



EN

Enterprise and Industry

2014 SBA Fact Sheet

HUNGARY



In a nutshell

Until 2013, the Hungarian SME sector did not manage to fully recover from the initial shock of the crisis in 2008 and has been sluggish since 2009. Since then, it has fluctuated at around 90% of 2008 levels for all main aggregates: number of SMEs, employment and value added. The number of SMEs in the business economy dropped by 4% between 2009 and 2013 with a net loss of more than 22 000 SMEs. This decline in the number of firms also resulted in a loss of jobs. On a net basis, SMEs shed some 32 500 jobs between 2009 and 2013, a decrease of 2%, and gross value added shrank by as much as 6% in the same period. The crisis affected SMEs much more than large companies. There has been little change in Hungary's SBA profile as compared with last year. Problematic areas are entrepreneurship, second chance, skills and innovation, environment and internationalisation; for all of these, Hungary scores below the EU average. For single market, access to finance and responsive administration, Hungary performs in line with the average, and for state aid and public procurement, it even scores above it. While the overall profile as such has not improved much as compared with last year, the data suggests real progress over the past six years in about half of the SBA principle areas. Against this background, Hungary has made continuous efforts in recent years to improve its business environment. The areas that saw most policy activity and the greatest number of new measures over the period 2013-14 were entrepreneurship and responsive administration. However, the revised public procurement law and the new 'Strategy for Small and Medium Enterprises from 2014 to 2020' are also noteworthy. As for the future outlook, the growth potential of the Hungarian economy is expected to improve, but only moderately. To a large extent, this is due to a business environment characterised by high administrative burdens, regulatory volatility, and limited competition in major non-tradable sectors. Saddled with these structural challenges, the Hungarian SME sector is not expected to experience substantial growth for another two years. Value added is forecast to remain at 2013 levels until 2015, and expectations are that the number of SMEs will decrease by 1%, and SME employment by almost 2%, or more than 5 300 jobs. On the upside, micro firms are expected to fare better than small and medium-sized firms.

About the SBA Fact Sheets¹

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from 'entrepreneurship' and 'responsive administration' to 'internationalisation'. To improve the governance of the SBA, the 2011 review of the Act called for improved monitoring. The SBA Fact Sheets are published annually and aim to improve understanding of recent trends and national policies affecting SMEs.

1. SMEs in Hungary — basic figures

	Number of enterprises			Number of employees			Value added		
	Hungary		EU-28	Hungary		EU-28	Hungary		EU-28
	Number	Proportion	Proportion	Number	Proportion	Proportion	Billion €	Proportion	Proportion
Micro	497 947	94.5%	92.4%	867 316	35.7%	29.1%	9	18.5%	21.6%
Small	23 906	4.5%	6.4%	447 932	18.4%	20.6%	8	16.2%	18.2%
Medium-sized	4 064	0.8%	1.0%	404 374	16.7%	17.2%	9	19.2%	18.3%
SMEs	525 917	99.8%	99.8%	1 719 622	70.8%	66.9%	25	53.9%	58.1%
Large	829	0.2%	0.2%	708 457	29.2%	33.1%	21	46.1%	41.9%
Total	526 746	100.0%	100.0%	2 428 079	100.0%	100.0%	46	100.0%	100.0%

These are estimates for 2013 produced by DIW Econ, based on 2008–11 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

In terms of employment, SMEs in Hungary are of greater importance than across the EU on average. They account for 71 % of all employees, slightly more than SMEs in the EU (67 %). Yet the share of value added in Hungary is 4 percentage points lower compared with the EU as a whole. This is also mirrored by the relative position of large companies, which account for a smaller share in employment and a larger share in value added compared with the EU average. In contrast, for professional services, the distribution of SMEs across sectors in Hungary is very similar to that of the EU. Likewise, most Hungarian SMEs are found in the wholesale and retail trade sector (26 %), accounting for 26 % of SME employment and 22 % of the value added of all SMEs. Another interesting difference from the EU average concerns manufacturing. In the EU, 46 % of the sector's value added is generated by SMEs, but in Hungary, it is less than a third. The manufacturing sector therefore, which is comparatively important for Hungary as it generates about a fifth of the country's value added, is clearly dominated by large companies.

Only very recently, from 2013 onwards, did Hungary's economy start to recover from the last crisis when real GDP saw a drop of 6.7 %. As a small open economy, Hungary is highly exposed to transfers from Europe, and from emerging markets worldwide, through trade and financial channels. Exports, which benefit from strong links with the resilient German export sector, were the sole engine of growth at a time when domestic demand was severely contracting in recent years. At least until 2013, the sector did not manage to fully recover from the initial shock of the crisis in 2008. Since then, it has fluctuated at around 90 % of 2008 levels for all main aggregates: number of SMEs,

employment and value added². The number of SMEs in the business economy dropped by 4 % between 2009 and 2013, with a net loss of more than 22 000 SMEs. This decline in the number of firms also resulted in a loss of jobs. On a net basis, SMEs shed some 32 500 jobs between 2009 and 2013, a decrease of 2 %, and gross value added shrank by as much as 6 % in the same period. The crisis affected SMEs much more than large companies. While the SME sector was shrinking, the large company sector grew, albeit at the modest rate of 1 % a year for the number of firms and jobs, and 2 % in terms of value added. Despite the generally weak performance of SMEs between 2009 and 2013, they experienced a remarkably high growth of 17 % in value added in the information and communication sector. In the same period, the associated number of employees increased by 3 %. This highlights once more that information and communication technologies (ICT) are a success story in Hungary, where about 70 % of the employees in this sector are employed by SMEs. The Hungarian ICT market has grown rapidly over the last decade. Major global software developers and hardware producers are present in the country. Several IT companies operate technology service centres and many of them have also relocated their R&D activities to Hungary. ICT-related R&D accounts for more than a quarter of total R&D expenditure. Hungarian SME software developers have achieved international success in several fields, such as virus protection, bioinformatics, and IT security. The proportion of ICT specialists in the Hungarian economy is very high compared with neighbouring countries. IT education is among the top priorities and the general interest in IT is also high. The Hungarian

education system offers top-qualified IT personnel to companies.

SMEs in the professional activities sector also showed an outstanding performance. Between 2009 and 2013, their value added and employment grew by 24% and 11%, respectively. One reason for the success of this sector is the location and development of shared service centres of multinational companies. They have created thousands of new jobs and attracted projects of high added value to Hungary. Currently, there are almost 80 centres employing more than 30 000 people. According to Ernst & Young's shared service centre report, the majority of companies regard Hungary's qualified workforce and the high level of expertise as the country's major strengths. It is particularly significant that most of the existing centres are planning further growth in the near future — according to information from a survey recently published by PwC Hungary and AmCham (American Chamber of Commerce in Hungary). The hackneyed view that shared service centres mainly provide simple and standardised, low-value, transaction-level services is no longer true for countries like Hungary. Although they used to offer mainly relatively simple financial services, the centres now manage many complex processes, such as group treasury, external reporting, IT, human resources, and financial modelling functions.

As outlined above, manufacturing is indeed important — given its weight — for economic growth in Hungary. After the crisis (2009 to 2013), value added increased by 12%, indicating that SMEs in the manufacturing sector were on average performing slightly better than the entire Hungarian business economy. In contrast, the number of employees declined by 4%. This performance could have been worse considering that employment was hampered by high labour and tax costs. The high growth in value added can partly be explained by productivity gains, such as those arising out of the improvement in public infrastructure in recent years. However, since labour productivity is about 40 percentage points below the EU-28 average — and it is only slightly higher in manufacturing — it remains a fact that productivity improvements continue to be a primary task for SMEs.

Major reasons for the generally poor performance are the low productivity of Hungarian SMEs due to obsolete production equipment and insufficient ICT assets, low levels of R&D activity, and low levels of

innovation. SMEs owned by Hungarian stakeholders often have little capital and they already struggle with regular liquidity problems. Cooperation among SMEs, for example through joint development of innovative products, is still comparatively underdeveloped.

