



EUROPEAN COMMISSION

Brussels, 20.5.2020
C(2020) 3462 final

PUBLIC VERSION

This document is made available for
information purposes only.

**Subject: State Aid SA.57269 (2020/N) – Hungary
COVID-19: CAPITAL FUNDS**

Excellency,

1. PROCEDURE

- (1) By electronic notification of 7 May 2020, Hungary notified aid in the form of equity and loan connected to equity (loan or convertible loan) to undertakings affected by the COVID-19 outbreak (“the measure”) under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, as amended (“the Temporary Framework”)¹.
- (2) By email of 14 May 2020, the Commission requested additional information on the measure. Hungary replied by emails of 14 and 15 May 2020.
- (3) The Hungarian authorities confirm that the notification does not contain confidential information.
- (4) Hungary exceptionally agrees to waive its rights deriving from Article 342 of the Treaty on the Functioning of the European Union (“TFEU”), in conjunction with

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, and Amendment to the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, 03.04.2020, C(2020)2215 final, OJ C 112I, 4.4.2020, p. 1-9, and by Communication from the Commission C(2020) 3156 final of 8 May 2020 on the Amendment of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, OJ C 164, 13.5.2020, p. 3–15.

Mr. Péter Szijjártó
Minister of Foreign Affairs and Trade
1027 Budapest, Bem rakpart 47
Hungary

Article 3 of Regulation 1/1958², and to have this Decision adopted and notified in English.

2. DESCRIPTION OF THE MEASURE

- (5) Hungary considers that the COVID-19 outbreak has started to affect the real economy. Although the full impact of the COVID-19 outbreak on the economy is not yet foreseeable, the short-term impact is already clear in the form of a sharp rise in unemployment and in a reduction or complete cessation of production and service provisions³.
- (6) The measure forms part of an overall package of measures and aims to ensure that sufficient liquidity remains available in the market, to counter the liquidity shortage faced by undertakings because of the outbreak, to ensure that the disruptions caused by the outbreak do not undermine the viability of the undertakings and thereby to preserve the continuity of economic activity during and after the outbreak.
- (7) The compatibility assessment of the measure is based on Article 107(3)(b) TFEU, as interpreted by Section 2 and Section 3.1 of the Temporary Framework.

2.1. The nature and form of aid

- (8) The measure provides aid in the form of equity and loan connected to equity (loan or convertible loan). Loans connected to equity are provided as subordinated loans in combination with equity.
- (9) Hungary stresses that the objective of the measure is to support undertakings having difficulties (shortage or even unavailability of liquidity) in the recent economic situation created by COVID-19 outbreak. Under the notified measure, undertakings can obtain equity and equity loans in order to preserve or recover workers employed, to maintain their operation and activity, or possibly to launch developments or investments.
- (10) The aim of the measure is to support national and local economy during the crisis, to revitalize the economy after the crisis, to maintain the level of employment and to improve the possibilities of companies to restart after the crisis. The aid will cover financial costs of equity and loans connected to equity.

2.2. Legal basis

- (11) The legal basis for the notified measure are the fund rules approved by Governmental decision as an amendment of the existing block-exempted aid schemes as listed below:
 - 1) SZTAK: SA.50009 (2018/X) “SZTA-Regionális gazdaságfejlesztés keretében a kis és középvállalkozásoknak kockázati tőketámogatás nyújtása - megfeleltetés a 2017/1084/EU bizottsági rendeletnek”:

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

³ The Hungarian Government declared the “State of Emergency” on 11 March 2020 by a special legal order.

