing, making use of certain parts and other materials coming from Sweden, adding to its local Hungarian production, and the contract between this Hungarian factory and the joint venture contains certain clauses that put the joint venture in such a position that Volvo is able to exercise the rights an owner would be able to exercise. It only depends on the clauses. Here attorneys have a great deal of work to do, how to make the wording of these clauses. Legislation gives them absolute freedom with due respect for the prevailing Hungarian laws, of course. For instance, such a joint venture, in making a contract with a Hungarian plant, can also have "Articles of Association" containing stipulations that the representative of the joint venture has a veto right affecting in the last analysis the work of the plant producing the equipment or machinery, while is the essential purpose of the joint venture.

QUESTION: Dr. Salusinszky, I know that you have participated in a number of negotiations of international cooperation agreements. I wonder if you have any practical observations to those of us who intend to do so in the future?

DR. SALUSINSZKY: I will give a funny observation. You should act in a less bureaucratic way. Somebody mentioned yesterday that it is so difficult to get along with some countries in this area of the world because the negotiators do not have authority to make binding decisions, and must always consult with someone before deciding. I can tell you that sometimes "the shoe is on the other foot," as you would say.

QUESTION: Dr. Salusinszky, could you comment just roughly upon the relationship between the loan demand, say in your country internally, as opposed to the availability of funds, bearing in mind the fact that one of the questions our clients would have is the availability of funds that would affect their own financing by the extent of the surplus of these funds, or whether intense rationing of funds by your own banks—

DR. SALUSINSZKY: Yes, establishing a link between the national income and the volume of investments. The government annually establishes a platform for loans to be granted and for loans to be contracted. We never make full use of our possibilities of borrowing money abroad. The possibilities of Hungarian banks of

borrowing money exceed by far our actual making use of these possibilities. We don't make use of all of our external possibilities, and we of course put a limit upon our internal possibilities of granting credits. Now, there is a close link between this limit and the national income of the country and the foreign trade turnover of the country; and, of course, within this limit we make selections, based upon profitability, importance of the business, goodwill and trustworthiness of the client. I think that is very similar to the point of view represented by an American banker.

