



### Key points

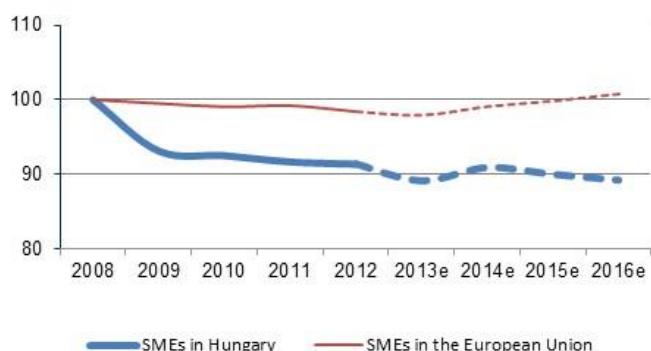
**Past & future SME performance**<sup>1</sup>: Although there are some encouraging signs, Hungary's SME sector is still some way short of sustained recovery. In the immediate aftermath of the 2008 financial crisis, the SME sector dropped by around 10% in terms of number of businesses, employment and value added. Only in terms of value added has there since been a recovery. It rose by 12% between 2009 and 2014, while employment fell by 2% in the same period. The outlook for 2015 and 2016 does not point to a reversal of these trends. SMEs' value added is predicted to grow annually by 0.3% until 2016, while the number of employees is expected to fall further by 30 000 between 2014 and 2016.

**Implementing the Small Business Act for Europe (SBA)**: Hungary still lags behind the EU average in the majority of SBA areas. Environment, 'second chance', 'responsive administration' as well as skills & innovation are the areas causing most concern. In two areas — state aid & public procurement and access to finance — Hungary does better than the EU average. Improved access to finance is partly the result of sustained policy efforts since 2008. Other measures focusing on 'think small first' and 'responsive administration' have produced more mixed results. While a number of recent measures are expected to become fully effective in the future some reforms only partially addressed the problems or even led to an increase in bureaucratic burden on SMEs.

**SME policy priorities**: Regulatory impact assessments (RIAs) and stakeholder consultations have to be conducted more systematically. Also, transparency in terms of publication of assessments has to increase and consultation periods need to be extended. The ongoing e-government reforms need to be fully implemented and extended, in particular as regards public procurement processes so as to ease bureaucratic burden, increase transparency and competition and lower vulnerability to corruption. Support for innovation in SMEs has to be stepped up and conditions for 'second chance' entrepreneurs have to be improved by shortening insolvency procedures to less than one year, providing advisory services to SMEs in difficulties and launching public awareness campaigns to remove the stigma of business failure.

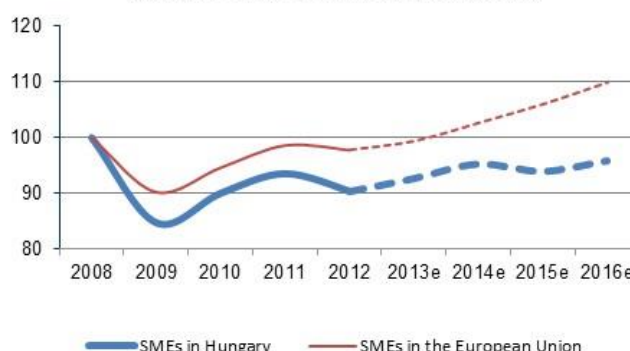
**Number of persons employed in SMEs**

(Index: 2008=100, estimates as from 2013 onwards)



**Value added of SMEs**

(Index: 2008=100, estimates as from 2013 onwards)



### About the SBA fact sheets

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 it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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## 1. SMEs — basic figures

	Number of enterprises			Number of persons employed			Value added		
	Hungary		EU-28	Hungary		EU-28	Hungary		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	478 021	94.2%	92.7%	847 980	34.6%	29.2%	9	18.7%	21.1%
Small	24 617	4.9%	6.1%	461 790	18.8%	20.4%	8	16.1%	18.2%
Medium-sized	4 039	0.8%	1.0%	400 148	16.3%	17.3%	9	18.8%	18.5%
<b>SMEs</b>	<b>506 677</b>	<b>99.8%</b>	<b>99.8%</b>	<b>1 709 918</b>	<b>69.8%</b>	<b>66.9%</b>	<b>26</b>	<b>53.6%</b>	<b>57.8%</b>
Large	867	0.2%	0.2%	741 405	30.2%	33.1%	23	46.4%	42.2%
<b>Total</b>	<b>507 544</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2 451 323</b>	<b>100.0%</b>	<b>100.0%</b>	<b>49</b>	<b>100.0%</b>	<b>100.0%</b>

*These are estimates for 2014 produced by DIW Econ, based on 2008-2012 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial 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.*

Hungary's SMEs account for more than half of value added in the non-financial business economy and around 70% of employment. SMEs are particularly important as providers of employment opportunities in *real estate activities, professional activities, and construction*, accounting for more than 90% of all jobs in these sectors. Labour productivity of SMEs in the entire 'non-financial business economy' is 63%, which is below the EU average.

The figures projected for SMEs in Hungary in 2014 do not show such clear signs of a sustained recovery as in other Member States. In fact, the picture is mixed. There has been little pickup in the number of SMEs since the crisis began in 2008, although the downward trajectory has flattened out in the past three years. Gross value added has recovered strongly since the enormous initial slump in 2008/2009. Value added rose by 12% in the period 2009-2014, while employment fell by 2% in the same period. However, compared with its pre-crisis peak in 2008, the 'non-financial business economy' is still 5% down on

value added, and 9% down on employment. For all aggregates, SMEs' development was weaker than that of larger firms.

The *information and communication* sector has contributed significantly to the good performance of SMEs. Since 2008, SME value added has grown by 31% and employment by 3%. This growth has been driven by the availability of EU structural funds between 2007 and 2013, which contribute to building infrastructure in the transport, energy, road, railway, and IT sectors.<sup>2</sup> In addition, they provide finance to SMEs for technological investment and development, particularly computer and software purchases. This boosted the ICT sector during the period in question, and many international ICT companies have set up Hungarian branches of their businesses in recent years.<sup>3</sup>

SMEs in *manufacturing* have also expanded their business, although it was limited to value added only. Since 2009, SMEs' value added is estimated to have grown by 29%, while

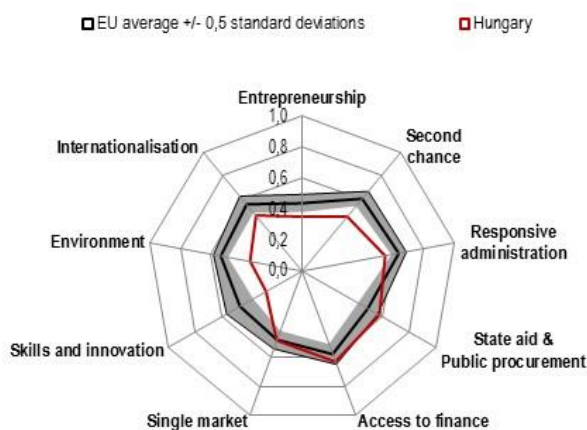
employment fell by 5%. The government's strategy in this sector aims to turn Hungary into a European manufacturing hub. As a top policy priority in recent years,<sup>4</sup> it offers incentives for manufacturing, especially car manufacturing, in order to attract foreign investment. The intended integration of the European car business into the value chain is having some effect, but still leaves room for improvement. SME value added in the motor vehicles sector was estimated to have increased by 6% in 2013 and 2014, and by 24% in the period 2009-2014. However, SME employment was expected to fall by 1% in 2013-2014 and by 11% during the period 2009-2014. While the differing trends in value added and employment in manufacturing may be a sign of greater labour productivity, SMEs' contribution to employment creation in this sector has been weak.