“37/2011 (III.22.) Korm. rendelet az európai uniós versenyjogi értelemben vett állami támogatásokkal kapcsolatos eljárásról és a regionális támogatási térképről Termékkonceptió SZTA”,

- 2) Kecskemét (KVFA): SA.52580 (2018/X) “Kecskemét város fejlesztését szolgáló tőketermékek”:

“9/2018. (X. 19.) PM rendelet a fejezeti kezelésű előirányzatok kezeléséről és felhasználásáról”,

- 3) Urban Development Funds: SA.57355 (2020/X) “A Székesfehérvár Városi Tőkealap Általános csoportmentességi rendelet alapján nyújtott támogatásai” and SA.57356 (2020/X) “A Debreceni Városi Tőkealap Általános csoportmentességi rendelet alapján nyújtott támogatásai”, the Debrecen Urban Development Fund and the Székesfehérvár Urban Development Fund,

- 4) Urban Development Funds:

- Nagykanizsa Vállalkozásfejlesztési Alap,
- Kaposvár Vállalkozásfejlesztési Alap,
- Nyíregyháza Vállalkozásfejlesztési Alap,
- Veszprém Vállalkozásfejlesztési Alap.

- (12) Hungary refers to the first group of funds by ‘SZTAK’, to the second by ‘KVFA’ and to the third group of funds by ‘Urban Development Funds’. The Urban Development Funds will receive funds from the Hungarian Development Bank (Magyar Fejlesztési Bank, MFB) via its subsidiary, MFB Invest Ltd. MFB is supervised by the Minister without Portfolio for the Management of National Assets (NVTNM).

2.3. Administration of the measure

- (13) The aid granting authorities (fund managers) responsible for administering the measure are the following:

- 1) Granting authority: Ministry of Finance,
 - Managing authority: *Széchenyi Venture Capital Management (SZTAK)*:
 - 1 . *Széchenyi Venture Capital Fund (Széchenyi Tőkebefektetési Alap)*,
 - 2 . *Irinyi Venture Capital Fund (Irinyi Kockázati Tőkealapok)*,
 - 3 . *Carpathians Venture Capital Fund (Kárpát-medencei Vállalkozásfejlesztési Kockázati Tőkealap)*,
 - 4 . *National Stock Exchange Development Fund (Nemzeti Tőzsdefejlesztési Alap)*.
- 2) Granting authority: Municipality of *Kecskemét* City,
 - Managing authority: *Városi Alapkezelő Zrt. (KVFA)*:
 - 1 . *Kecskemét Enterprise Development Fund (Kecskemét Vállalkozásfejlesztési Alap)*.
- 3) Granting authority: Minister without Portfolio for the Management of National Assets (NVTNM),
 - Managing authority: *Focus Ventures Zrt. (Focus Ventures Fund Management Ltd.)*:

- 1 . Székesfehérvár Urban Development Fund (*Székesfehérvár Vállalkozásfejlesztési Alap*),
- 2 . *Debrecen* Urban Development Fund (*Debrecen Vállalkozásfejlesztési Alap*),
- 3 . Nagykanizsa Urban Development Fund (*Nagykanizsa Vállalkozásfejlesztési Alap*),
- 4 . Kaposvár Urban Development Fund (*Kaposvár Vállalkozásfejlesztési Alap*),
- 5 . Nyíregyháza Urban Development Fund (*Nyíregyháza Vállalkozásfejlesztési Alap*),
- 6 . Veszprém Urban Development Fund (*Veszprém Vállalkozásfejlesztési Alap*).

2.4. Budget and duration of the measure

- (14) The estimated budget of the scheme is:
- 1) Budget for SZTAK: HUF 25 billion (approximately EUR 70 million),
 - 2) Budget for KVFA: HUF 3 billion (approximately EUR 8 million),
 - 3) Budget for Urban Development Funds: HUF 29 billion (approximately EUR 78.3 million).
- (15) The scheme is not co-financed by the EU funds.
- (16) Aid may be granted under the measure as from its approval until no later than 31 December 2020.
- (17) Beneficiaries can submit their applications for aid from the date of entry into force of the scheme until 15 December 2020.
- (18) The scheme will enter into force by 1 June 2020 at the latest, but in any case only after the Commission approval.

