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Subject: State Aid SA.56926 (2020/N) – HUNGARY
COVID-19: Aid measures for increasing competitiveness of undertakings in relation with the COVID-19 outbreak

Excellency,

1. PROCEDURE

- (1) By electronic notification of 2 April 2020, Hungary notified aid in the form of direct grants (*Aid measures for increasing competitiveness of undertakings in relation with the COVID-19 outbreak*, “the measure”) under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak (“the Temporary Framework”).¹
- (2) The Hungarian authorities confirm that the notification does not contain confidential information.
- (3) Hungary exceptionally agrees to waive its rights deriving from Article 342 Treaty on the Functioning of the European Union (“TFEU”), in conjunction with Article 3 of Regulation 1/1958,² and to have this Decision adopted and notified in English.

¹ Communication from the Commission - Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak, 19 March 2020, OJ C 91I, 20.3.2020, p. 1-9, as amended by the Communication from the Commission – Amendment to the Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak, 3 April 2020, OJ C112I, 4.4.2020, p. 1-9.

² Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.

Mr Péter SZIJJÁRTÓ
Külügyminiszter
Bem rakpart 47
H - 1027 BUDAPEST

2. DESCRIPTION OF THE MEASURE

- (4) Hungary considers that the COVID-19 outbreak has started to affect the real economy. The Hungarian economy has suffered a huge shock as a result of that outbreak, and undertakings and employers in almost all sectors face a sudden shortage or a severe lack of liquidity. To prevent the disruptive impact on planned essential investments (including investments needed for the maintenance of the existing operations of the undertakings) due to the sudden shortage of funds, to ensure investment needed to adapt to the disruptions of the supply chains and to maintain employment during COVID outbreak, Hungary intends to put in place an aid scheme to ensure that liquidity remains available in the market. This should also help to prevent agile companies from stopping their production which could otherwise result in job losses and further disturbances in European supply chains.
- (5) The measure is expressly based on Article 107(3)(b) of the TFEU, as interpreted by Sections 2 and 3.1 of the Temporary Framework.

2.1. The nature and form of aid

- (6) The measure provides aid in the form of direct grants.

2.2. National legal basis

- (7) The legal basis for the measure is the Decree of the Ministry of Foreign Affairs and Trade on aid measures for increasing competitiveness of undertakings in relation with the COVID-19 outbreak.

2.3. Administration of the measure

- (8) The granting authority is the Ministry of Foreign Affairs and Trade of Hungary. The competent authority administering the scheme is the Hungarian Investment Promotion Agency Non-Profit Ltd.

2.4. Budget and duration of the measure

- (9) The Hungarian authorities estimate that a total of HUF 50 000 million (ca. EUR 140 million) in aid will be granted under the measure.
- (10) Aid may be granted under the measure as from its approval by the Commission until 31 December 2020. Applications may be submitted until 30 November 2020.

2.5. Beneficiaries

- (11) The final beneficiaries of the measure are medium and large sized enterprises³ established, or having a place of business or branch, in Hungary. Undertakings with an outstanding tax debt at the date of the application of the aid may not benefit from the scheme. Similarly, any undertaking that has received any aid

³ medium and large size enterprises as defined in Annex I to the General Block Exemption Regulation; Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187 of 26.6.2014

which is subject to an outstanding recovery order following a previous Commission decision addressed to Hungary declaring the aid illegal and incompatible with the internal market, may not benefit from the scheme.

- (12) Aid under the scheme may be granted to medium or large enterprises that:
- certify that they are not an undertaking in difficulty within the meaning of the General Block Exemption Regulation (“GBER”)⁴ on 31 December 2019, but became an undertaking in difficulty due to COVID-19 outbreak or have suffered losses or had other financial difficulties as a result of that outbreak;
 - certify that their sales revenue or the volume of their sales orders has dropped by at least 25% as a result of the COVID-19 outbreak and there is causal link between that outbreak and those losses;
 - declare not being responsible for their losses and that they have conducted the business with care as reasonably expected;
 - declare having no insurance covering the losses, or the insurance available does not compensate the losses in full;
 - undertake to maintain their base headcount until the end of the investment, but at least until December 31, 2020;
 - undertake to implement an investment in Hungary of a volume of at least 150 000 EUR until June 30, 2021;
 - declare that their application was submitted before starting the aforementioned investment.