The business demography of recent years also reveals a mixed picture. The number of newly registered companies increased in 2013 by 9.3% compared with 2012. There were 113 000 start-ups, compared with 103 400 in 2012. However, this is lower

than the 126 900 recorded in 2011.<sup>5</sup> According to the National Statistics Office, there were 101 405 company liquidations in 2011 and 134 000 in 2012. As a result, there was a net gain of 25 000 business registrations in 2011, and a net loss of 30 600 registrations in 2012.<sup>6</sup> Deregistration data for 2013 are not yet available. While 2012 saw a net loss in the number of businesses in all sectors of the economy, most of the start-ups were registered in the *wholesale and retail trade* sector with 12 409 new companies, followed by *professional activities* and the *construction* sector with 6 917 and 4 168 new registrations respectively.<sup>7</sup>

There is likely to be more of the same for 2015 and 2016. SMEs' value added is predicted to grow annually by 0.3% until 2016. SME employment is set to fall by 0.9% annually. The number of employees in SMEs is projected to drop by another 30 000 from 2015 to 2016.

## 2. SBA profile<sup>8</sup>



Hungary's SBA profile remains weak. In six SBA policy areas the country performs below the EU average, namely entrepreneurship, 'second chance', 'responsive administration', skills & innovation, environment and internationalisation. On the brighter side, it ranks above the EU average as regards state aid & public procurement as well as access to finance. There is little change from last year. Since the SBA was introduced in 2008, however, there has been steady progress in almost all SBA areas, including entrepreneurship, 'responsive administration', state aid & public procurement, access to finance, single market, skills & innovation and internationalisation. In all of these, with the exception of single market, Hungary's progress has outstripped the EU average. 'Second chance' is the only area where conditions have actually worsened since 2008.

These improvements reflect a proactive government approach in many SBA areas. The focus of policy-making since 2008 has been on entrepreneurship, 'responsive administration', access to finance, skills & innovation and internationalisation. Overall, the effect of these efforts has been mixed. Real improvements in some areas have to be set against measures which failed to create a more conducive environment for SMEs, especially in 'responsive administration'. Also, a number of SBA provisions have not yet been implemented. These include common commencement dates and the application of the 'only once' principle as well as the systematic sharing of public consultation and RIA results with stakeholders and the public at large. In addition, some measures have either not been fully implemented or have only very recently been carried out, such as the systematic application of a SME test. All these factors combined explain why the effect of policy-making on the SME sector has, so far, been limited. This is evidenced by the much less dynamic development of Hungary's SME sector — not just against the EU average, but also in comparison to most of the countries hardest hit by the crisis. Against this backdrop, the government was active in implementing SBA measures during the reporting period for the 2015 fact sheet, i.e. 2014, and the first three months of 2015. Hungary has implemented a total of 17 measures addressing 8 out of the 10 SBA policy areas: entrepreneurship, 'think small first', 'responsive administration', state aid & public procurement, access to finance, single market, skills & innovation and internationalisation. There was no progress during the reference period in the areas of 'second chance' and environment.

The 'Strategy for Small and Medium Sized Enterprises' of February 2014 is the most important measure adopted in the reference period. The main goal of this strategy is to increase the competitiveness of the SME sector so as to stimulate economic growth and higher employment. The strategy also identifies the priorities for government action, i.e. increasing the

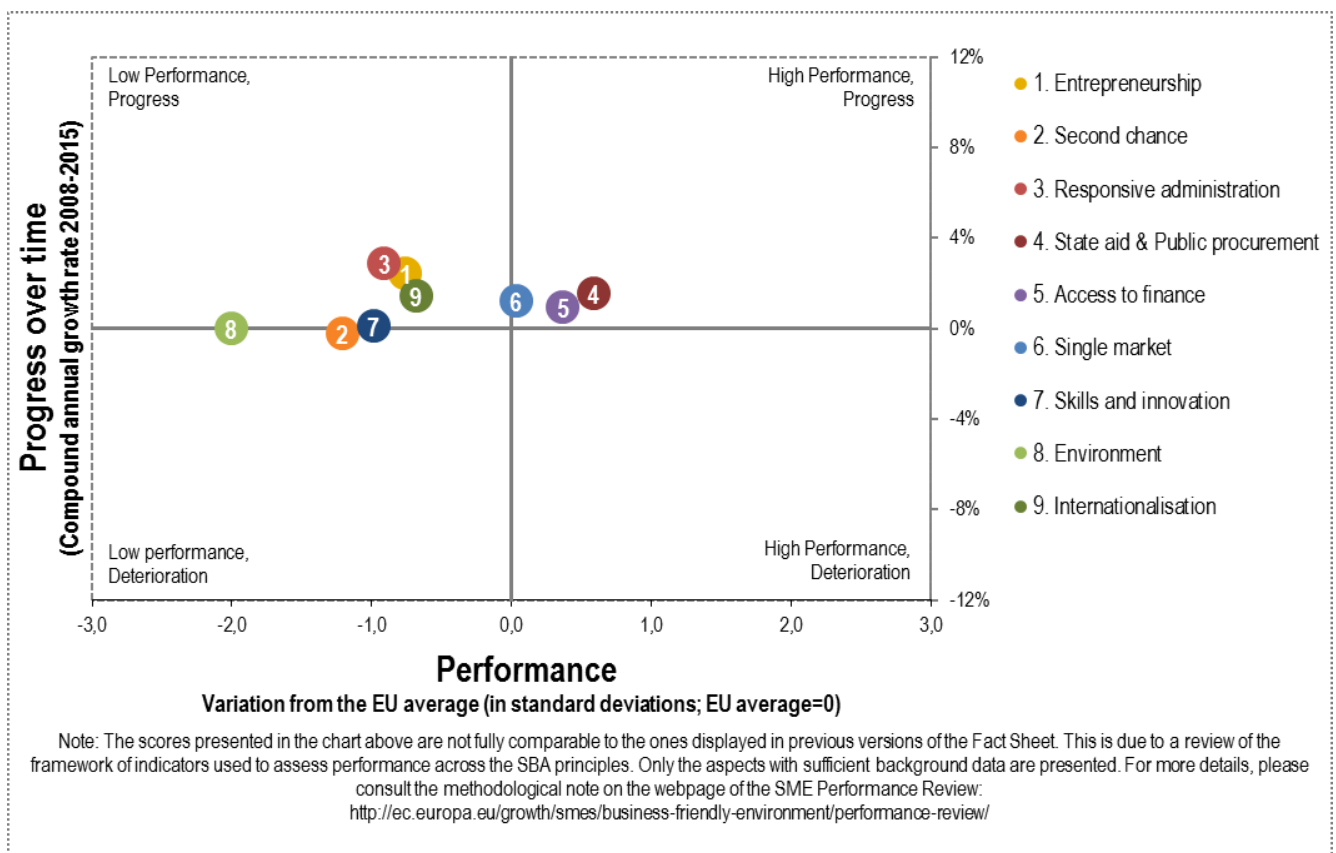
SMEs' growth potential, granting easier access to finance, and improving the business environment. It sets the target of a 20 % increase in SMEs' value added. Some 60 % of the available EU funds are earmarked for SMEs. The strategy is backed by the Economic Development and Innovation Operational Programme (EDIOP), which has already been adopted by both the European Commission and the Hungarian Government. EDIOP is an essential part of the SME strategy as it sets out the specific provisions and measures incorporated in the SME strategy. The priorities of the SME strategy are mirrored in the EDIOP. These include increasing SME exports and cutting red tape. The first tenders were published in 2014 and some others were unveiled in spring 2015. These first tenders attracted a lot of SME interest. More than 100 Hungarian enterprises are to receive support payments of some HUF 4 billion this year. These funds will enable them to obtain up-to-date equipment and machinery. The 'Funding for Growth Scheme' is another key measure

adopted in the reference period. As the most important loan instrument it has been significantly upgraded so as to boost SME financing.