In 2013, more than 33 000 companies were struck off the commercial register in Hungary. This is 16% more than in the previous record year of 2010 (28 714) and 22% more than in 2012. A large proportion of these terminations can be explained by forced removals (2012: 6 022 companies; 2013: 14 917 companies) of economically inactive firms from the register. Between August and December 2013, the number of forced removals actually exceeded the total number of liquidations.

Given the sluggish economy up until 2013 and the tightening of legislation, the number of new companies declined sharply: only 32 481 new firms were established in 2013 as against 50 344 in 2011. The increase in 2013 in the required capital stock for limited liability companies will probably prolong the negative impact on company statistics in the coming years.

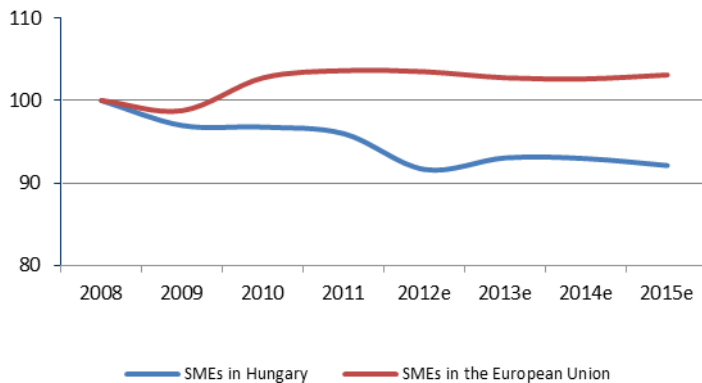
In the fourth quarter of 2013, GDP grew by 2.7% compared with the same period in the previous year. This figure surpassed the 1.8% growth recorded in the third quarter and marked the highest growth rate since December 2006. However, a number of factors could prevent Hungary's SMEs from fully taking advantage of this positive outlook. The business environment is characterised by high administrative burdens, regulatory volatility, and limited competition in major non-tradable sectors, all constituting problems that have become worse in recent years. Saddled with these structural challenges, the Hungarian SME sector is not expected to experience substantial growth for another two years. Value added is forecast to remain at 2013 levels until 2015, the number of SMEs to decrease by another 1%, and SME employment by almost 2%, or more than 5 300 jobs. On the upside, micro firms, accounting for the lion's share of SMEs, are expected to fare better than small and medium-sized firms and so avoid significant further losses. In addition, recent business sentiment surveys have detected some increase in confidence among SME managers, raising the hope that the situation of SMEs will improve beyond current estimates. The SME Economic Activity Index Survey shows that the expectations of SME managers have

SME trends in Hungary³

reached the level registered three years ago. Moreover, 49% of SME managers expected an improvement in their own businesses for the first half of 2014 and 53% expected to see growth in the Hungarian economy.

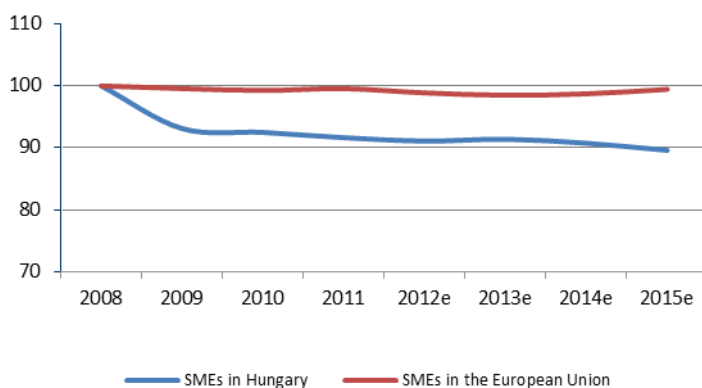
Number of SMEs

(Index: 2008=100, estimates from 2012 onwards)



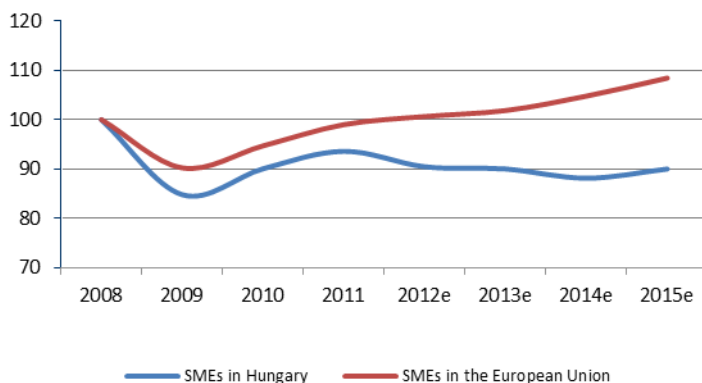
Employment in SMEs

(Index: 2008=100, estimates from 2012 onwards)

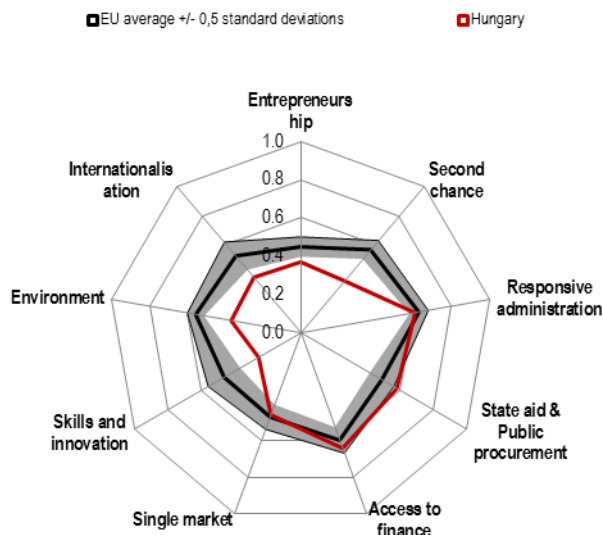


Value added of SMEs

(Index: 2008=100, estimates from 2012 onwards)



2. Hungary's SBA profile⁴



There has been little change in Hungary's SBA profile as compared with last year. The number of policy areas where the country still has to catch up with the EU in general is greater than those where it is already on par with — or even ahead of — its EU peers. Problematic areas are entrepreneurship, second chance, skills and innovation, environment and internationalisation; for all of these, Hungary scores below the EU average. For single market, access to finance and responsive administration, Hungary performs in line with the average, and for state aid and public procurement, it even scores above it. While the overall profile as such has not improved much as compared with last year, the data suggests real progress over the past six years in about half of the SBA principle areas. Only in second chance, internal market, environment and internationalisation did conditions not improve during that time.

Against this background, Hungary has made continuous efforts in recent years to improve its business environment. In 2012, for instance, Hungary launched and consolidated a large number of policy measures in key areas such as entrepreneurship, 'think small first', responsive administration, access to finance, single market and environment. This included many measures — in the spirit of the Act CXL of 2004 on General rules of administrative proceedings and services — that were designed or amended to reduce substantially administrative burden and fees for small companies. In 2013 and the first three months of 2014, Hungary introduced 34 policy measures

addressing 9 out of the 10 policy areas under the Small Business Act. Overall, progress in the SBA has been substantial over the reference period in terms of the quantity of measures launched.