2.5. Beneficiaries

- (19) The final beneficiaries of the scheme are micro, small and medium sized enterprises (“SMEs”)⁴ as well as large enterprises active in Hungary. However, financial institutions are excluded as eligible final beneficiaries. The Hungarian authorities estimate that between 140 and 220 undertakings will benefit from the measure.
- (20) Aid may not be granted under the measure to undertakings that were already in difficulty within the meaning of the General Block Exemption Regulation (“GBER”)⁵ on 31 December 2019.

⁴ As defined in Annex I to 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.

⁵ As defined in Article 2(18) of 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

- (21) Aid under the measure is granted directly to the beneficiaries and no intermediaries, credit or other commercial financial institutions are involved.

2.6. Sectoral and regional scope of the measure

- (22) The measure is open to all sectors of the economy hit by the COVID-19 crisis except the financial sector.
- (23) The SZTAK Funds are horizontal funds without any territorial restrictions and apply to the whole territory of Hungary. The Urban Development Funds and the Kecskemét Fund apply to certain municipalities and regions. It is possible for an undertaking to benefit from more than one fund listed within this measure or any other Hungarian scheme approved by the Commission under section 3.1 of the Temporary Framework.

2.7. Basic elements of the measure

- (24) The measure is a scheme and provides aid in the form of equity and loan connected to equity (loan or convertible loan), cumulatively, or separately for the equity, in the amount of up to EUR 800 000 per undertaking.
- (25) Decisions on investments regarding equity and loan connected to equity will be taken to support the economy in the current COVID-19 outbreak.
- (26) The aid may be granted provided that its nominal value, including other aid granted in accordance with section 3.1 of the Temporary Framework, does not exceed EUR 800 000 per undertaking in gross amount.
- (27) Undertakings active in the processing and marketing of agricultural products are eligible to receive aid under the notified measure.
- (28) The aid granted to undertakings active in the processing and marketing of agricultural products⁶ 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 undertakings concerned.
- (29) Undertakings active in the fishery and aquaculture sector as well as undertakings active in the primary production of agricultural products are not eligible to receive aid under the notified measure.

2.8. Cumulation

- (30) The Hungarian authorities confirm that the aid in Section 3.1 may be cumulated with other types of aid under the Temporary Framework provided the provisions in those specific sections are respected.

⁶ As defined in Article 2(6) and Article 2(7) of Commission Regulation (EC) No 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union, OJ L 193, 1.7.2014, p. 1.

- (31) The Hungarian authorities confirm that aid granted under the measure may be cumulated with aid under *de minimis* Regulation⁷ and with aid under the General Block Exemption Regulation⁸, provided the provisions and cumulation rules of those Regulations are respected⁹.
- (32) Furthermore, the Hungarian authorities confirm that, if the beneficiary received aid according to *de minimis* and the General Block Exemption Regulation rules, compliance with the cumulation rules and provisions of those Regulations will be performed prior to the aid award by the fund managers as mentioned in recital (13) above..
- (33) The Hungarian authorities also confirm that if the beneficiary receives aid on several occasions or in several forms under the notified scheme or aid under other measures approved by the Commission under Section 3.1 of the Temporary Framework, the overall maximum cap per undertaking, as set out in point 22(a) of that framework shall be respected.

2.9. Monitoring and reporting

- (34) The Hungarian authorities confirm that they will respect the monitoring and reporting obligations laid down in Section 4 of the Temporary Framework (including the obligation to publish relevant information on each individual aid granted under the measure on the comprehensive State aid website¹⁰ or Commission's IT tool within 12 months from the moment of the granting)¹¹.

3. ASSESSMENT

3.1. Lawfulness of the measure

- (35) 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

- (36) 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.

⁷ Commission Regulation (EU) No 1407/2013 of 18 December on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to the *de minimis* aid (OJ L 352, 24.12.2013, p.1).

⁸ Commission Regulation (EU) No 651/2014 of 17 June 2014, see footnote 5 above.