Hungary has stepped up its implementation of previously announced measures, and carried out most of them in the reference period. However, there is a delay in implementing two measures, namely the 'Trade Development Tender' for establishing new offices of economic affairs abroad and the 'Young Entrepreneurs' Programme' in convergence regions.

As for future policy-making, no additional measures were announced by the government during the reference period. The financial and administrative burden on SMEs, including tackling the related problem of corruption, still constitute the main policy challenges.

## SBA performance of Hungary: state of play and development from 2008 to 2015<sup>9</sup>



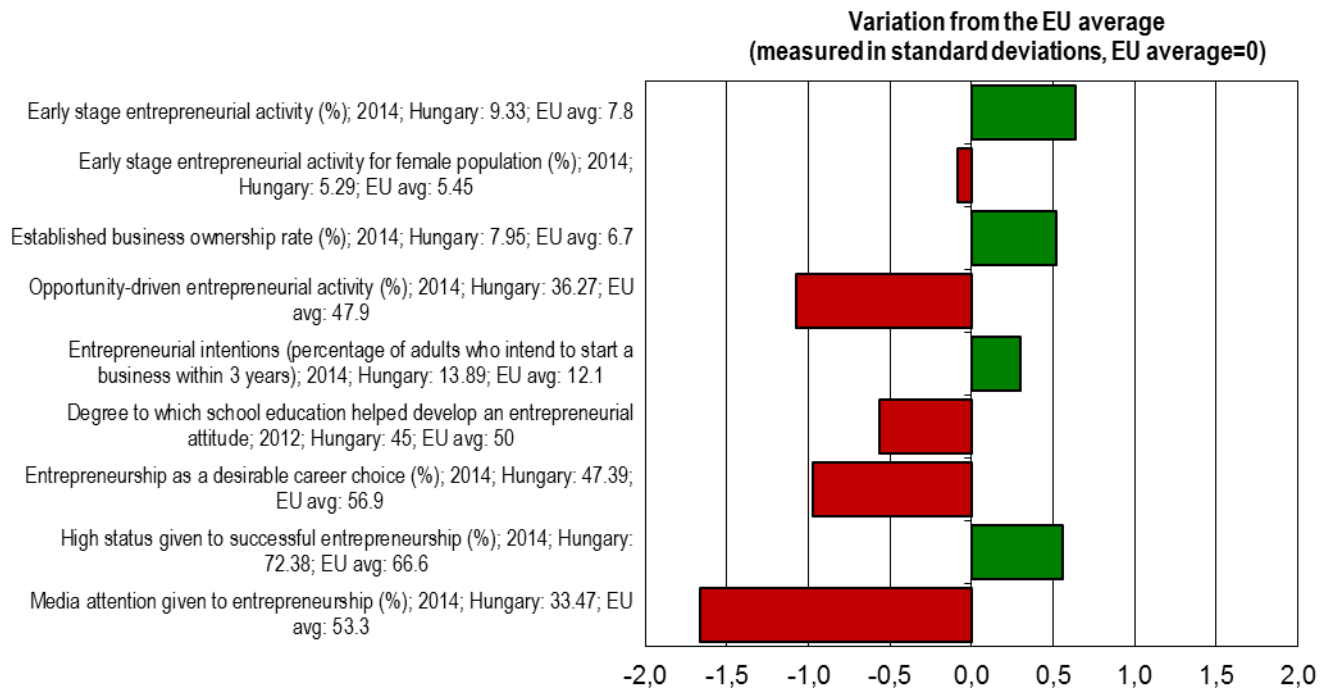
## 3. SBA principles<sup>10</sup>

### 3.0 'Think Small First'

The 'think small first' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policy-makers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply. In Hungary, the full implementation of this principle is still a work in progress. Since 2008, some key measures of the 'think small first' principle have been addressed. These include the introduction of an SME test and RIAs. However, the new measures are by no means perfect. From the SMEs' perspective, legislative processes are still subject to frequent short-notice changes, insufficient transparency and the absence of systematic consultations with the relevant parties. RIAs, including competitiveness assessments, are not always conducted when they ought to be. Occasionally, parliamentary procedures are used to circumvent impact assessments and consultations. Also, even when impact assessments are conducted, they do not get published systematically. Those which are published are not always up to the required quality standards, due to a lack of data. The consultation processes also need to be improved. Input from stakeholders is not always handled in a transparent way. Analysis of stakeholder inputs is not systematically acted upon and published. The abolishment of the Interest Reconciliation Council (Országos Érdekegyeztető Tanács) in 2011 has put the

stakeholders at a disadvantage. Apart from the regular stakeholders' meetings of the Business Development Council, consultations tend to be of an ad hoc nature. In fact, consultations with the relevant parties are often rushed, due to a very short time span between the submission of a draft bill and publication of the final law. The introduction of online cashiers provides an example of the controversial consultation process in 2014. While the government maintains that there had been ample opportunities for stakeholders to express their opinion, this is not the view of the private sector. According to the latter, the law was implemented unilaterally by the administration, with no prior consultation, resulting in an increase of unnecessary administrative burden for SMEs. Finally, there are also issues related to the implementation and execution of laws. It is publicly acknowledged that corruption is a problem which affects decision-making. The absence of common commencement dates for legal changes does not help SMEs in their efforts to keep up to speed with the quite frequent changes. During the reference period, the most important measure was the above-mentioned SME strategy ('Development Strategy of Small and Medium Sized Enterprises 2014-2020') adopted in February 2014. The strategy endorses the 'think small first' principle and aims explicitly at cutting 'red tape' and easing the administrative burden.

### 3.1 Entrepreneurship



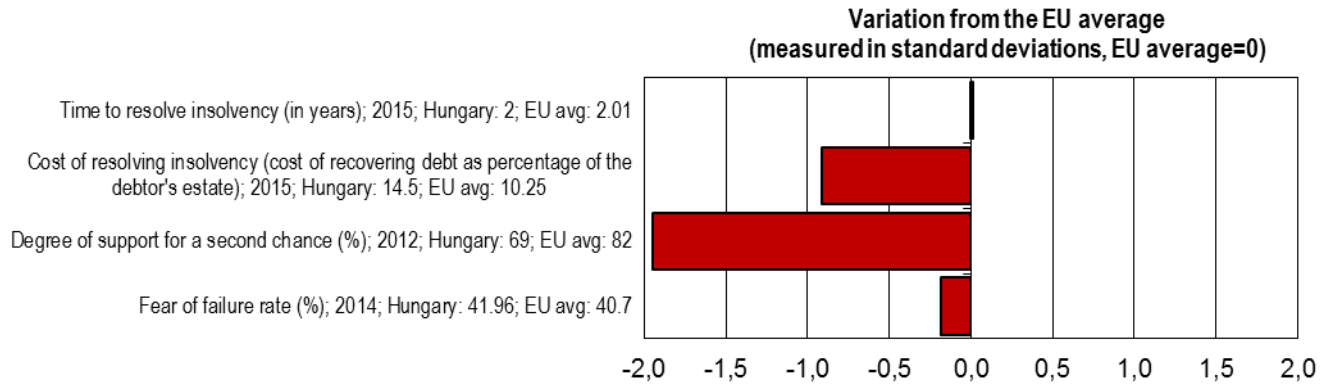
**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Hungary’s level of entrepreneurship ranks below the EU average. It still has substantial room for improvement as regards creating a competitive environment for entrepreneurs. Not much has changed from last year. However, since 2008, the conditions have, overall, improved. Awareness of the importance of school education in developing an entrepreneurial attitude is now much higher. While in 2009 only 33% of adults claimed that school education was helpful in this respect, the corresponding proportion is now 47%. It is still below the EU average, but Hungary has clearly been catching up. To a lesser extent, the country’s performance based on indicators measuring entrepreneurial activity has improved. On the general indicator measuring early-stage entrepreneurial activity, Hungary is even ahead of the EU average. The same applies to the rate of established business owners, which has climbed by almost 3 percentage points from 5% in 2008. However, there are a number of areas where weaker performance outweighs those improvements. These include the level of media attention given to entrepreneurship, which is the lowest in the EU. Also, as regards opportunity-driven entrepreneurship and entrepreneurship as a desirable career choice, there has been no progress. On both, Hungary still ranks below the EU average. The performance on the latter two indicators is, at least partly, due to the difficult economic climate. However, this also suggests that, overall, not enough progress has been made in creating a conducive environment for young entrepreneurs. The positive