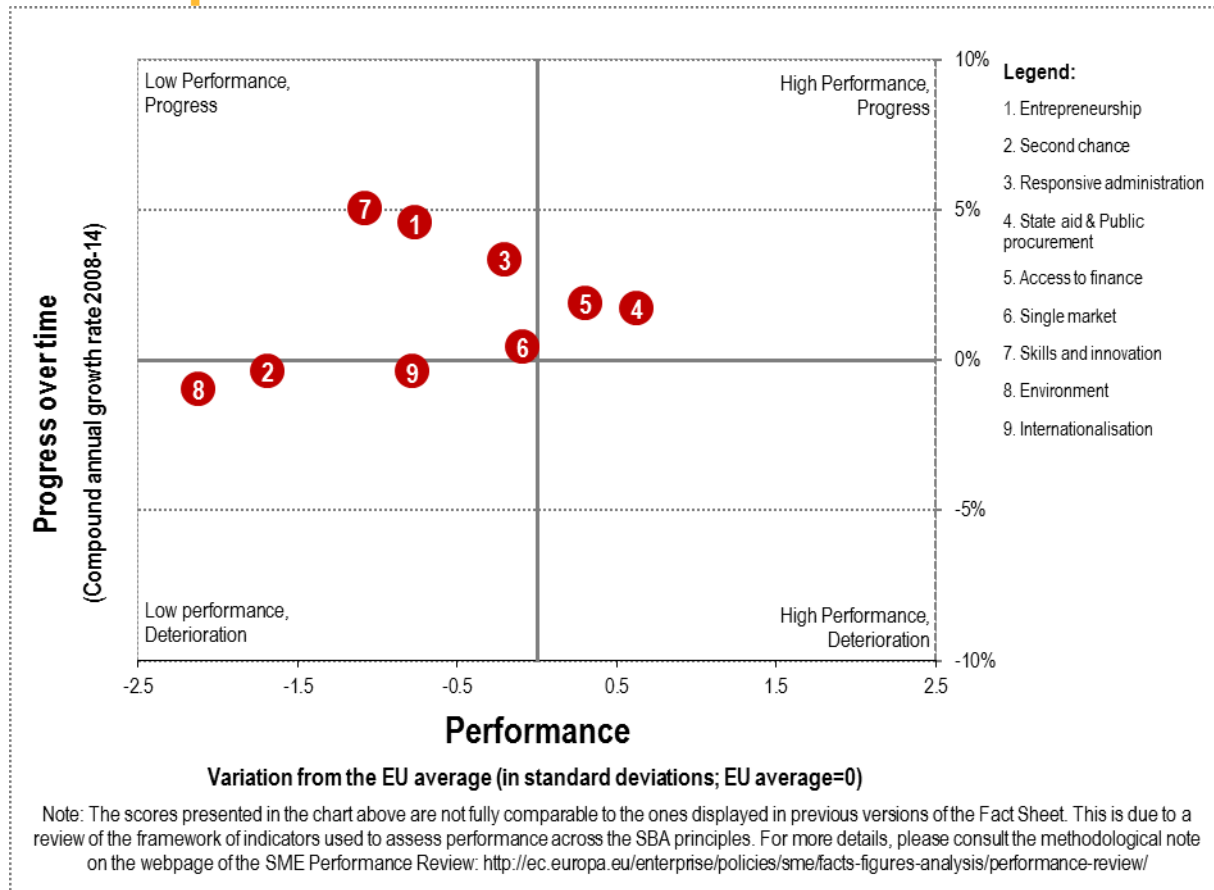
The areas that saw most policy activity and the greatest number of new measures launched during the period 2013-14 were entrepreneurship and responsive administration. Nevertheless, there was also an important new measure for state aid and public procurement in the form of a revised public procurement law that is designed to guarantee better access for SMEs to public tenders. Last but not least, the Hungarian government adopted the 'Strategy for Small and Medium Enterprises from 2014 to 2020', which aims to support the growth of Hungarian SMEs, and Parliament approved the plan in February 2014. The strategy focuses on the competitiveness of SMEs and introduces measures aligned with the SBA. Three areas of action are defined by the strategy: i) improving growth potential; ii) facilitating access to external sources of funding; and iii) developing the corporate environment. The SME envoy (appointed by the Ministry for National Economy) is expected to play an effective role in leading and properly managing the SBA Coordination Committee. This Committee, made up of representatives of Hungarian ministries, aims to develop a National Action Plan for SBA, as part of a work plan for 2014. The SME envoy invited ministries to report on the previous period, particularly 2013, identifying measures that had been implemented in compliance with the SBA and measures planned for 2014. It should be noted that Hungary has, as of late, improved its track record in terms of timely implementation of previously announced measures. In previous years, important measures that had been announced were ultimately not implemented. However, in 2013, all key measures announced in 2012 were put into action as planned.

While these efforts are proof of the government's commitment to improve the situation of SMEs in Hungary, they are not sufficient. This is evidenced not only by data trends in the various SBA principle areas but also by feedback from SME stakeholders who were interviewed for this analysis. While there is room for improvement in practically all SME policy areas, particular attention should be paid to access to finance, internationalisation, and supporting second

chance entrepreneurs. Most importantly, the ‘think small first’ principle needs to be applied systematically

in the legislative process and across all services and levels of government.

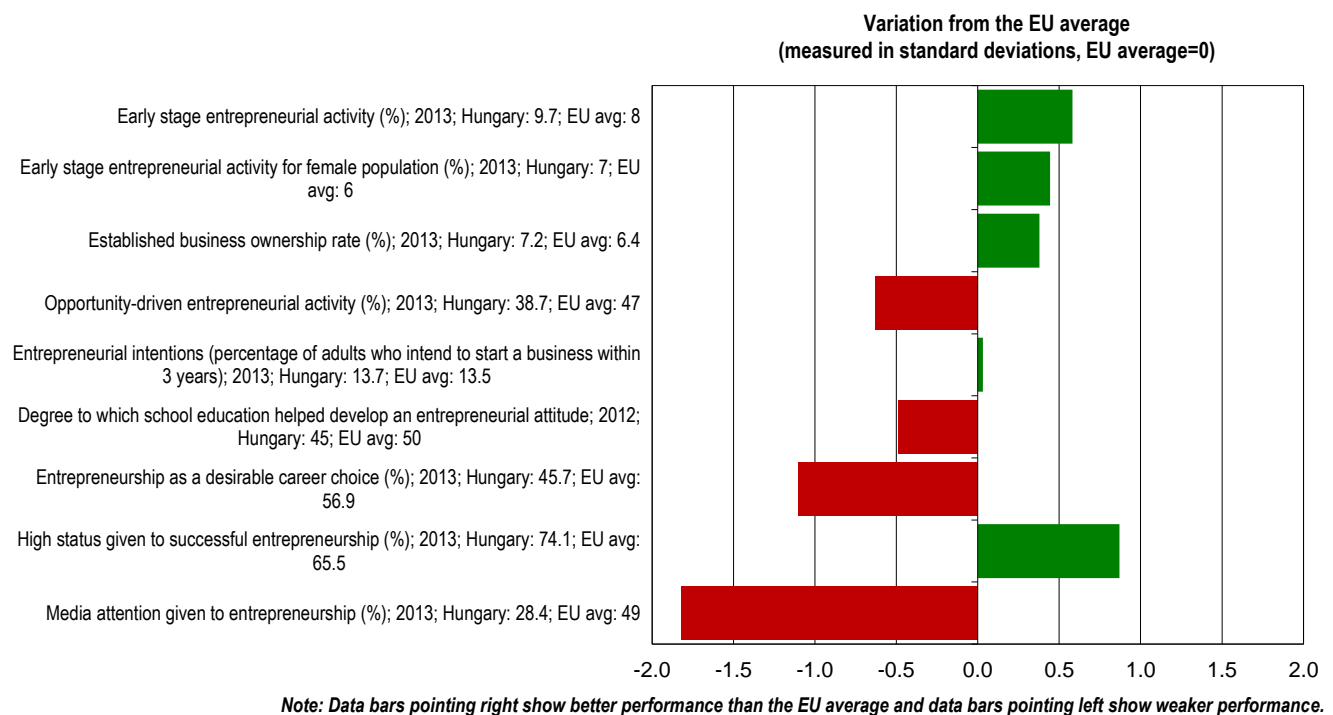
Hungary’s SBA performance: status quo and development between 2008 and 2014⁵



‘Think small first’ principle

The ‘think small first’ principle is still not an administrative reality. It is not systematically applied in the legislative process. One major criticism is that, in many cases, new acts and laws apply uniformly to all types of business and are not adapted to the needs of family, micro and small businesses. As an example, some legal provisions can only be fulfilled by businesses if they have the help of a specific IT or computer environment that is difficult to afford, especially for micro firms. The new SBA strategy (see previous section) is expected to ensure that the ‘think small first’ principle is better and more systematically reflected in future legislation. In this connection, information to explain to the public the SBA and ‘think small first’ was made available on the ‘Office on the Net’ website: <http://vallalkozas.netenahivatal.gov.hu/miert-fontosak-a-vallalkozasok/gondolkozz-elobb-kicsiben>.

