



European Commission

# Early restructuring and a second chance for entrepreneurs

November 2016

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## Hungary Country fact sheet

**Every year in the EU, 200 000 firms go bankrupt, resulting in over 1.7 million people losing their jobs.**

A well-functioning insolvency framework is essential to support growth and business creation. That is why the European Commission is putting forward modern and streamlined insolvency rules that will facilitate restructuring, give businesses a second chance and improve the efficiency of restructuring, insolvency and debt discharge procedures.

### The proposed approach is expected to:

- ✓ Cut down the number of jobs lost due to bankruptcy;
- ✓ Bring more legal certainty for cross-border investors;
- ✓ Turn bad debt into performing credit to facilitate lending;
- ✓ Allow entrepreneurs to restart business activities, to keep innovation going and create an additional three million jobs across the EU.

### What is the situation currently in Hungary? <sup>(1)</sup>

#### Effectiveness of insolvency proceedings

25

Hungary ranks 25<sup>th</sup> among EU Member States when it comes to the effectiveness of its insolvency proceedings.

#### Average length of insolvency proceedings (years)

HU 2.0

EU 2.0

#### Recovery rate for secured creditors following insolvency proceedings

HU 43.0%

EU 65.0%

► The most likely outcome for debtors in financial difficulty in Hungary is **liquidation**.

<sup>(1)</sup> All figures are according to the World Bank report, *Doing Business 2017: Equal Opportunity for All*: <http://www.doingbusiness.org/%7E/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>.

## What will the new rules improve?

The situation today in Hungary <sup>(?)</sup>	With the new rules
<p>There are certain formal requirements that may deter debtors from early access to restructuring.</p>	<p>✓ Viable companies in financial difficulties can have easier access to <b>flexible restructuring frameworks</b> that can reduce the length and cost of court proceedings. Where necessary, the courts must be involved to safeguard the interests of third parties. The appointment of an insolvency practitioner should not always be mandatory.</p>
<p>Dissenting minorities of creditors that do not have a legitimate interest (out of the money) can unfairly obstruct the restructuring process.</p>	<p>✓ <b>Dissenting classes of creditors and shareholders can be outvoted</b> under strict conditions in order not to jeopardise restructuring (cross-class cram-down), while safeguarding their legitimate interests. Rules on valuation can ensure fair protection for dissenting parties.</p>
<p>New financing for companies in the process of early restructuring is not sufficiently and specifically protected.</p>	<p>✓ Access to fresh money is vital for the rescued company. <b>New financing can be specifically protected</b> increasing the chances that restructuring will be successful.</p>
<p>Discharge periods can be up to 5 years and in exceptional cases up to 7 years. There is a repayment obligation of 50% of debt.</p>	<p>✓ Honest over-indebted entrepreneurs will have access to <b>a full discharge of their debt after a maximum period of 3 years</b> and any repayment obligation will have to be adapted to individual circumstances. There will be adequate safeguards to prevent abuse.</p>

<sup>(?)</sup> Information on current framework according to the Member States' responses on the implementation of the 2014 Commission Recommendation, an INSOL Europe Study of January 2014 and a comparative legal study carried out by the University of Leeds of January 2016.