trend as regards entrepreneurial activity is also a result of the crisis. The increasing proportion of entrepreneurs is largely fuelled by people being ‘pushed’ into entrepreneurship for want of other career options.

In terms of policy, some support programmes for entrepreneurship in general and targeted ones for specific groups as well as encouragement for the teaching of entrepreneurial skills have helped stimulate entrepreneurial activity and improved somewhat the enabling conditions for entrepreneurship. For example, during the reference period, two additional measures targeting specific groups were implemented. One of them supports young entrepreneurs by providing entrepreneurial training and mentoring. Young entrepreneurs who successfully master the training and mentoring part of the programme are eligible for financial assistance. The other important measure adopted in the reference period focuses specifically on support for female entrepreneurship (*‘Dobbantó’*). The goal is to promote women’s entrepreneurial skills by offering intensive training. Overall, Hungary is making progress in implementing the SBA requirements in this area. However, the coverage of some of the measures needs to be increased, for example the training of teachers to familiarise them with entrepreneurship issues, especially in higher education.<sup>11</sup>

### 3.2 'Second chance'



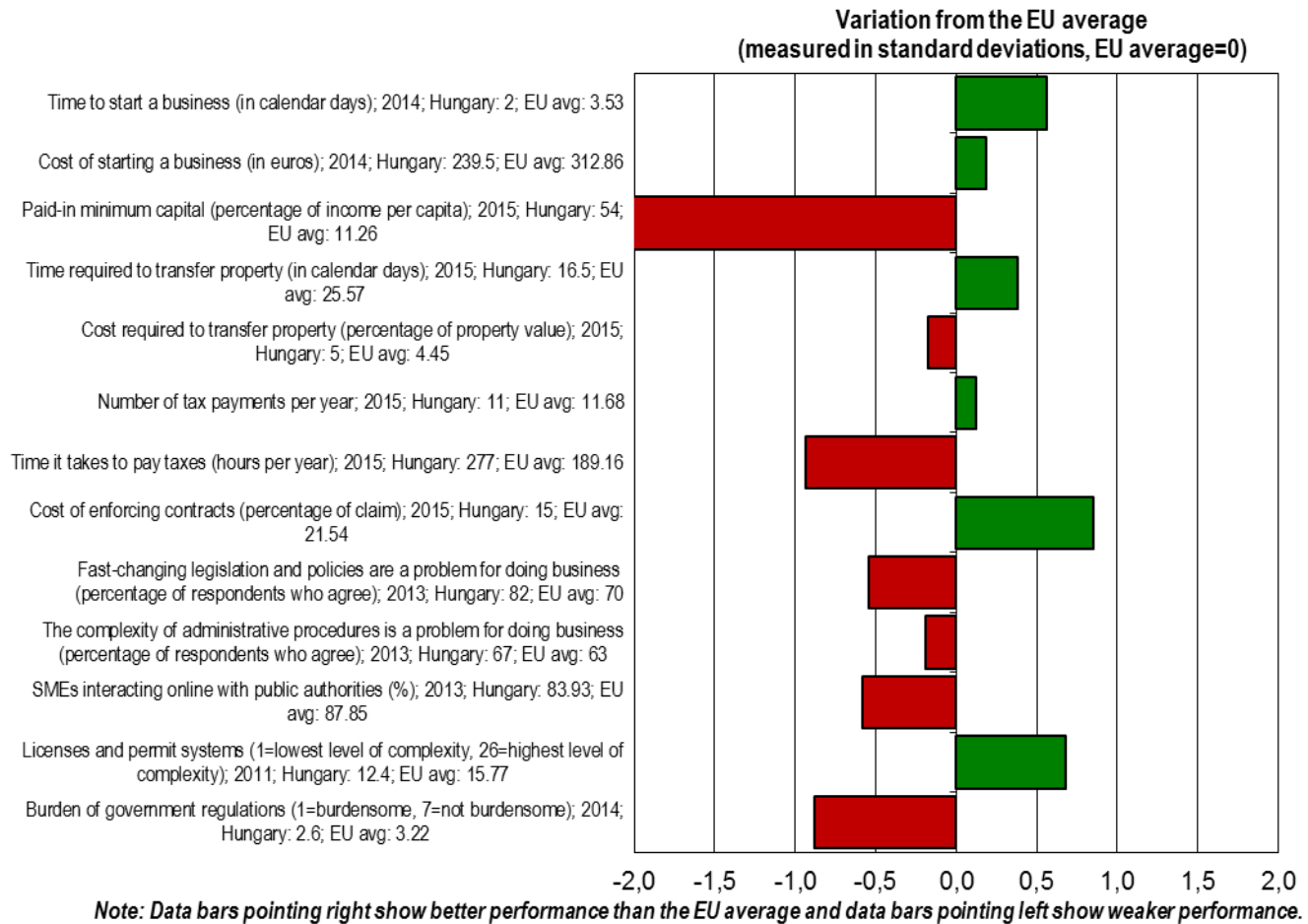
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'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Hungary remains below the EU average with one of the lowest scores in the EU. There has been little change from the previous year. Since the onset of the crisis in 2008 conditions have actually worsened. This is mainly due to a sharp rise in the fear of failure rate from the pre-crisis level of 17% in 2007 to almost 42% in 2014, as the incidence of bankruptcies has substantially increased during that period. The level of support in society for 'second chance' has not changed much during this period and is still the second lowest in the EU. At the same time, insolvency

procedures have remained largely unchanged.

In policy terms, this is the area where the least has been done since the introduction of the SBA. Since 2012, including the reference period for the 2015 fact sheet, not a single action was undertaken. At the same time, Hungary still needs to address a number of SBA recommendations. The insolvency procedures still take more than one year to conclude, there are no country-wide information campaigns to reduce the stigma of failure, nor have there been dedicated support programmes for businesses in difficulties to help them avoid bankruptcy in the first place.

### 3.3 ‘Responsive administration’



‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Hungary still lags behind the EU average in this area. Overall, with the exception of one indicator, i.e. the paid-in minimum capital for entrepreneurs, there is little change from the previous year. Since the adoption of the SBA in 2008, however, Hungary has progressed at a faster rate than the EU average but this progress is not steady and broad-based. The most significant improvements occurred around 2011 but not much has happened since then. Overall, the burden of regulation is still perceived as too heavy in comparison to the EU average. Also, the fast-changing legislation and policies are singled out as a problem. This is linked to issues with the legislative consultation processes as identified in the ‘think small first’ section. Tax administration remains a problem. Hungarian SMEs have to spend on average almost 50% more time related to the payment of taxes than their EU peers. On the brighter side, start-up conditions are now in line with the rest of the EU. The time it takes to start a business is even faster than in the EU on average.

