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**Subject: State Aid SA.57488 (2020/N) – Hungary
Amendment to the scheme SA.57269 (2020/N) – COVID-19:
CAPITAL FUNDS**

Excellency,

1. PROCEDURE

- (1) By electronic notification of 27 May 2020, according to Article 108(3) Treaty on the Functioning of the European Union (“TFEU”), registered by the Commission on the same day, Hungary notified an amendment to the State aid scheme SA.57269 on the Capital Funds approved by Commission Decision of 20 May 2020 in case SA.57269 (2020/N)¹ on the basis of Article 107(3)(b) TFEU (“the initial Decision”, “the Decision” or “the initial scheme”), as interpreted by the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, as amended on 3 April and 8 May respectively (“the Temporary Framework”)².
- (2) 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 Article 3 of Regulation 1/1958,³ and to have this Decision adopted and notified in English.

¹ Commission Decision C(2020) 3642 final (not yet published in the OJ):
https://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_57269

² Communication from the Commission - Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak, 19 March 2020 (C(2020) 1863), OJ C 91I, 20.3.2020, p. 1-9, as amended on 3 April 2020, OJ C 112I, 4.4.2020, p. 1-9, and on 8 May 2020, OJ C 164, 13.5.2020, p. 3-15.

³ Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.

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2. DESCRIPTION OF THE MEASURE

- (3) Hungary intends to modify the initial scheme as approved by Commission Decision of 20 May 2020 mentioned in recital (1). The amendments to the initial scheme which Hungary wants to introduce are described in sub-section 2.1 below (“the proposed amendments to the initial scheme”). In addition, the corrections to the initial scheme, which Hungary wants to introduce are described in sub-section 2.2 below (“the proposed corrections to the initial scheme”).
- (4) Like the initial scheme, the amendments aim at ensuring sufficient financial liquidity remains available in the market, to counter the liquidity shortage faced by undertakings affected by the economic repercussions of the COVID-19 outbreak, to ensure that the disruptions caused by the outbreak do not undermine the viability of undertakings and thereby to preserve the continuity of economic activity during and after the outbreak.

2.1 The proposed amendments to the initial scheme

- (5) As mentioned in recital (3), Hungary intends to modify the initial scheme. The proposed amendments concern the nature and form of aid, the legal basis, the administration of the measure, the budget and duration of the measure, the circle of beneficiaries and the sectoral and regional scope of the measure.

2.1.1 The nature and form of aid

- (6) The form of aid in the initial scheme relates to “*loans connected to equity [...] provided as subordinated loans in combination with equity*”. Under the revised scheme, the measure provides aid in the form of equity and loan connected to equity (loan or convertible loan).

2.1.2 Legal basis

- (7) The legal bases of the initial scheme are the fund rules described in recital (11) of the initial Decision.
- (8) The notified amendment to the initial scheme aims at including new fund rules concerning two additional capital funds: “the Hiventures Funds” and “the Crisis Funds”. Therefore, the legal basis of the measure should include the following: Hiventures Funds: SA.50001 (2018/X): “MFB Növekedési Tőkealap” (MFB Growth Capital Fund): A Hiventures Zrt. (korábban: Corvinus Kockázati Tőkealap Kezelő Zrt.) Általános Csoportmentességi Rendelet alapján nyújtott támogatásai - megfeleltetés a 2017/1084/EU bizottsági rendeletnek”; SA.56955 (2020/X): “Divat&Design Tőkealap” (Fashion&Design Capital Fund): A Hiventures Zrt. Általános Csoportmentességi Rendelet alapján nyújtott támogatása (Divat&Design Tőkealap)”; SA.57481 (2020/X): “MFB KKV Tőkealap” (MFB SME Capital Fund): MFB KKV Tőkealap 651/2014/EU bizottsági rendelet alapján nyújtott támogatásai and the Crisis Fund– “*Krízisalap*“. This latter fund is to be set up in the near future.
- (9) The Hiventures funds will receive funds directly from Hungarian Development Bank (Magyar Fejlesztési Bank, MFB)⁴ or via MFB Invest Ltd.

⁴ Hiventures is a member of MBF Group, the state-owned development bank group.

2.1.3 Administration of the measure

(10) The fund managers (the aid granting authorities) are responsible for administering the measure. The granting/managing authorities listed in points 1) and 2) of recital (13) of the initial Decision remain unchanged. As regards the granting authority under point 3) the “Minister without Portfolio for the Management of National Assets (NVTNM)”, the notified amendment to the initial scheme establishes:

- a new subdivision “3.1” relating to the ‘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)
- a new subdivision “3.2” on the managing authority of the Hiventures and Crisis funds:

“3.2 Managing authority: Hiventures Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság (Hiventures Venture Capital Fund Management Ltd.; “Hiventures”):

 1. MFB SME Capital Fund (MFB KKV Tőkealap)
 2. MFB Growth Capital Fund (MFB Növekedés Tőkealap)
 3. Fashion & Design Capital Fund (Divat & Design Tőkealap)
 4. Crisis Fund (Krízisalap).”