2.6. Sectoral and regional scope of the measure

- (13) The measure is open to all sectors of the economy, with the exception of:
- the steel sector;
 - the shipbuilding sector;
 - the coal sector;
 - the synthetic fibres sector;
 - the transport of passengers by aircraft, maritime transport, road, rail, or by inland waterway, or freight transport services for hire or reward;
 - primary agricultural production;

⁴ As defined in Article 2(18) of the Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187 of 26.6.2014, p. 1.

- investments in the fisheries and aquaculture sector falling within the scope of Regulation 1379/2013/EU;
 - projects in energy production, energy supply projects;
 - commercial activity projects;
 - projects involving activities which are subject to a concession;
 - tourism activity projects;
 - export-related activities, namely aid directly linked to the establishment and operation of a distribution network, or to other current expenditure linked to the export activity.
- (14) Aid to companies active in the processing and marketing of agricultural products is conditional on not being partly or entirely passed on to primary producers and is not fixed on the basis of the price or quantity of products purchased from primary producers or put on the market by the applicant concerned.
- (15) The measure applies to the whole territory of Hungary.

2.7. Basic elements of the measure

- (16) The measure is one of the instruments designed to decrease the harmful impact of COVID-19 outbreak on the Hungarian economy. Its key aim is to help undertakings facing negative repercussions caused by that outbreak via non-refundable cash grants (direct grants) to facilitate essential investments.
- (17) Since bank financing is also slowing down, the measure could partly ensure missing liquidity in the market. The non-refundable cash grant could be a quick fix for needed investments for companies to weather the COVID-19 outbreak. Based on the input provided to the Hungarian authorities by associations of different sectors, the realisation of higher investments faces higher challenges due to liquidity shortages, therefore progressive financing is needed and provided (higher aid intensities will be available for higher investment volumes).
- (18) The aid takes the form of a grant whose amount is adjusted to the volume of the investment, not exceeding EUR 800 000.
- (19) If the investment volume is:
- Between EUR 150 000⁵ and EUR 300 000, the amount of aid is 30% of the investment volume;
 - between EUR 300 001 and EUR 500 000, the amount of aid is 40% of the investment volume;
 - above EUR 500 000, the amount of aid is 50% of the investment volume.

⁵ According to the decree, all amounts in euros shall be calculated using the Hungarian National Bank's official exchange rate valid on the last working day of the month preceding the month in which the application submitted.

2.8. Cumulation

- (20) The aid may be cumulated with other aid granted under Section 3.1 of the Temporary Framework. The total amount of aid granted under Section 3.1 of the Temporary Framework per applicant in all sectors shall not, however, exceed the forint equivalent of EUR 800 000. The aid may be cumulated with any other aid granted under the GBER, provided such cumulation does not exceed the highest aid intensity or amount applicable in the GBER.

2.9. Monitoring and reporting

- (21) The Hungarian authorities confirm that they will respect the monitoring and reporting obligations laid down in Section 4 of the Temporary Framework (*e.g.*, by 31 December 2020, a list of measures put in place on the basis of schemes approved under the Temporary Framework must be provided to the Commission; detailed records regarding the granting of aid must be maintained for 10 years upon granting of the aid, etc.).

3. ASSESSMENT

3.1. Legality of the measure

- (22) By notifying the measure before putting it into effect, the Hungarian authorities have respected their obligations under Article 108(3) TFEU.