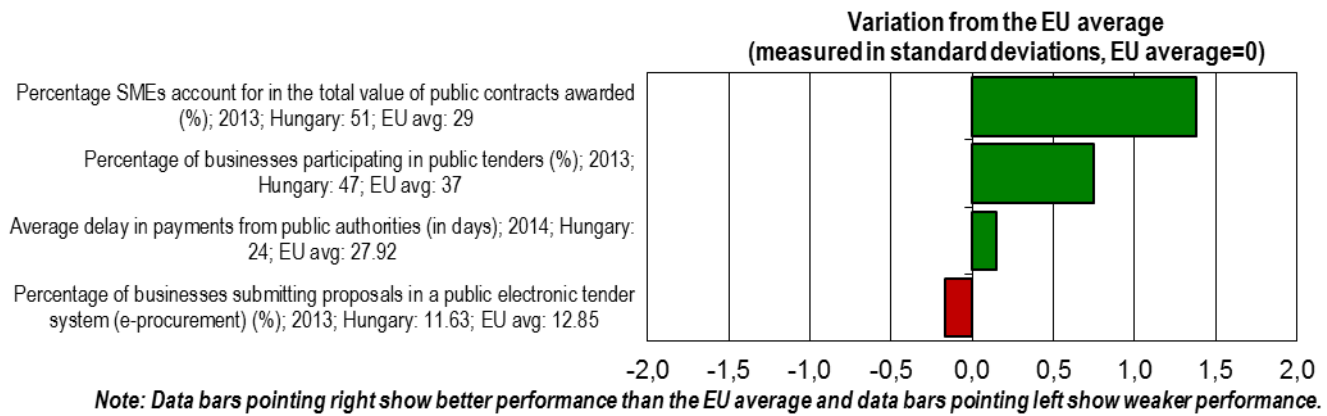
Policy-wise, the record since 2008 is mixed. The government has been active in this area and introduced a number of important

measures to reform public administration, such as the so-called ‘government windows’ (one-stop shops for administrative services) and e-administration as well as the Magyary Zoltán public administration development programme. However, there are also examples of newly introduced legislation which — despite good intentions — increased the bureaucratic burden. One example of this is the implementation of the new road transport control system called ‘Electronic Trade and Transport Control System’ (EKAER<sup>12</sup>)<sup>13</sup>, which is designed to eradicate VAT fraud in connection with public road transport. During the reference period, two new policy measures were adopted and implemented with a view to reducing the administrative burden on enterprises. The first focuses on extending e-administration by increasing the number of administrative processes administered electronically, especially regarding taxation and obligations for providing data. Secondly, the National Environmental Information System was upgraded to ease the administrative duties of those involved in waste management by the introduction of e-administration and lowering of administrative costs. Overall, SBA implementation is far from complete in this area. Despite the progress, some measures as regards, for instance, e-government and the interaction with



government services in general, need to be further improved. Others, such as the 'only once' principle, still need to be addressed.

### 3.4 State aid & public procurement

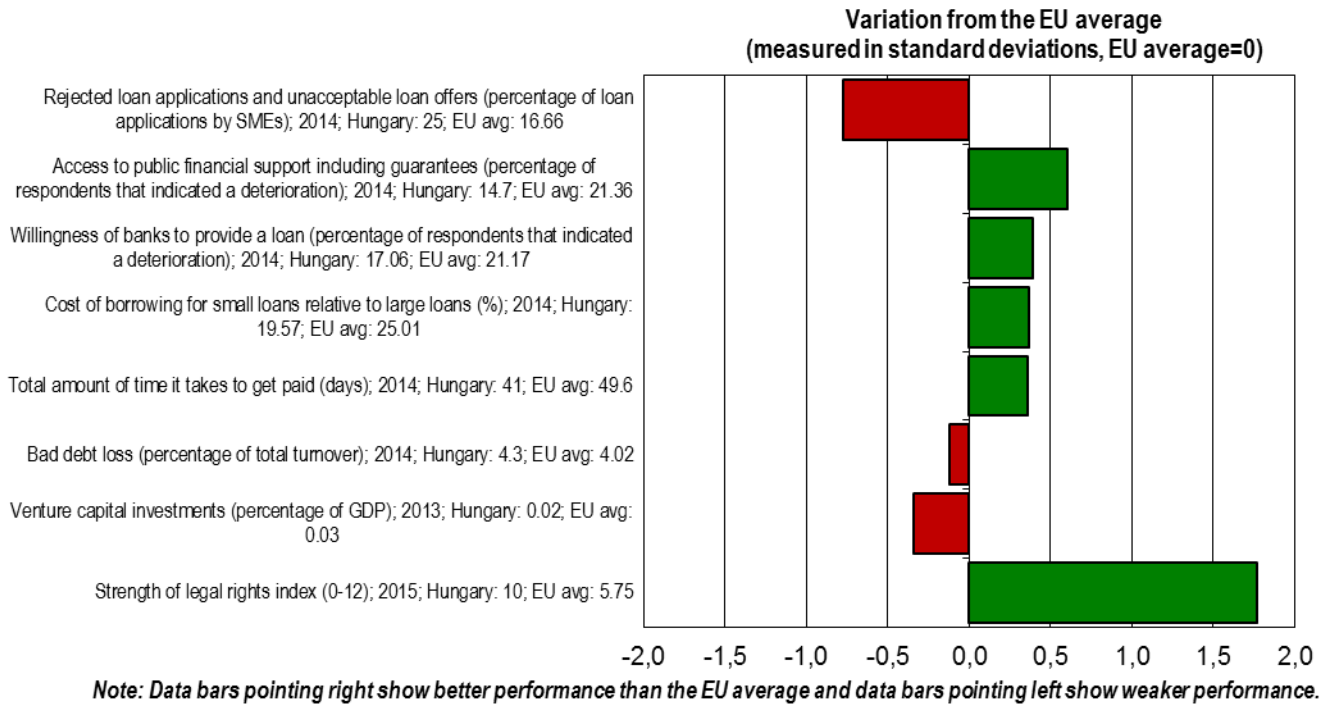


Hungary performs above the EU average in this area. There have been only a few changes since the previous year. Hungary's strong performance stems from the high rate of SME participation in public procurement. This is evidenced by the high SME share in total value of public procurement contracts and their high participation rate in public tenders. On both indicators, Hungary ranks in the top group of EU countries. As regards the two indicators for which results are less good, i.e. average delay in getting payment from public authorities and participation rates in e-tendering, there have been modest improvements in the last three years. Payment times have gone down from 27 to 24 days. The e-government participation rate has increased from 10% to almost 12%. It is too early to say whether these improvements were influenced by the new public procurement law, which was implemented in 2013. The reform is aimed at creating a stable and more transparent legislative system regarding public procurement in line with the EU directives and requirements on public procurement policy reforms. The government is seeking also to address some of the long-standing problems which have plagued procurement administration, such as complex procedures, intransparency and vulnerability to corruption. Since 2013, the bodies responsible for uniformly applying the procurement rules, monitoring and

legislation are now within the Prime Minister's Office. The concrete results of this recent reorganisation are not yet known.

