

Factoring in Hungary: a liquidity solution and regulatory challenge

5 December 2024

Factoring has emerged as an essential financial solution for businesses in Hungary, offering a fast and flexible way to maintain cash flow and bridge liquidity gaps, especially for those with extended payment terms in sectors like agriculture, manufacturing and logistics. However, navigating Hungary's complex regulatory landscape can pose challenges for companies seeking to use factoring to its fullest potential. With options like silent factoring available to help preserve client relationships and a need for thorough understanding of local laws, businesses can benefit significantly from a strategic approach. This article explores the advantages of factoring in Hungary, along with key regulatory considerations to ensure compliance and stability in companies' financial operations.

As a financial solution, factoring and other receivables financing options are gaining strong momentum in Hungary - and it's easy to see why. As a flexible and fast solution, factoring enables businesses to manage liquidity effectively, particularly those with extended payment terms of 30, 60 or even 90 days, which is common in the aforementioned sectors of agriculture, manufacturing and logistics. Factoring allows companies to secure revenue in advance while still offering favourable payment terms to clients, providing a crucial competitive advantage. Furthermore, many factoring firms take on debt management and legal proceedings for clients, thus reducing administrative burdens and helping businesses run smoothly.

Factoring can be utilised as a one-time solution, but its true benefit lies in long-term partnership. Regular, ongoing factoring agreements ensure a business's liquidity remains stable. As a result, companies often engage in long-term contracts with factoring firms to safeguard their financial stability over time.

How factoring works in Hungary: Open and silent options

In factoring, the core transaction involves the assignment of receivables, usually with related securities and rights, to the factoring company. Typically, clients are notified of this arrangement and directed to pay the factoring firm directly. However, when maintaining confidentiality is crucial, "silent" or "undisclosed" factoring is available. In such instances, clients continue to pay the original business, which then forwards a portion of these funds to the factor based on the agreed upon terms. This structure helps businesses maintain strong client relationships by keeping the factoring arrangement discreet.

Navigating Hungary's complex legal landscape for factoring

Hungarian law provides various definitions of factoring, though slight differences exist. The Civil Code defines factoring as an assignment of receivables with recourse, meaning the factor can demand payment from the seller if the client defaults. Conversely, regulations governing credit institutions define factoring as a form of receivables purchase, whether it's a true sale or not.

This lack of uniformity can lead to regulatory confusion, creating challenges for both factoring firms and businesses trying to comply with Hungary's financial and regulatory framework. It is important for companies engaging in factoring to be aware of the regulatory requirements associated with receivables purchase. Failure to comply with regulatory requirements may expose the company to potential penalties and fines.

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The Hungarian regulator's unique approach to factoring

The Hungarian regulator has developed particular practices to manage factoring activities, especially silent factoring. Businesses that engage in silent factoring may be required to:

- handle client payments separately and remit these funds to the factoring firm at specific intervals;
- issue written reminders to clients if payment is delayed; and
- legally pursue unpaid receivables if clients fail to meet their obligations despite written reminders.

In these cases, the regulator interprets the company's role as that of an intermediary. Since debt collection is indirectly carried out by the factoring firm and instead handled by the business, the latter must comply with intermediary regulations, which many businesses are unable to do. Many companies, however, are unaware of these requirements, which can result in inadvertent non-compliance.

Structuring factoring agreements for success in Hungary

Careful planning and a well-defined factoring agreement can significantly mitigate regulatory risks. By adhering to the guidelines and regulations set by the regulator, businesses can confidently leverage cashflow without risking regulatory violations.

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