3.2. Existence of State aid

- (23) For a measure to be categorised as aid within the meaning of Article 107(1) TFEU, all the conditions set out in that provision must be fulfilled. First, the measure must be imputable to the State and financed through State resources. Second, it must confer an advantage on its recipients. Third, that advantage must be selective in nature. Fourth, the measure must distort or threaten to distort competition and affect trade between Member States.
- (24) The measure is imputable to the State, since it is administered by the Ministry of Foreign Affairs and Trade of Hungary and it is based on the Decree of Ministry of Foreign Affairs and Trade on aid measures for increasing competitiveness of undertakings in relation with COVID-19 outbreak. It is financed through State resources, since it is financed by public funds.
- (25) The measure confers an advantage on its beneficiaries in the form of direct grants. The measure thus relieves those beneficiaries of costs which they would have had to bear under normal market conditions.
- (26) The advantage granted by the measure is selective, since it is awarded only to certain undertakings in specific sectors of the economy, in particular those specified in recital (13).
- (27) The measure is liable to distort competition, since it strengthens the competitive position of its beneficiaries. It also affects trade between Member States, since those beneficiaries are active in sectors in which intra-Union trade exists.

- (28) In view of the above, the Commission concludes that the measure constitutes aid within the meaning of Article 107(1) TFEU. The Hungarian authorities do not contest that conclusion.

3.3. Compatibility

- (29) Since the measure involves aid within the meaning of Article 107(1) TFEU, it is necessary to consider whether that measure is compatible with the internal market.
- (30) Pursuant to Article 107(3)(b) TFEU the Commission may declare compatible with the internal market aid “*to remedy a serious disturbance in the economy of a Member State*”.
- (31) By adopting the Temporary Framework on 19 March 2020, the Commission acknowledged (Section 2) that “*the COVID-19 outbreak affects all Member States and that the containment measures taken by Member States impact undertakings*”. The Commission concluded that “*State aid is justified and can be declared compatible with the internal market on the basis of Article 107(3)(b) TFEU, for a limited period, to remedy the liquidity shortage faced by undertakings and ensure that the disruptions caused by the COVID-19 outbreak do not undermine their viability, especially of SMEs*”.
- (32) The measure aims at facilitating essential investments and ensuring missing liquidity in the market at a time when the normal functioning of credit markets is severely disturbed by the COVID-19 outbreak and that outbreak is affecting the wider economy and leading to severe disturbances of the real economy of Member States.
- (33) The measure is one of a series of measures conceived at national level by the Hungarian authorities to remedy a serious disturbance in their economy. The importance of the measure to provide non-refundable direct grants to enterprises during the COVID-19 outbreak is widely accepted by economic commentators and the measure is of a scale which can be reasonably anticipated to produce effects across the entire Hungarian economy. Furthermore, the measure has been designed to meet the requirements of a specific category of aid (“*Aid in the form of direct grants*”) described in Section 3.1 of the Temporary Framework.
- (34) The Commission considers that the measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State since it meets all the conditions of Section 3.1 of the Temporary Framework. In particular:
- The maximum amount of aid granted under the measure will not exceed EUR 800 000 per undertaking. The measure therefore complies with point 22(a) of the Temporary Framework;
 - Aid is granted under the measure on the basis of a scheme with an estimated budget of EUR 140 million. The measure therefore complies with point 22(b) of the Temporary Framework;

- Aid will not be granted under the measure to undertakings that were in difficulty (within the meaning of General Block Exemption Regulation⁶) on 31 December 2019. The measure therefore complies with point 22(c) of the Temporary Framework;
- Aid will be granted under the measure no later than 31 December 2020. The measure therefore complies with point 22(d) of the Temporary Framework;
- Aid granted to undertakings active in the processing and marketing of agricultural products is conditional on not being partly or entirely passed on to primary producers and is not fixed on the basis of the price or quantity of products purchased from primary producers or put on the market by the SMEs concerned. The measure therefore complies with point 22(e) of the Temporary Framework.

4. CONCLUSION

The Commission has accordingly decided not to raise objections to the aid on the grounds that it is compatible with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union.

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President

⁶ As defined in Article 2 (18) of the Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187 of 26.6.2014, p. 1. Wherever reference is made in this Temporary Framework to the definition of “undertaking in difficulty” as contained in Article 2(18) of Regulation (EU) No 651/2014, it shall be read as also referring to the definitions contained in Article 2(14) of Regulation (EU) No 702/2014 and Article 3(5) of Regulation 1388/2014 respectively.