Entrepreneurship



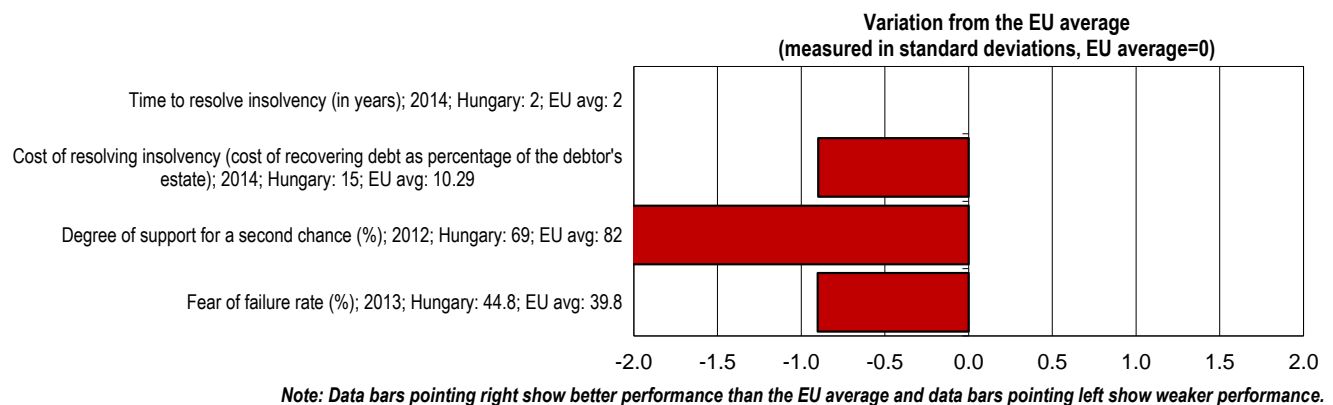
Hungary's overall score dropped back to a sub-EU average. At the same time, however, progress was registered on almost all individual indicators in this area. For most of these, the improvement of the EU average was simply greater than the improvement in Hungary, which explains the relative deterioration in comparison with the EU overall. More importantly, on most accounts, the situation in Hungary appears to be improving. The indicators for early-stage entrepreneurial activity (both general and female only), for the proportion of the overall population harbouring concrete entrepreneurial intentions, and for established business ownership rates, have all moved upwards during the past six years. The same goes for the indicators describing the enabling environment for entrepreneurship. Although some of these are still well below the EU average, such as the degree to which school education helped in developing entrepreneurial attitudes and the media attention given to entrepreneurship, they all followed a positive trend in recent years. This positive development is rounded off by the significant increase in the proportion of the population who think that successful entrepreneurs enjoy a high status in society; it increased from 67% in 2007 to 76% in 2013. The only indicator which stagnated over time

was the one measuring the opportunity-driven proportion of entrepreneurs. Overall, Hungary's performance is on a positive path. This trend may be reinforced in the medium term by the relatively large number of policy measures undertaken in these areas in recent years. Building on the comprehensive set of measures undertaken in 2012 — ranging from programmes to popularise entrepreneurship among young people to actions supporting women's entrepreneurship — policymakers remained focused on entrepreneurship in 2013 and the first three months of 2014 when substantial progress in policy implementation was made. Further measures to support entrepreneurship among young people have been launched. These include the 'Young Entrepreneurs Programme' launched by the Carpathian Region Business Network and — more significantly — the 'Support to young people to become entrepreneurs in the convergence regions'. The Ministry for National Economy has launched a contest for SMEs to give awards to the most successful firms in three categories: Investor of the Month; SME of the Month; and Start-up of the Month. In addition, since July 2013, the National Development Agency's 'Building the technological start-up ecosystem' programme offers support to

start-up companies, from the initial phases of idea development to successful market launch and penetration. Last but not least, the Hungarian National

Core Curriculum has been reformed in order to improve the teaching of entrepreneurial skills in schools.

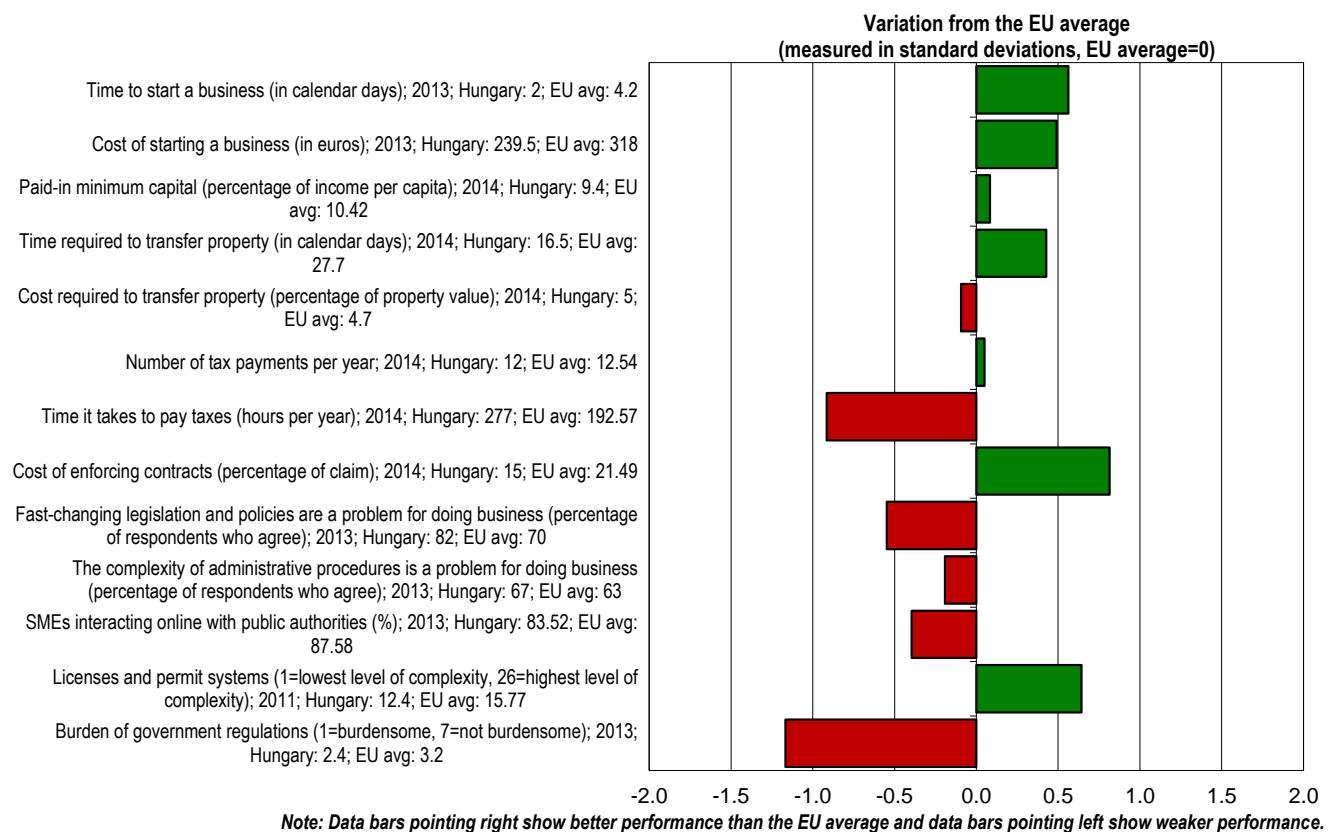
Second chance



For second chance, Hungary's overall performance remained below the EU average. The indicators measuring the legislative environment for a second start — time and costs to close insolvent companies — have not changed. The two other indicators clearly show the effects of the crisis. The fear of failure among the Hungarian population has increased substantially from 17% in 2007 to almost 45% in 2013. Under an impression of increased incidences of bankruptcies of firms that had been well-managed and