⁹ According to the Hungarian authorities, in practice, this would mean that the beneficiary has to submit a declaration on the other potential measures under section 3.1 of the Temporary Framework it is benefiting from, or applied for, and the granting decision is pending. If the cumulation of aid results in the beneficiary exceeding the limit set by point 22(a) of the Temporary Framework, the aid has to be paid back.

¹⁰ www.tvi.kormany.hu

¹¹ Referring to information required in Annex III to Commission Regulation (EU) No. 651/2014 of 17 June 2014 (see footnote 5 above).

- (37) The measure is imputable to the State, since it is administered by the Minister of Finance, the Municipality of Kecskemét City, and the Minister without Portfolio for the Management of National Assets (NVTNM) and is based on existing block-exempted aid schemes as described in recital (11) above. It is financed through State resources, since it is financed by public funds.
- (38) The measure confers an advantage on its beneficiaries in the form of equity and equity loans. The equity and equity loans will be provided under terms that are more favourable than normal market conditions. First because the expected return rate (2.5%-4.5% per year) is lower than the prevailing market conditions and, if the beneficiary cannot repay the share of the Fund within the planned financing period, part or all of the loan can be converted in equity share and the duration can be extended after a new assessment and qualification of the transaction.
- (39) The advantage granted by the measure is selective since it is awarded only to certain undertakings and excludes undertakings active in the financial sector, in the fishery and aquaculture sector as well as in the primary production of agricultural products. Additionally, aid may not be granted to undertakings that were already in difficulty on 31 December 2019, and for the Urban Development Funds and the Kecskemét Fund, aid award depends on the geographical location of an undertaking in the municipalities and regions covered by the funds as described in recital (23).
- (40) The measure is liable to distort competition, since it strengthens the competitive position of its beneficiaries on liberalised markets. It also affects trade between Member States, since those beneficiaries are active in sectors in which intra-Union trade exists.
- (41) 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

- (42) 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.
- (43) 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*”.
- (44) By adopting the Temporary Framework on 19 March 2020, the Commission acknowledged (in 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*”.
- (45) The scheme aims at facilitating the access of undertakings to external finance 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.

- (46) The scheme is one of a series of measures conceived at national, regional and local level by the Hungarian authorities to remedy a serious disturbance in their economy. The importance of the scheme to ensure access of undertakings to liquidity during the COVID-19 outbreak is widely accepted by economic commentators and the series of measures are of a scale, which can be reasonably anticipated to produce effects across the entire Hungarian economy, accordingly. Furthermore, the measure has been designed to meet the requirements of a specific category of aid (“*Limited amounts of aid*”) described in Section 3.1 of the Temporary Framework. The measure is not channelled through credit institutions or financial institutions as described in recital (21) above.
- (47) The Commission accordingly considers that the measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of Hungary and meets all the relevant conditions of the Temporary Framework. In particular:
- The aid takes the form of equity and equity loans (subordinated loans in combination with equity), whose overall nominal value shall not exceed EUR 800 000 per undertaking. The measure therefore complies with point 22(a) of the Temporary Framework;
 - Aid is granted on the basis of a scheme with an estimated budget as indicated in recital (14). The measure therefore complies with point 22(b) of the Temporary Framework;
 - Aid will not be granted under the measure to undertakings that were already in difficulty 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, as set out in recital (16). The measure therefore complies with point 22(d) of the Temporary Framework;
 - Undertakings active in the processing and marketing of agricultural products are excluded when the aid is conditional on being partly or totally passed on to primary producers, fixed on the basis of the price or quantity of products purchased from primary producers, or put on the market by such producers. The measure therefore complies with point 22(e) of the Temporary Framework.
- (48) The Hungarian authorities confirm that the monitoring and reporting rules laid down in section 4 of the Temporary Framework will be respected (recital (34)).
- (49) The Hungarian authorities further confirm that the aid under the measure may only be cumulated with other aid, provided the specific provisions in the sections of the Temporary Framework are respected and the cumulation rules of the relevant Regulations are respected (recitals (30) to (33)).

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