During the reference period a new measure related to the 2013 law on public procurement was adopted. It aims at further facilitating the participation of SMEs in public procurement through different activities, such as the organisation of workshops and conferences, provision of assistance through booklets or over the phone, and help in interpreting the public procurement-related provisions. Also, in November 2014, Hungary submitted an action plan to the European Commission which includes measures concerning the transposition of the new public procurement directives and steps to foster, inter alia, competition and transparency, including measures on e-procurement. Overall, with the recent reforms Hungary has taken steps in the right direction to implement the SBA and the figures measuring participation rates are proof of this. It remains to be seen whether the steps taken are sufficient, especially as regards e-government. The same applies to the 2014 measures aimed at providing support to SMEs participating in public procurement. Also, the issue of using public procurement to advance innovation still has to be addressed.

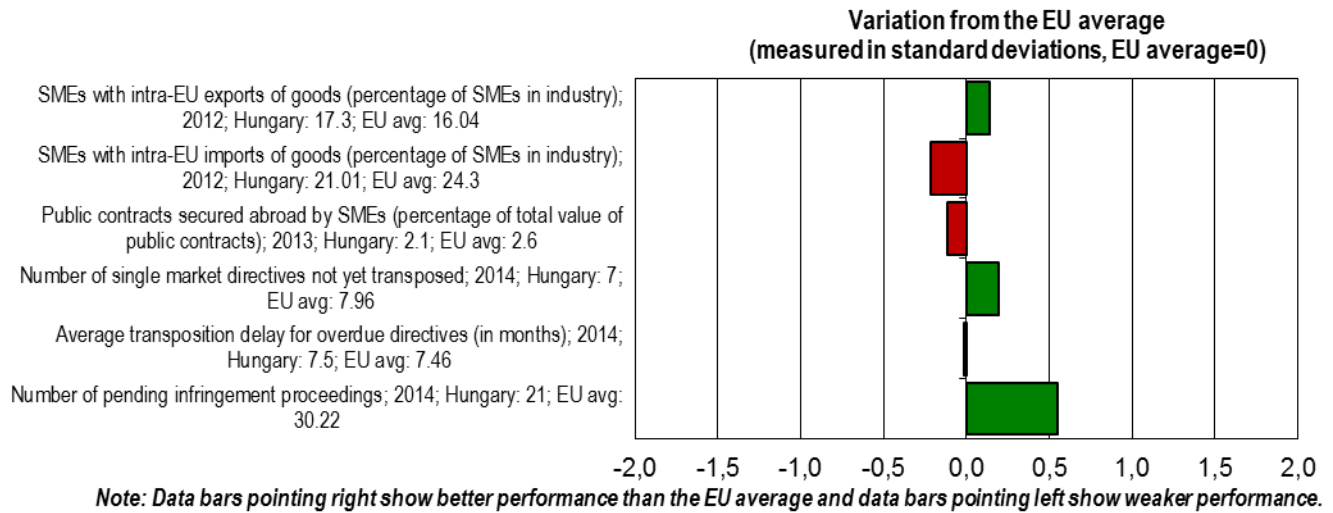
### 3.5 Access to finance



This is one of only two SBA areas where Hungary performs above the EU average, showing improvement over the previous year. This relative progress needs to be put in context, though. Partly, it is due to better performance as it has become easier for SMEs to get access to finance in some areas. Fewer SMEs now complain about banks being unwilling to provide credit. It is also considered easier to get access to public financial support instruments. SMEs' cash flow is helped by the fact that payment delays dropped slightly from more than 42 days in 2013 to 41 in 2014. However, this progress is partially counterbalanced by deterioration in other areas. While banks are in principle more willing to provide loans, their lending conditions have become more stringent. Hence, the mark-up interest on small loans of less than EUR 1 million, which are typically taken up by SMEs, increased from 12% in 2012 to almost 20% in 2014. In line with this, the proportion of SMEs complaining about rejected loan applications or unacceptable loan conditions increased from 16% to 25% over the last year. In addition, the rate of bad debt losses rose slightly from 2013 to 2014. While, overall, conditions have improved since last year, Hungary's progress relative to the EU was also helped by the deteriorating conditions governing access to finance in the EU in general. Still, over the entire period since 2008, financing conditions for SMEs in Hungary have improved. As things stand, the legal framework as well as access to public financial support instruments are strengths of the country. Access to private lending and to equity capital is the main problem area.

On the policy front, the 'Funding for Growth Scheme' introduced first in 2013 has proved to be a milestone. The measure grants loans at preferential interest rates to commercial banks, which transfer these loans to the SME sector with the objective of developing the business environment, boosting investments and the SMEs' R&D capacities. In the first year of its existence, it helped halt the downward trend in SME credit volumes. Thanks to the scheme, SME credit volumes stabilised last year after a fall of 6-8% in previous years. Based on this positive performance, the Funding for Growth Scheme has been updated in the current reference period and the limit of the scheme was extended to HUF 1 000 billion in 2014. Apart from this measure, the Economic Development and Innovation Operational Programme (EDIOP), aiming at boosting economic growth by focusing on the SME sector, was adopted by both the Hungarian Government and the European Commission in the reference period. Tenders related to EU funds and destined for improving SMEs' access to finance have been published. Overall, Hungary has done well with SBA implementation in this area. While the difficulty in accessing private credit and equity finance is still an issue for many SMEs, Hungary has addressed most SBA requirements in this area. Apart from improving the existing instruments, there is a need to develop better enabling conditions for alternative finance instruments, such as a legal framework for crowdfunding.

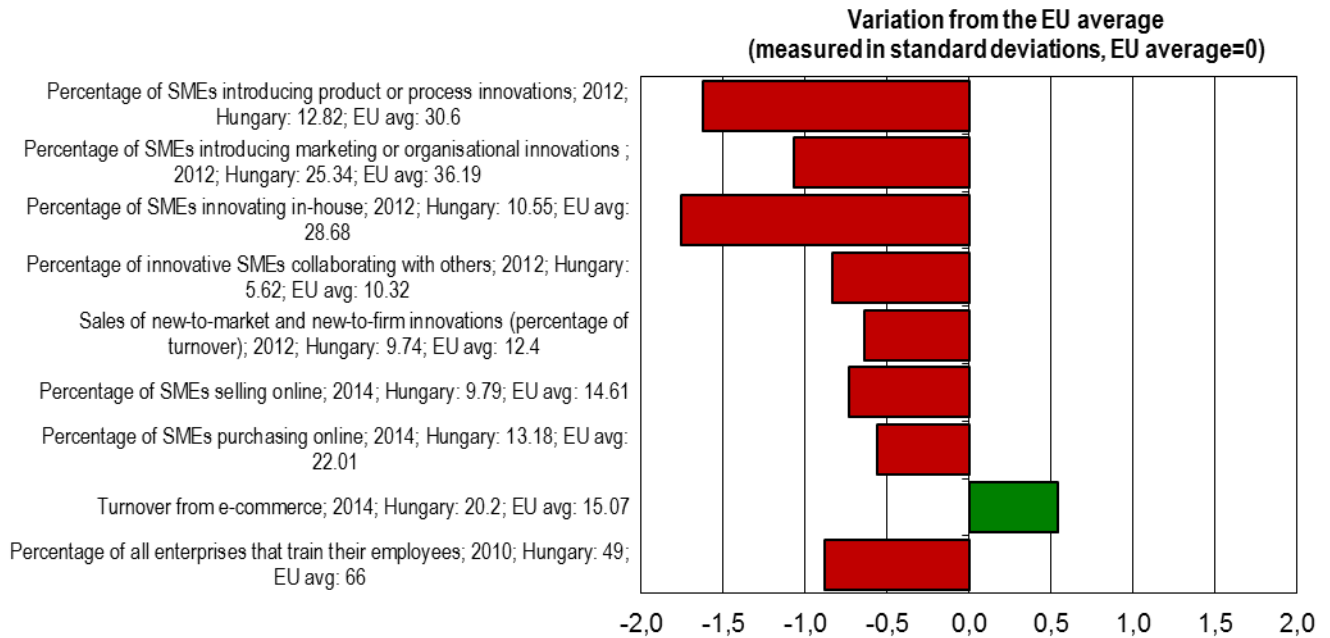
### 3.6 Single market



Hungary's performance in this area is in line with the EU average. There was little change from the previous year. The trade performance of Hungary's SMEs continued to improve. The proportion of SMEs exporting to and importing from the single market increased slightly, thus extending a trend which started in 2008. There was also some progress in implementing single market legislation. The number of infringement procedures dropped to 21 in 2014 from 28 in 2009. The number of single market directives not yet transposed fell from 8 in 2013 to 7 in 2014.

