

# THE RUSSIAN INTERNATIONAL INVESTMENT BANK IS MOVING TO BUDAPEST

*Risk Alert - 13 March, 2019*



**The Hungarian National Assembly approved the law on the International Investment Bank's (IIB) move to Budapest on 5 March 2019.<sup>1</sup> The law can potentially pose a security threat in its current form.**

- The IIB was founded in 1970 to encourage trade and lending within the COMECON. While it was unable to fulfil its original functions for systemic reasons, it provided ideal cover for the KGB. For instance, Georgi Matyukhin, the post-Cold War chairman of the bank, spent 13 years as an undercover KGB agent in the IIB: two as a permanent employee and 11 as an advisor.
- The bank was revived by Vladimir Putin in 2012 and Hungary joined it in 2015, 15 years after the first Orbán government left it. Hungary is the bank's third largest shareholder (12,27%) after Russia (46.03%) and Bulgaria (12.95%).<sup>2</sup> We must emphasise that the IIB is included in the Russian Federation's official register of governing and administrative bodies (no. 71014).<sup>3</sup> Thus, claims in government-controlled media that this is a partly Hungarian bank are inaccurate.
- Officially, the bank is supposed to play a similar role to the European Bank for Reconstruction and Development, and its revival is a part of Russia's efforts to create parallel structures to the Western institutional system. However, the Russia-dominated institutions have alternative functions as well (e.g., intelligence and political influence operations). The IIB's incumbent chairman is Nikolay Kosov, the son of two former KGB operatives.<sup>4</sup>
- The main concern about the agreement between the Hungarian government and the bank is not Kosov, but the wide range of privileges the IIB will enjoy. These privileges are commonly given to international financial institutions of a similar character, but it is questionable whether such exemptions should be given to an organisation offering an alternative to Western structures, which is also an official Russian state organ.

**The bank's personnel will enjoy considerable exemptions from Hungarian regulations.**

- The Bank's governors enjoy the same immunities as diplomats serving in Hungary, including exemptions from restrictions to travel to Hungary. According to the law, they enjoy this right without Hungary having any influence over it, unlike in the case of diplomats accredited to the country.
- The chairman and the bank's staff enjoy less, but still considerable privileges:
  1. They are exempt from any judicial and public administration proceedings concerning their actions taken in their official capacity; except for compensation lawsuits for traffic accidents;

<sup>1</sup> Legislative proposal no. T/4476. <http://www.parlament.hu/irom41/04476/04476.pdf>

<sup>2</sup> The bank's shareholders are: Russia, Bulgaria, Hungary, the Czech Republic, Romania, Slovakia, Cuba, Mongolia and Vietnam.

<sup>3</sup> The register is available here: <http://www.zakonprost.ru/content/base/60163>

<sup>4</sup> Csaba Káncz. (2019). Putyin új budapesti szürke eminenciása és az amerikai atombomba titka. <https://privatbankar.hu/makro/putyin-uj-budapesti-szurke-eminenciasa-es-az-amerikai-atombomba-titka-324814>

2. they are to enjoy privileges for repatriation, which must match those given to the staff of diplomatic missions in Hungary;
  3. they are exempt from paying customs duties, taxes or any other public fees on imported products intended for personal or family use;
  4. they are exempt from paying taxes on any salary or other remuneration paid by the bank and from paying social contribution fees;
  5. they are exempt from their compulsory national military service.
- Hungarian citizens cannot enjoy the same privileges, only the ones listed under points one and four. This theoretically means that Hungarian IIB employees will be exempt from any judicial or public administration proceedings concerning their actions in an official capacity, including financial transactions on the Hungarian market.
  - The law allows the leadership and staff of the bank, their dependent relatives, and experts, advisors and other guests invited by the bank to travel freely. This is not the same as diplomatic immunity, but it can still be problematic, as Matyukhin's career proves. The law does not set any limit on the number of persons the bank may employ. The IIB only has to report the names of people eligible for the abovementioned privileges to authorities, who have no veto or supervisory rights. Thus, in theory, the law allows hundreds of foreign citizens to enter Hungary freely without the state itself having any word in it.

**Besides its personnel, the IIB's activities are also exempt from a wide range of Hungarian regulations.**

- The bank and its activities cannot be monitored or supervised by any financial or regulatory authority, the bank does not have to adhere to accounting rules and has no permit or registration obligations. At the same time, the bank can manage savings accounts and hand out loans, provide investment and banking services, and take part in stock transactions. Thus, it can even manage the assets of Hungarian state-owned firms and give loans to Hungarian businessmen from the capital the country contributes to, and do so without any oversight.
- The vehicles used by the bank will also be completely off limits for Hungarian authorities, just like the bank's HQ in Budapest: Hungarian authorities will have practically zero rights on the bank's premises, they cannot enter the building unless they are invited inside and they cannot take any action inside. The bank's properties cannot be searched, seized, confiscated, appropriated by any executor, court or anyone else through legal channels. The bank is allowed to implement any rules necessary for it to conduct its activities in the building.
- The bank's HQ is to be protected the same way diplomatic buildings are, including its communications, so the Hungarian government will have no monitoring or supervisory rights. The bank's properties and equipment enjoy full immunity, wherever they are. The IIB has the right to use encrypted communications and its mail will be protected at the level of diplomatic wires.

**The issues raised here should not be considered unconditional and automatic threats. However, the law leaves questions unregulated and regulates others in a way that ties Hungarian authorities' hands completely, which can be serious risks in the domains of financial and internal security. In any case, there is a possibility that the approval will make Budapest a Russian intelligence centre instead of a financial hub.**