Brussels, 30.7.2020
C(2020) 5384 final

EUROPEAN COMMISSION

PUBLIC VERSION
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Subject: State Aid SA.58067 (2020/N) – Hungary
COVID-19: Amendment No 3 to the scheme SA.57064 – Grants, guarantee and subsidised interest measures

Excellency,

1. **PROCEDURE**

(1) By electronic notification of 17 July 2020, Hungary notified, according to Article 108(3) of the Treaty on the Functioning of the European Union (“TFEU”) and the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, as amended (“the Temporary Framework”)


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May 2020 (“Amending Decision 1”)³ and on 28 July 2020 (“Amending Decision 2”).⁴

(2) Additional information was submitted by Hungary on 24 and 27 July 2020.

(3) Hungary exceptionally agrees to waive its rights deriving from Article 342 TFEU, in conjunction with Article 3 of Regulation 1/1958⁵ and to have this Decision adopted and notified in English.

2. DESCRIPTION OF THE MEASURE

(4) On 29 April 2020 the Commission decided not to raise objections to the scheme SA.57064 notified by Hungary on the basis of Article 107(3)(b) TFEU and the Temporary Framework. The scheme included aid in the form of direct grants, State guarantees on loans and subsidised interest rates on loans.

(5) On 26 May 2020, the Commission decided not to raise objections to a modification of the part of the existing aid concerning guarantees on loans. The modification consisted in allowing guarantee coverage below 90% of the loan principal and in modulating guarantee premiums where the coverage is less than 90% (see recitals (6) and (7) of Amending Decision 1). No other elements of the existing aid were modified.

(6) On 16 July 2020, the Hungarian authorities notified an amendment to several aid schemes approved under the Temporary Framework, so as to allow micro and small enterprises that were already in difficulty on 31 December 2019, to benefit from State aid under the conditions laid down in that Framework as amended on 29 June 2020. The amendment also included the existing aid, and was approved by the Commission in Amending Decision 2 on 28 July 2020.

(7) On 17 July 2020, the Hungarian authorities notified the following further modifications of the existing aid:

(a) A budget increase:

In light of the continuously increasing liquidity needs of Hungarian undertakings following the COVID-19 outbreak, the Hungarian authorities have decided to increase the budget of the existing aid. More concretely, the budget for aid in the form of grants and subsidised interest rates on loans would be increased by 100%, i.e. it would go from EUR 3 million up to EUR 6 million for grants and from EUR 600 million up to EUR 1,200 million for subsidised interest rates on loans. The total budget of the existing aid would thus increase from EUR 903 million to EUR 1,506 million under the measure.


⁵ Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.
(b) A simplification of the transparency rules:

The Hungarian authorities would use the flexibility introduced in point 86 of the Temporary Framework as amended on 29 June 2020, i.e. they would only publish, on the comprehensive State aid website or the Commission’s IT tool, the relevant information on each individual aid granted under the Temporary Framework where the amount of such aid exceeds EUR 100 000 (or EUR 10 000 in the agriculture and fisheries sector).

(c) An alternative pricing of subsidised interest rates on loans:

With regard to the measure consisting in subsidised interest rates on loans (recitals (26) and (27) of the initial Decision), as an alternative to the step-up pricing of loans with subsidised interest rates (as described in recital (26) of the initial Decision), Hungary wishes to introduce a minimum pricing of credit risk margins on a flat-rate basis in line with point 27(b) of the Temporary Framework. The flat rates applicable per year would be determined depending on the duration of the loan and on the type of recipient, in accordance with the table below. The flat rates below remain above the average rate that would apply in accordance with point 27(a) of the Temporary Framework as they have been adjusted according to the loan maturity in line with point 27(b) of that Framework.

<table>
<thead>
<tr>
<th>Type of recipient</th>
<th>Duration ≤ 1 year</th>
<th>&gt; 1 year and ≤ 2 years</th>
<th>&gt; 2 years and ≤ 3 years</th>
<th>&gt; 3 years and ≤ 4 years</th>
<th>&gt; 4 years and ≤ 5 years</th>
<th>&gt; 5 years and ≤ 6 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and medium enterprises</td>
<td>41</td>
<td>47</td>
<td>49</td>
<td>69</td>
<td>79</td>
<td>86</td>
</tr>
<tr>
<td>Large enterprises</td>
<td>51</td>
<td>81</td>
<td>91</td>
<td>136</td>
<td>161</td>
<td>176</td>
</tr>
</tbody>
</table>

(8) No other modifications are proposed to the existing aid.