On the policy side, initially, i.e. from 2008 onwards, this domain had not been a priority. However, since 2013 some important reforms have been implemented. The Civil Law was reformed in 2013 and came into effect during the reference period. The reform is a major step towards implementing the single market and progress on the related principle can be considered as substantial. The new Civil Law transposed various EU instruments, including Directives 93/13/EEC on unfair terms in consumer contracts and 1999/44/EC on consumers' rights regarding the purchase of goods.

### 3.7 Skills & innovation



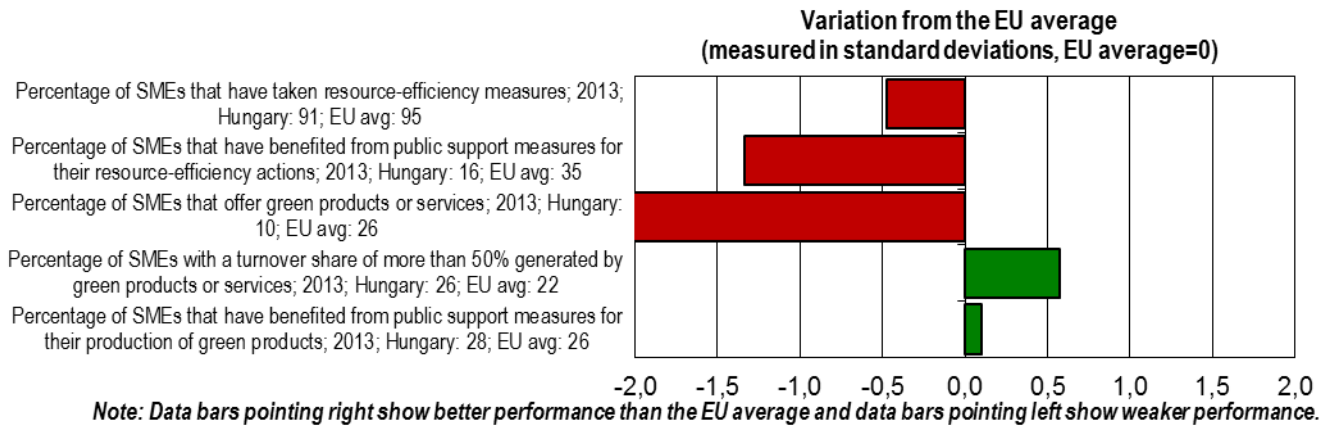
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Hungary continues to trail the EU average by a substantial margin. In fact, it has one of the lowest scores of all EU countries. There is little year-on-year change but on most indicators the outcome is negative. This applies in particular to indicators measuring the innovative capacities of SMEs. While in general the conditions in this area have remained the same, the innovative capacity of SMEs has steadily declined since 2008. The proportion of SMEs which have introduced product or process innovation illustrates this most clearly; it dropped from 18% in 2004 to less than 13% in 2012. Constrained by the severe crisis of recent years, many SMEs had to cut costs and refrain from investing in R&D and innovation. The situation is somewhat better as regards the use of ICT. Even though the number of SMEs purchasing and selling online is well below the EU average, the outlook is more encouraging. Hence, the proportion of SMEs selling online increased from less than 4% in 2008 to almost 10% in 2014. Hungary fares best in terms of the proportion of SMEs which have turnover from e-commerce. Standing at 20%, this figure is clearly above the EU average and has steadily improved from 6% in 2007. The number of training enterprises has remained unchanged from the previous year.

On the policy side, several support schemes promoting the innovative capacity of SMEs have been implemented since 2008. These measures included the introduction and funding of various mentoring programmes, business incubators, and innovation management. Moreover, various programmes were aimed at supporting skills. Hungary has started the dual system in vocational training, and according to the Hungarian Chamber of Commerce and Industry (HCCI), it has created more than 8 000

on-site training places. In the reference period a number of additional initiatives were launched. On a strategic level, the adoption of the Smart specialisation strategy in November 2014 and of the 'Higher education concept' in 2015 is expected to bring about a more effective public funding system. On a more technical level, a measure was introduced to encourage the internationalisation and rapid growth of hi-tech SMEs. More than 90 teams participated in the 'Startup Spring' initiative. The best 10 teams were given the opportunity to introduce themselves at the Hungarian Innovation TechShow (the most important tech event in Hungary) and also undertook a study trip to attend similar events, such as Techmatch (San Francisco), Pioneers (Vienna), and LeWeb (Paris). Also, the introduction of a support mechanism called 'SME instrument' has been announced in the reference period, containing e-learning courses and personal mentoring and aiming at helping SMEs to participate successfully in the Horizon 2020 programme. The registered SMEs obtain more information about the framework programme, the individual and syndicated tender forms, legal and financial information and online project-management skills. In general, Hungary has addressed the requirements of the SBA agenda in this area. The challenge is to boost the effectiveness of the existing measures. Also, some measures, especially in the area of skills and training, are so recent that it is too early to judge whether they are effective.