which in less challenging times might have survived, Hungarian society has warmed to failed entrepreneurs and is more willing to allow them a second chance (from 61% in 2007 to 68% in 2012). Given the gap between Hungary and the rest of the EU, and the increasing number of bankruptcies in the country, more action in this area appears to be needed. However, neither in 2012 nor in 2013 was any action taken.

Responsive administration



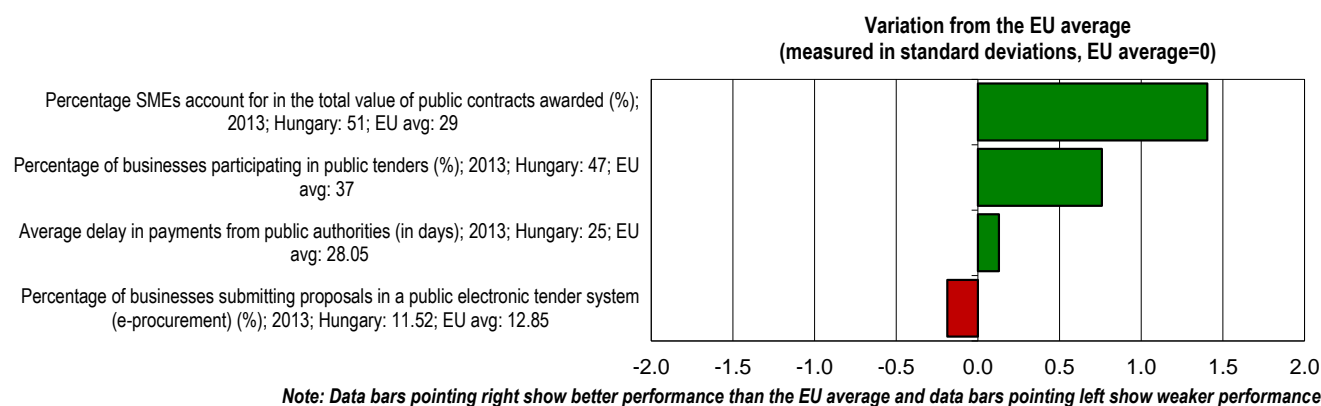
As regards responsive administration, Hungary remains, as in the past two years, well within the EU average. There is, though, a notable distinction between indicators measuring the general state of administration in Hungary and the situation as regards very specific administrative areas. Most of the more general indicators see Hungary trailing its EU peers. A higher proportion of SMEs in Hungary than in the EU complain about the too frequent changes in legislation and policies (82% versus 70% for the EU), and about complex administrative procedures creating a problem for businesses (63% versus 60%). It is not surprising then, that Hungary's SMEs are suffering more under the burden of government regulation than those in the EU in general. The licensing and permitting system appears to be the exception, as it is perceived to be more business-friendly than in the EU. As for the more specific administrative aspects, start-up conditions are more favourable in Hungary than in the EU on average. Already since the last couple of years, it has been faster and cheaper to set up a business in Hungary. In other areas, there have been massive improvements over the past six years. The level of the

required, paid-in minimum capital has been reduced from 74% in 2007 to only 9% in 2013. Over the same period, the number of days for transferring property went down from 77 days to only 17 days, and the average time SMEs need to spend on tax administration went down by almost 20% (from 340 to only 277 hours). Despite this progress, there is still plenty of room for further improvement in specific areas. First, the time needed to deal with tax payments is still significantly higher than the EU average of 192 hours. Second, the administration must beef up the electronic access to its services. A smaller percentage of SMEs in Hungary communicate with the administration electronically than elsewhere in the EU (83% versus 88%), although it has increased from only 54% in 2007. Many of the improvements are related to policy actions taken over recent years, especially those associated with the 'Act CXL of 2004: General rules of administrative proceedings and services'. Building on this policy focus of earlier years, progress in this area continued in 2013 and the first three months of 2014, when Hungary implemented a number of important

measures. Measures included: rationalisation and improvement of legislation of administrative procedures; improvement of the 'Government Windows' one-stop shop system for simple official administration; introduction of the Electronic Building Logbook and development of the Electronic Building Management and Information System. Hungary also implemented several measures under the 'Magyar Zoltán Public Administration Development Programme', in particular: measure 70 — Expanding opportunities of electronic information services;

measure 69 — E-Enterprises; and measure 77 — Establishing the Hungarian Entrepreneurs' Portal, a one-stop shop portal for Hungarian firms. Still, despite the government's efforts in this field, consultations with companies reveal that further substantial progress must be achieved to really improve the conditions of companies and their competitiveness, in particular as regards further improvement of the administrative one-stop shop.

State aid & public procurement



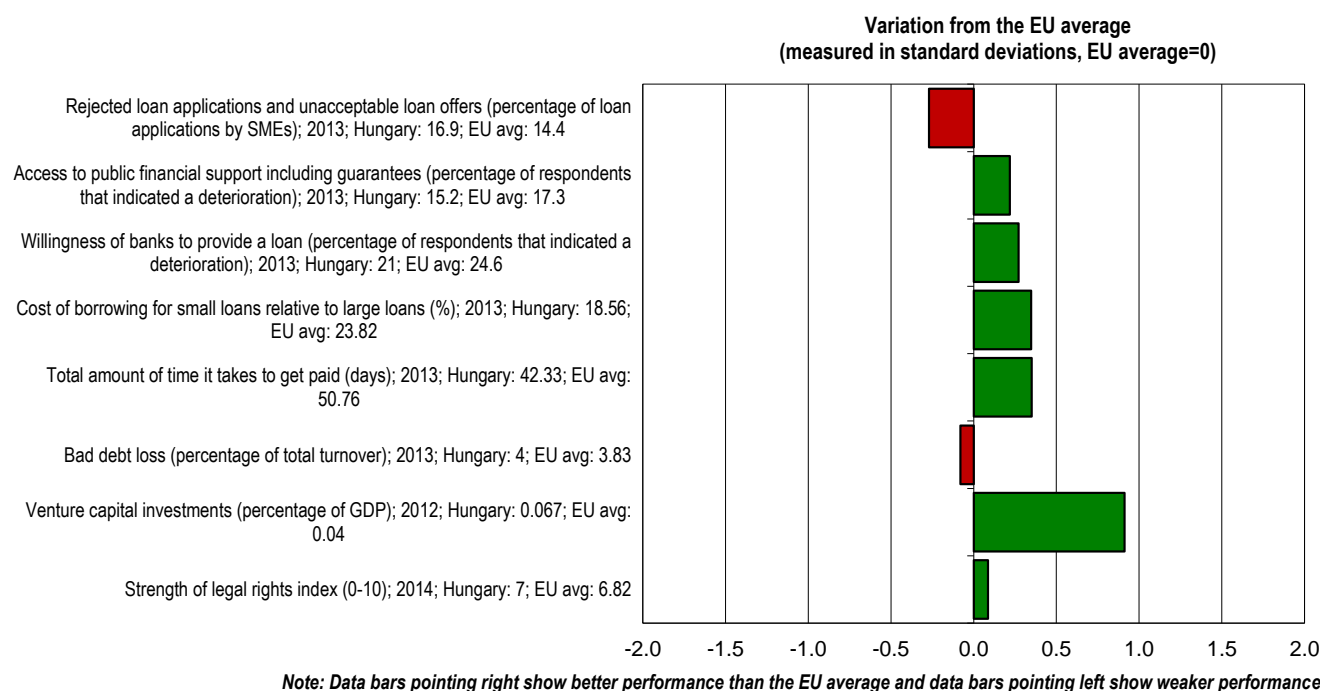
Hungary's overall score in this area continued to improve and is this year, for the first time, above the EU average. This good performance arises mainly from the high level of involvement of Hungarian SMEs in public tenders. The proportion of SMEs in the total value of public contracts was much higher in Hungary than in the EU (51% versus 29%). There are also more businesses participating in public tenders (47% versus 37%) and those who win tenders can, in general, expect faster payments than in the EU generally. However, this last point is also a concern. While still below the EU average, delays in payments have grown in recent years from 19 days in 2007 to 25 days. This may have been caused in part by the poor state of public finances during the crisis. Complementing the relatively low numbers of SMEs interacting electronically with public authorities, the lower proportion of those using electronic tender systems confirms that this is an area in need of attention by policymakers. For the time being, the system is limited to obtaining information, but does not yet extend to the submission of tenders and information. There is a chance that this problem might