(9) In addition, the Hungarian authorities have confirmed that aid under the existing aid and the measure is not conditioned on the relocation of a production activity or of another activity of the beneficiary from another country within the European Economic Area (the “EEA”) to the territory of the Member State granting the aid. This is irrespective of the number of job losses actually occurred in the initial establishment of the beneficiary in the EEA.

3. ASSESSMENT

3.1. Lawfulness of the measure

(10) 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

(11) 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.

(12) The qualification of the scheme as State aid was established in recitals (32) to (37) of the initial Decision and confirmed in recital (12) of Amending Decision 1 and in recital (9) of Amending Decision 2. The measure does not alter that assessment. In particular, the alternative pricing grid for loans with subsidised interest rates as notified by Hungary is also considered to confer an advantage on borrowers, as in essence it remains equivalent to the progressive pricing assessed in the initial Decision. In view of the above, the Commission concludes that the measure constitutes State aid within the meaning of Article 107(1) TFEU. The Hungarian authorities do not dispute this assessment.

3.3. Compatibility

(13) Since the measure involves State aid within the meaning of Article 107(1) TFEU, it is necessary to consider whether it continues to be compatible with the internal market in light of the modifications.

(14) The Commission examined the scheme pursuant to Article 107(3)(b) TFEU and will assess the measure under the same legal basis.

(15) The Commission refers to its analysis of compatibility of the existing aid as set out in recitals (38) to (49) of the initial Decision.

(16) As regards the modification of the budget, the Commission notes that an increase has become necessary given the magnitude of the liquidity needs of Hungarian undertakings affected by the COVID-19 outbreak. A higher budget will enable the Hungarian authorities to support more undertakings under the measure. Still, this has no impact on the conditions under which each beneficiary may be supported, including the maximum amounts that they can receive. The Commission therefore concludes that the modification to the budget of the existing aid does not affect its analysis of compatibility with the internal market, and notably concerning the compliance with points 22(a), 22(b), 23(a), 25(d), 25(f) and 27(d) of the Temporary Framework.

(17) Concerning the simplification of the transparency rules, the Hungarian authorities have used the flexibility allowed by the third amendment to the Temporary Framework, so as to limit the administrative burden for the State and for the aid beneficiaries. The publication on the comprehensive State aid website or the Commission’s IT tool will thus only be required where the aid exceeds a certain threshold. This is without prejudice to Hungary’s obligation to report to the Commission on the use of the existing aid and the measure as required under points 87 and 88 of the Temporary Framework. The Commission thus concludes that the notified amendment to the publication rules complies with point 86 of the Temporary Framework, as amended on 29 June 2020.

(18) With regard to the notified alternative method of pricing of loans benefitting from subsidised interest rates, the applicable flat rates for credit risk margins were calculated starting from an average of the rates laid down in point 27(a) of the Temporary Framework, but were then further increased to adjust them to the
maturity of the loan. The Commission considers that this calculation method ensures that the flat rates remain effectively at least as high as required under point 27(a) of the Temporary Framework, and at the same time they provide an incentive for the beneficiaries to apply for loans with shorter maturities. Therefore, this alternative pricing of loans with subsidised interest rates can be considered equivalent to the pricing laid down in point 27(a).

In addition, the flat rates notified by Hungary remain higher than the minimum credit risk margin for the 1st year for each type of beneficiary, as adjusted according to the loan maturity. The Commission thus concludes that the alternative pricing of loans with subsidised interest rates complies with point 27(b) of the Temporary Framework.

(19) In light of the foregoing, the Commission considers that the measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State pursuant to Article 107(3)(b) TFEU since it meets all the requirements of the Temporary Framework.

4. CONCLUSION

The Commission has accordingly decided not to raise objections to the measure 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

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6 The Commission notes that similar flat-rate credit risk margins for subsidised interest rates on loans were considered compliant with point 27(b) of the Temporary Framework in its Decision of 8 July 2020 in SA.57724 (2020/N) – Slovenia COVID-19: Zero interest and soft loans scheme, OJ C 245, 24.7.2020, p. 1.