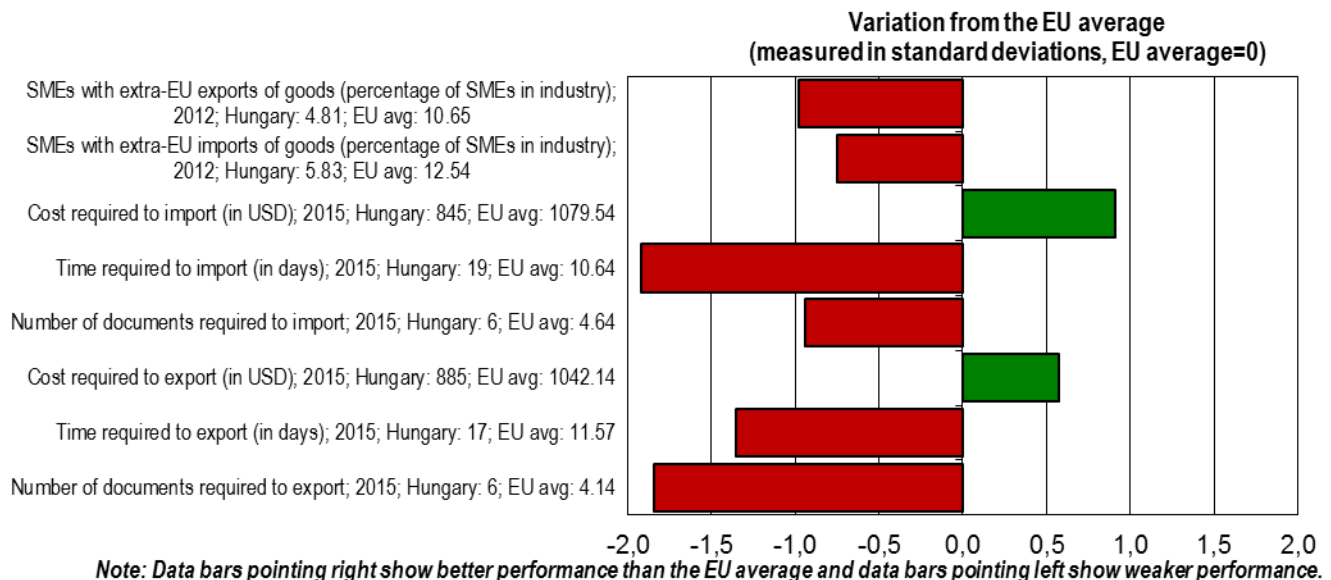
### 3.8 Environment



Hungary's score remains below the EU average, with no change from the previous year. The area of greatest concern is the low number of SMEs offering 'green' products. On the brighter side, among those relatively few SMEs offering 'green' products, there is an above-average proportion of 'green specialists', i.e. firms where these products account for at least 50% of their turnover. Policy-wise, SMEs have received very little support under the framework of the SBA. Since 2008, there has been only one major policy initiative. The Green Economy Development Programme under the New Széchenyi Plan of 2011 aims at increasing resource efficiency and supporting environmentally friendly companies. During the reference period, no important

new measures were introduced. Overall, many SBA provisions still need to be addressed in this area. These include the introduction of an incentive scheme for eco-efficient business, the implementation of 'green procurement' schemes, regulatory incentives for SMEs to get EMAS certified and also the establishment of an organisation specifically responsible for providing strategic support to SMEs to ensure environmental as well as energy regulatory compliance.

### 3.9 Internationalisation



Hungary still trails the rest of the EU. Overall, little progress is being made year-on-year. The number of SMEs exporting to non-EU countries and also those importing from them has increased, but only very slightly. However, there is other evidence suggesting that SME export activity in particular is picking up. According to the Hungarian Central Bank, exports grew by 7.2% in the first half of 2014. Still, Hungary has some way to go to catch up with the rest of the EU. There has been some progress since 2008 as regards the enabling conditions for trading abroad, i.e. the costs, time and bureaucratic framework. However, these changes only occurred up until 2012, since when the conditions have not improved further. As a result, Hungary's scores remain well below the EU average on most indicators, with the notable exception of the costs related to import and export.

This performance trend is disappointing considering that internationalisation was seen as a priority. The aim of increasing the number of exporting SMEs (which is lower than the EU average) is incorporated in the SME strategy, and its specific goal is to increase the proportion of extra-EU exports. There has been a flurry of activity in this field entailing, on the one hand, more strategic and organisational measures such as the restructuring of the Foreign Ministry and the establishment of various governmental agencies aiming at wooing foreign direct investment (FDI) and boosting Hungarian exports. On the other hand it involves more technical policy measures such as promoting internationalisation through various grants. These also cover a very active and expanding export-promoting credit programme (EHP). From 2012 to 2014 the number of its partners grew from 7 to 21. The available loan amount from EXIM, the state-owned Export-Import Bank, grew from EUR 150 million to EUR 1 billion. Nine customer offices were opened in major cities. As part of the new foreign trade strategy, the

Hungarian Government and the Hungarian Chamber of Commerce and Industry established the Hungarian National Trading House with the main objective of seeking new markets and new opportunities for Hungarian companies' products and services.

There are two main pillars of activity:

- Market research services for Hungarian companies whose products and services could be competitive on foreign markets while measuring market requirements through Local Trading Houses.
- A complete range of export support services – from initial offers to the contracting stages.

During the reference period a number of additional policy measures were put in place. Two of those measures are managed by the Hungarian Investment Promotion Agency (HIPA). They include support given to SME suppliers, especially in the automotive sector, to participate jointly in international fairs and exhibitions. Secondly, HIPA has introduced a database of some 300 projects suggested by local SMEs, for which it actively searches for foreign partner firms. Also, the HCCI has established bilateral departments to enhance cooperation with certain countries, mostly in eastern Europe, including in the Russian Federation and Ukraine. Under the 'Opening to the East strategy' the HCCI actively participated in company missions in 2014, and also received about EUR 650 000 to help SMEs to participate in such missions in eastern markets. It is estimated that about 5 000 SMEs have benefited directly or indirectly from this support. Overall, the SBA requirements have been addressed. Whether the nascent export expansion can be consolidated will be the ultimate test of whether the measures taken in this area are, indeed, effective.



## 4. Interesting new initiative

Below is an example of a new initiative from Hungary to show what governments can do to support SMEs:

### E-administration regarding taxation affairs granted for legal guardians

This measure, implemented in 2014, aims at granting e-administration rights for legal guardians. The measure triggers significant changes regarding e-administration and allows the legal guardians to manage administrative issues online in a way that had not been possible before. Easing the administrative burden, facilitating and tightening up administration are expected to be the main effects that are backed by the steadily growing number of legal guardians taking advantage of the measure.

## Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), 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 7 non-EU countries that also contribute to the COSME programme. Produced annually, they 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 State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

[http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm)

[grow-spr@ec.europa.eu](mailto:grow-spr@ec.europa.eu)

Small Business Act:

[http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm)

European Small Business Portal:

[http://ec.europa.eu/small-business/index\\_en.htm](http://ec.europa.eu/small-business/index_en.htm)

## Endnotes

<sup>1</sup> The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2013, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008–2012 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial 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 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/growth/smes/business-friendly-environment/performance-review/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm)

<sup>2</sup> European Commission (2014): [http://ec.europa.eu/regional\\_policy/sources/information/cohesion-policy-achievement-and-future-investment/factsheet/hungary\\_en.pdf](http://ec.europa.eu/regional_policy/sources/information/cohesion-policy-achievement-and-future-investment/factsheet/hungary_en.pdf), last accessed: 23.03.2015

<sup>3</sup> Deloitte Technology Fast 50 in Central Europe <http://www2.deloitte.com/hu/hu/pages/technologia-media-telekommunikacio/articles/technology-fast50-ce.html>, last accessed: 23.03.2015.

<sup>4</sup> Hungarian Parliament (2015): <http://www.parlament.hu/documents/static/biz40/bizjkv40/KUB/1409201.pdf>, last accessed: 23.03.2015.

<sup>5</sup> Hungarian Central Statistical Office (2015): <http://statinfo.ksh.hu/Statinfo>, last accessed: 23.03.2015.

<sup>6</sup> Data provided on request by the Hungarian Central Statistical Office

<sup>7</sup> Data provided on request by the Hungarian Central Statistical Office

<sup>8</sup> The 2015 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.

<sup>9</sup> The quadrant chart combines two sets of information. Firstly, it shows 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 the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2015. These 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 EU average at a given point in time, but also about the extent of progress made between 2008 and 2015. All SBA principles, with the exception of the 'think small first' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. For more information on the methodology see Saisana and Dominguez-Torreiro 2015 on the webpage of the SME Performance Review: [http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm)

<sup>10</sup> The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2014 and the first quarter of 2015. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2015 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures 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 GROW website.

<sup>11</sup> In some other areas of education, measures have been put in place. The Hungarian authorities compile best practices at the following government website: [www.szamoljunkajovovel.hu](http://www.szamoljunkajovovel.hu)

<sup>12</sup> The government notes that a number of official consultations were held in connection with the introduction of the Electronic Trade and Transport Control System between the government, the representative bodies and the carrier businesses.

<sup>13</sup> Original title: 'Eelektronikus közúti áruforgalom-ellenőrző rendszer'