2.1.4 Budget and duration of the measure

(11) In the notified amendment to the initial scheme, Hungary provides an estimate budget for Hiventures funds: HUF 46 billion (approximately EUR 132 million). The estimate budget for the capital funds listed in points 1) to 3) of recital (14) of the initial Decision remains unchanged.

2.1.5 Beneficiaries

- (12) The Hungarian authorities estimate in the initial scheme that between 140 and 220 undertakings will benefit from the measure (see recital (19) of the initial Decision).
- (13) Due to the estimate number of beneficiaries of the Hiventures funds, Hungary estimates that the total number of beneficiaries of the initial scheme will increase and will be in the range of 240 to 420 undertakings.

2.1.6 Sectoral and regional scope of the measure

- (14) The initial scheme relates to the “SZTAK Funds”, which is an horizontal fund that apply to the whole territory of Hungary, and to “Urban Development Funds” and to the “Kecskemét Fund” that apply only to certain municipalities and regions.
- (15) The notified amendment amends the initial scheme by establishing that the Hiventures Funds is an horizontal fund that apply to the whole territory of Hungary. The funds and the conditions described in recital (23) of the initial scheme remain unchanged.

2.2 The proposed corrections to the initial scheme

- (16) As mentioned in recital (3) above, Hungary requests the correction of the initial scheme. The proposed corrections concern recitals (11) and (38) of the initial Decision.

2.2.1 Correction to recital (11), sub-section 2.2 of the initial Decision

- (17) In recital (11) of the initial Decision, the Commission has referred to the “fund rules approved by Governmental decision”, although as indicated by the Hungarian authorities such rules of the funds referred in the Decision are not formally ‘approved by Governmental decision’. The Hungarian government only approves the budget. Therefore, the Hungarian authorities asked for deletion of such reference from recital (11) of the Decision.
- (18) It is necessary to correct this error from the moment of adoption of the initial Decision, as it may lead to confusion as regards the legal basis. Therefore, the legal basis for the notified measure are the fund rules, which budget is approved by the Hungarian government as an amendment of the existing block-exempted aid schemes as listed in recital (11) of the initial Decision (see recital (7) above).
- (19) At the same time, this amendment does not affect the legal assessment or the conclusions of the initial Decision.
- (20) Therefore, recital (11) of the Decision shall read as follows:

“The legal basis for the notified measure are the fund rules as an amendment of the existing block-exempted schemes as listed below (...)”.

2.2.2 Correction to recital (38), sub-section 3.2 of the initial Decision

- (21) In recital (38) of the initial Decision, the Commission has referred to the expected return rate “(2.5%-4.5% per year)”, although as indicated by the Hungarian authorities this reference was provided only as an example for “Kecskemét Fund” and not an expected return rate applicable for all capital funds covered under the notified measure.
- (22) It is necessary to correct this error from the moment of adoption of the initial Decision, as it may lead to confusion as regards the expected return rate.
- (23) At the same time, this amendment does not affect the legal assessment or the conclusions of the initial Decision. In particular, the deletion to the reference of “(2.5%-4.5% per year)” does not preclude the Commission’s conclusion that the measure constitutes aid within the meaning of Article 107(1) TFEU (recital (41) of the initial Decision).
- (24) Therefore, recital (38) of the Decision shall read as follows:

“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 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.”.
- (25) No further changes or corrections to the initial scheme are envisaged.

3. ASSESSMENT

3.1. Lawfulness of the scheme

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

3.2. Existence of State aid

- (27) Article 107(1) TFEU defines State aid as “any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market”.
- (28) The qualification of the measure as State aid was established in the initial Decision. The Commission refers, for this analysis, to recitals (36) to (41) of the initial Decision. The Commission therefore concludes that the notified amendments do not affect the assessment that the measure constitutes aid within the meaning of Article 107 (1) TFEU as set out in the initial Decision.

3.3. Compatibility

- (29) The Commission has examined the notified scheme pursuant to Article 107(3)(b) TFEU, as interpreted by a specific category of aid (“Limited amounts of aid”) described in section 3.1 of the Temporary Framework.
- (30) The Commission refers to its compatibility analysis as set out in recitals (42) to (49) of that decision.
- (31) The limited modifications on the form of aid (recital (6) above); the clarification of the legal basis and extended fund rules covered by the initial scheme (recitals (8), (9) and (18) above); the extended fund managers due to the inclusion of the Hiventures Funds under the initial scheme and the budget increase thereto related (recitals (10) and (11) above); the estimated number of final beneficiaries (recital (13) above); the amended sectorial and regional scope of the measure by including the Hiventures funds as an horizontal fund (recital (15) above), have no impact on the compliance of the entire initial scheme, as amended and corrected, with Article 107(3)(b) TFEU, as interpreted by the Temporary Framework.
- (32) Apart from the amendments referred to in recitals (5) to (15) above and the corrections to the Decision as described in recitals (16) to (24) above, the Commission notes that there are no other alterations to the existing aid scheme (recital (25) above)).
- (33) The Commission therefore considers that the notified amendments do not affect the compatibility analysis of the initial scheme as set out in the initial Decision.

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.

The decision is based on non-confidential information and is therefore published in full on the Internet site: <http://ec.europa.eu/competition/elojade/isef/index.cfm> .

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President