be alleviated as part of the major policy initiative introduced in 2012-13. After a year without any policy action, the government made substantial progress by adopting the Act CVIII of 2011 on Public Procurement, which entered into force on 1 January 2012, and was substantially modified on 1 July 2013. This new public procurement act created a stable, transparent and reliable legislative system on public procurement. It is completely in line with EU directives on public procurement, and contains provisions that integrate relevant case law of the Court of Justice into legislation. A primary objective of the new act and its implementing regulations is to make it easier for companies to participate in public procurement procedures and so enhance competition. To this end, the new regulations have simplified the certification of eligibility, and reduced obligations related to the documents to be submitted in public procurement procedures. For instance, the obligation for subcontractors to be certified has been lifted, and — in an increasing number of cases — paper-based certificates have been substituted by electronic registers. In addition, legal verification of certificates is

no longer necessary if the Chamber of Commerce performs this task; and no certified translation is

needed if the tenderer provides a reliable translation.

Access to finance



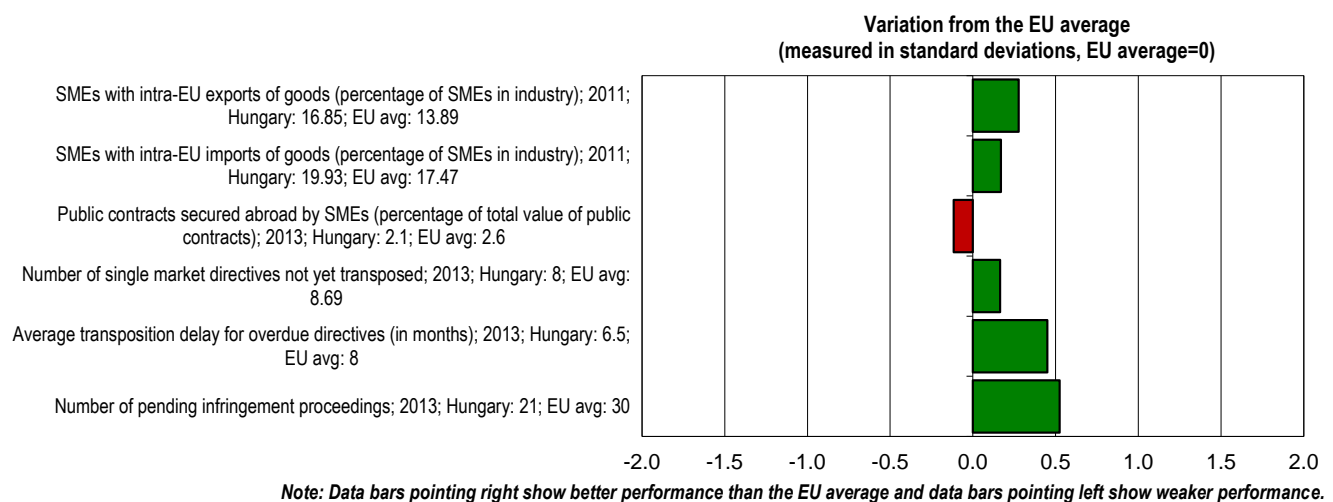
The overall ranking of Hungary in access to finance for SMEs is in line with the EU average. However, on most of the individual indicators, Hungary did not improve its performance. The better relative position vis-à-vis the EU average was merely due to some significant deterioration in financing conditions in other Member States, and — although to a lesser degree — to specific financing schemes initiated by the central bank. The Széchenyi Card programme and the availability of venture capital for SME financing have also played a stimulating role. Despite all this, the financing situation for most SMEs remains difficult. As in many other EU countries, access to finance depends on the precise method of financing. Access to bank loans has gradually improved, but it has also become more expensive. While the interest rate differential between smaller loans of less than EUR 1 million — mostly for SMEs — and larger loans remains smaller in Hungary than in the EU, this mark-up increased from 12% in 2007 to almost 19% in 2013. In addition, the lower interest mark-up benefits only those SMEs that succeed in obtaining a loan. The rate of rejected loan applications is, however, still higher in Hungary than in the EU, although it came down from 26% in 2012 to 17% in 2013. Some 28%

of SMEs in Hungary reported that banks are less willing to grant loans, as against 26% for the EU. This problem was somewhat mitigated by the government intervening more forcefully. Hence, the proportion of SMEs that felt that obtaining access to public support, including guarantees, had become more difficult dropped to 21% in 2013 as compared with 31% at the beginning of the crisis in 2008. Most other indicators remained largely unchanged. Hungarian firms are paid slightly faster than their EU counterparts (42 as against 50 days), and the share of lost payments is very close to the EU average (4%), so that, in terms of cash flow, Hungarian SMEs do not fare worse than their EU peers. The gradual increase in venture capital over recent years — in relation to GDP — is a positive development. Just as for most other Member States, venture capital is still hard to come by for most SMEs, but overall it seems to be slightly easier in Hungary. This was perhaps helped by the recent introduction of the JEREMIE I and II programmes (Joint European Resources for Micro to Medium Enterprises), which should have improved the situation, despite some doubts about effective implementation (e.g. in terms of the selection of SMEs).

In 2013 and the first quarter of 2014, some moderate progress was achieved in this field through a number of instruments. First, a new loan programme with preferential interest rates was introduced. Under this, the Hungarian National Bank offers funds to commercial banks, which in turn provide subsidized grants to companies with the objective of expanding

their R&D and innovation capacities and to promote the business environment. Second, a new credit line — under financing programmes from the EXIM Bank — offers financial support to SMEs to purchase advanced manufacturing equipment (EUR 600 million) at a preferential rate with the aim of boosting their exports.

Single market



For the single market area, Hungary has matched the EU average over recent years, and 2013 was no exception. Figures showing the intra-EU trading performance of Hungarian SMEs (this year slightly revised to focus only on manufacturing) put Hungary slightly ahead of its peers. Shares for both imports and exports increased by around 3% in the period 2008-11, the first phase of the crisis, when many SMEs were forced to seek markets abroad as domestic demand faltered. This good performance has not yet transferred to public procurement markets. Hungarian SMEs held a lower share of public contracts secured abroad relative to the total value of public contracts. Given the comparatively easy access to domestic procurement (see section on procurement), increasing this share might be harder for Hungarian SMEs than for those from other Member States. In terms of creating an enabling environment for trading within the single market, Hungary does very well. On all indicators measuring aspects of transposing EU directives into national law, Hungary's scores are better than the EU average. Particularly noteworthy is the fact that the number of infringement cases was reduced by 25% (from 28 to

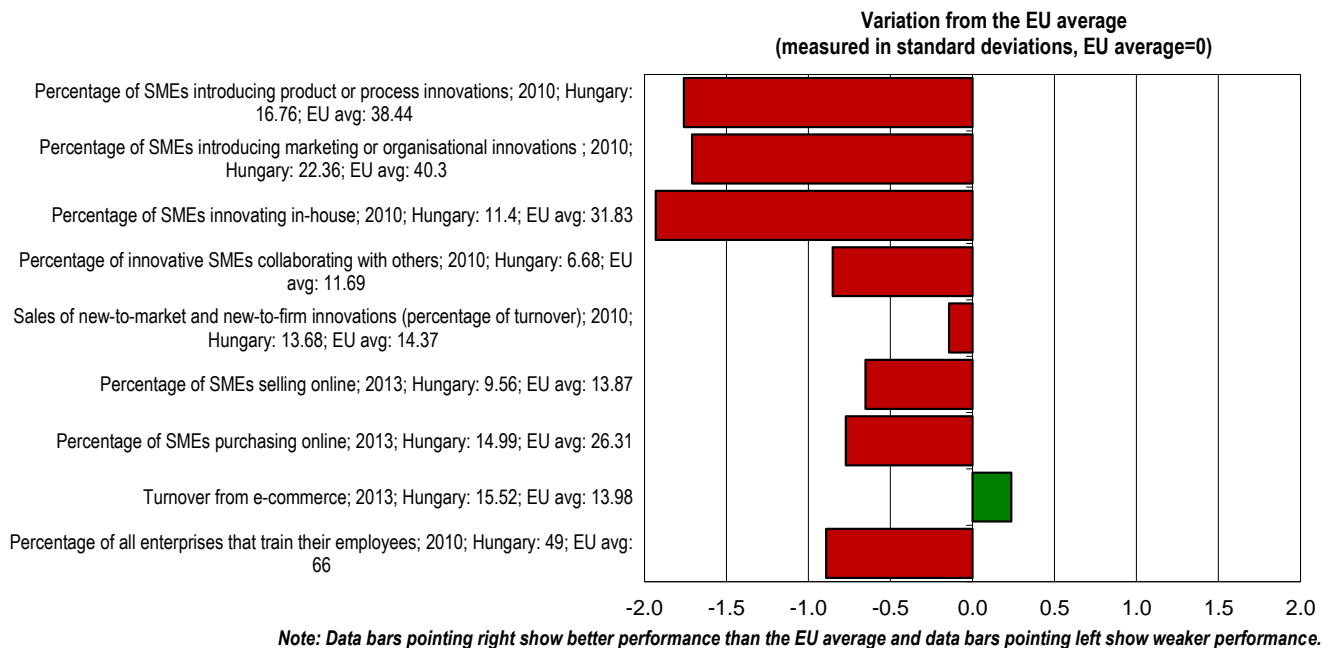
21) between 2007 and 2013. After a period of calmer activity, substantial progress was made in the period 2013 and the first quarter of 2014. After more than fifty years, Civil Law in Hungary has been completely rewritten by the new Civil Code that came into force on 15 March 2014. Several areas of law that were formerly regulated under separate acts will now be incorporated into the new Code. Customers will be able to claim repairs, or secure an exchange of defective products, directly from the manufacturer. This new form of liability is a quasi-extension of the existing product liability provisions set out in Council Directive 85/374/EEC and in Hungary's executing act, with similarly narrow exemptions. The measures formally announced in the period 2013 and the beginning of 2014 were:

- Transposing of Council Directive 93/13/EEC and amendment of European Parliament and Council Directive 1999/44/EC relating to consumer rights;
- Revision of government regulations under Act V of the new Civil Code 2013 concerning the requirements of warranties.

- Revision of regulation 49/2003. (VII. 30.) GKM relating to guarantee and warranty claims under consumer contracts in order to secure

the entry into force of the relevant provisions of Act V of the new Civil Code 2013.

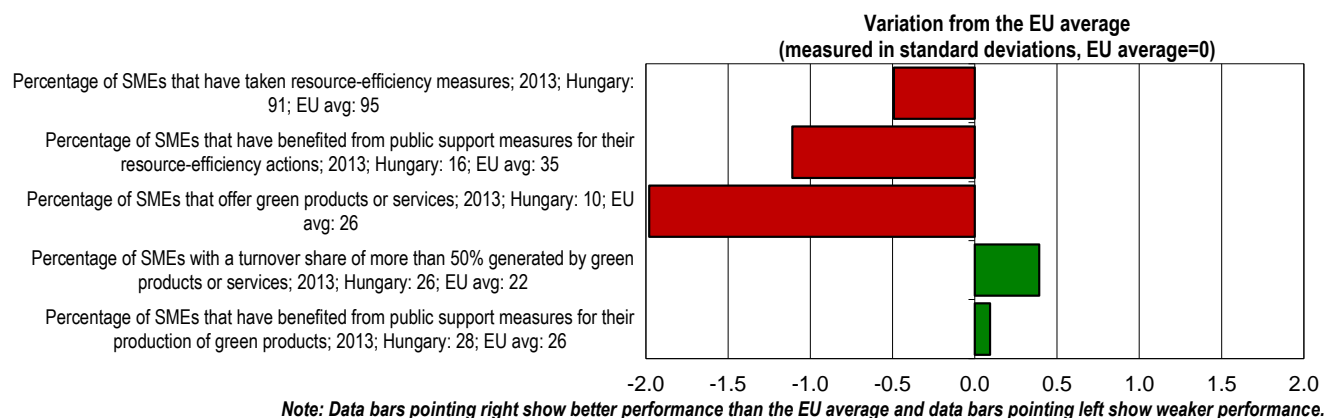
Skills and innovation



Skills and innovation remains a challenging area for Hungary. On every single innovation indicator, Hungary trails the EU average. The biggest gaps are for SMEs introducing process innovation and SMEs innovating in-house. As regards training, the situation is similar. A much lower proportion of Hungarian SMEs offer training to their employees (49 % versus 66 %). At first sight, the proportion of SMEs selling or purchasing online appear to be relatively low in comparison with the EU. However, both of these indicators have seen massive improvements since 2007. The proportion of online sellers jumped up from 4 % to 10 %, while for imports the corresponding rate increased from 7 % to 15 %. The share of turnover saw a similar development with the result that, on this indicator at least, Hungary is already outperforming the EU average.

After 2012's calmer year for policy implementation, 2013 saw some moderate progress as three new measures were implemented over the reference period. First, a programme supports and improves the activities of 'gazelles' or high-growth start-ups. Second, the 'Go!Inno' mentoring initiative supports innovative start-ups by facilitating professional advice from mentors in the fields of market penetration, marketing strategy, marketing research, innovation management and communication strategy. Finally, the 'Researcher Contribution Allowance', offers entrepreneurs a tax allowance of up to EUR 1 550 if they hire researchers with a Ph.D.

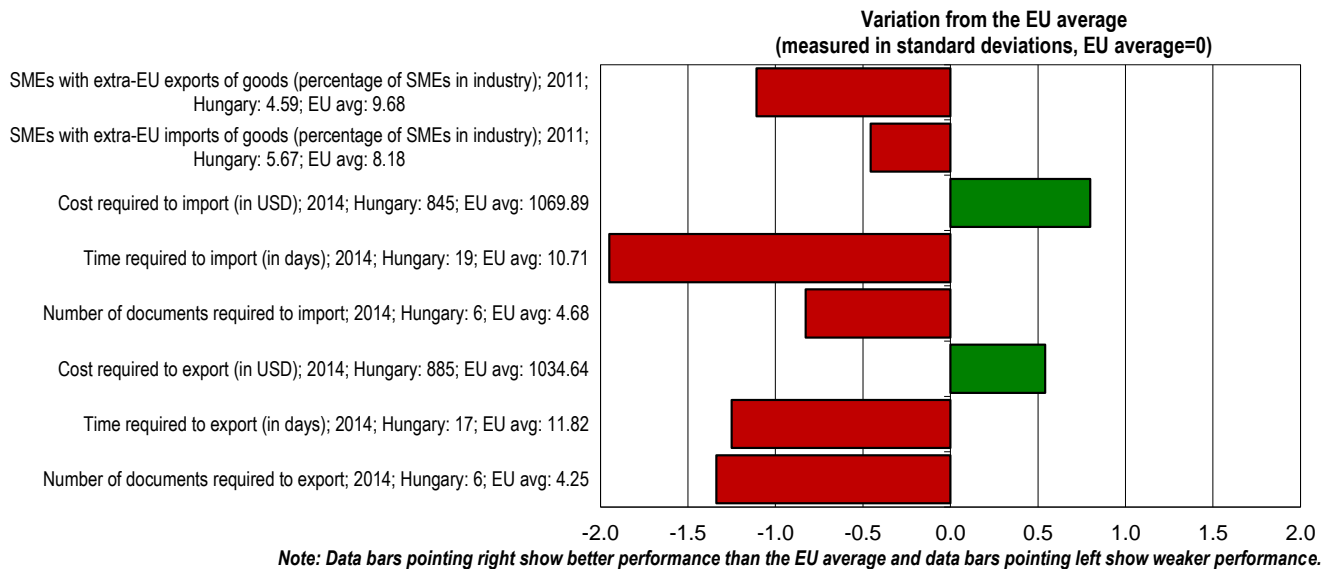
Environment



For the third year in a row, Hungary scores below the EU average in this area. A new edition of an EU-wide survey on SMEs and the environment saw Hungary still coming last in the EU when it comes to the proportion of SMEs offering green goods or services (10%, EU: 26%). However, for those SMEs that do offer such products, the number generating at least 50% of their total turnover is now somewhat higher in Hungary (26%; EU: 22%). In short, while Hungary has a smaller share of green SMEs overall, those that offer such products are relatively more specialist. The number of firms in Hungary that are 'growing green' is, therefore, minuscule. Of the firms offering green products, there is now also a larger proportion to have benefited from public support to develop such products (28% versus 26%). This support seems, however, to be lacking on the resource efficiency side, as only 16% confirmed that they had received public

support for their investments (EU: 35%). In fact, this SBA policy area has not benefited from much policy attention in recent years, which helps to explain the generally weak performance, and progress was also limited in 2013 and the first quarter of 2014. There was only one measure of note: at the beginning of 2014, the National Waste Management Agency announced a new financing scheme to promote the participation of SMEs in waste management. The programme aims to promote collection and recovery systems, including the development of refuse collection systems and rubber waste recycling, to develop electrical and electronic waste recycling, and to support improvements in the recycling of packaging waste.

Internationalisation



In internationalisation, Hungary has once again not improved its performance and its score remains below the EU average. Sluggishness best describes developments up to 2013 on the general level and also as regards individual indicators. There had been some improvements, most noticeably as regards the costs of trading (both import and export) but in recent years, no further reduction of costs, times or complexity of administrative procedures related to trading has been achieved. The level of Hungary's trade with non-EU countries languishes at a rather low level. This is in contrast to the rise in SME exports and imports to and from the single market. However, this may be set to change as substantial progress in policy implementation was made in this area in the period 2013 and the first quarter of 2014. The government launched a number of support measures to instil a new dynamism in exports to markets abroad:

- New offices have been established, for example, new Offices of Economic Affairs in 12 countries, the opening of two new offices of the

Carpathian Region Business Network, and the creation of the Hungarian National Trading House, which seeks to promote new market opportunities for Hungarian companies, especially SMEs;

- Cooperation agreements have been established, such as the Economic Cooperation Agreement with Argentina and Uruguay to raise the level of SME exports to Latin America. A cooperation agreement with the four Visegrad countries aims to ensure joint market actions by establishing common economic and trade agencies in third countries. There have also been sessions of the Joint Commission on Economic Cooperation where the Hungarian government has promoted the international cooperation of companies so as to improve the SME share of bilateral trade.

- Grants are available to enter foreign markets, for example, under the Trade Development Tender 2013, which offers grants from EUR 6290 to EUR 187650 to companies wishing to enter new markets.

3. Good practice

Below is an example of an interesting policy practice from Hungary to show what governments can do to support SMEs.

Building the technological start-up ecosystem

The 'Building the technological start-up ecosystem' programme is designed to support Hungarian start-ups throughout the whole process from idea definition to market penetration. The structure and function of the programme will help to build a business start-up, thereby contributing to long-term economic growth. In practice, it supports technological ideas at the earliest phase (including the technical and financial feasibility analysis, and the definition of protection of intellectual property) up until the development of sound products, ready to be sold in global markets.

The programme consists of:

- Support to carry out technical and economic feasibility, testing technology ideas, and registering intellectual property;
- Support during the incubation process;
- Support for market entry and capital acquisition.

In particular, the following activities are supported: feasibility study, proof of concept, creation of a business plan, definition of intellectual property, prototype production, market research, entrepreneurship training, use of advice, market entry preparation, marketing, trade, involvement of capital market instruments, international market entry, required technological developments, and investor relations analysis.

References: <http://palyazat.gov.hu/doc/4146>

<http://www.palyazatihirek.eu/vallalkozasok/18-vallalkozasok-fejlesztese/2744-technologiai-start-up-oekoszisztéma-epites>

Important remarks

The Small Business Act (SBA) Fact Sheets are produced by DG Enterprise and Industry as part of the SME Performance Review (SPR), which is its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information for the 28 EU Member States and nine non-EU countries which also contribute to the EU's Competitiveness and Innovation Framework Programme (CIP). Produced annually, the Fact Sheets help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member States' policies but should be regarded as an additional source of information designed to improve evidence-based policy-making. For example, the Fact Sheets cite only those policy measures deemed relevant by local SME policy experts. They do not, and cannot, reflect all measures taken by the government over the reference period. More policy information can be found on a database accessible from the SPR website. Please also see the end notes overleaf.

For more information

SME Performance Review:

http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

Small Business Act:

http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

The European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

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¹ The 2014 SBA Fact Sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

² In nominal terms and expressed in HUF, the development looked more positive. However, in real terms, and taking into account the substantial inflation rates of some 4-6 % annually since 2008, Hungary's SME sector is still hovering below the pre-crisis levels.

³ The three graphs below present the trend over time for the variables. They consist of index values for 2008 to 2015, with the base year 2008 set at a value of 100. As from 2012, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008–11 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in the financial sector, agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm.

⁴ The policy measures presented in this SBA Fact Sheet represent only a selection of the measures taken by the government in 2013 and the first quarter of 2014. The selection was made by the national SME policy expert contracted by CARSA Spain (DG Enterprise's lead contractor for the 2014 Fact Sheets). The experts were asked to select only those measures that, in their view, were the most important, i.e. were expected to have the highest impact in the specific SBA area. The complete range of measures that the experts compiled in producing this year's Fact Sheets will be published alongside the Fact Sheets in the form of a policy database on the DG Enterprise website.

⁵ The quadrant chart combines two sets of information: first, it shows the current performance based on data for the latest available years. This information is plotted along the x-axis measured in standard deviations of the simple, non-weighted arithmetical average for EU-28. The vertical corridor marked by the dotted lines defines the EU average. Secondly, it reveals progress over time, i.e. the average annual growth rates for 2008-14. The growth rates are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the rest of the EU at a given point in time, but also about the extent of progress made in 2008-14.