

2016 SBA Fact Sheet

Hungary



Key points

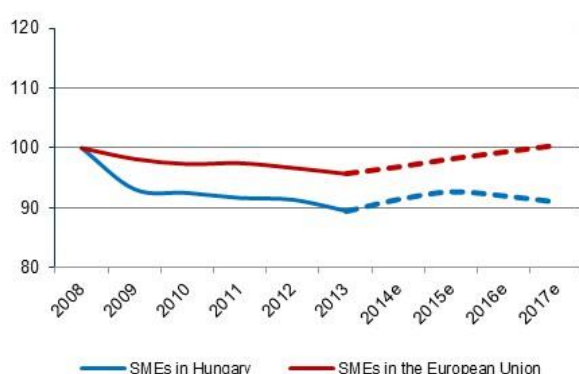
Past and future SME performance¹: Hungary's SME sector, especially in terms of employment, plays a more important role in the domestic economy than is the case in most other Member States. However, the sector has only partially recovered from the crisis. Although total SME employment stagnated in 2010-2015, SME value added grew by 11 %. As a result, SMEs almost fully returned to their pre-crisis level of value added in 2015. At the same time, SME employment was still 7 % below its 2008 level. From 2016 onwards, SMEs are expected to continue their uneven development of recent years. In 2016-2017, SME value added is predicted to rise by 4 %, while SME employment is expected to fall by 2 %.

Implementing the Small Business Act for Europe (SBA): Hungary's SBA profile contains many weaknesses. In five of the SBA principle areas — Entrepreneurship, 'Second chance', 'Responsive administration', Skills & innovation and Environment — the country trails the EU average. State aid & public procurement, Access to finance, Single market and Internationalisation are the areas where Hungary is on a par with the EU in general. The changes as compared to last year have been limited. Since 2008, the most significant catch-up vis-à-vis the EU as a whole has been achieved in the 'Responsive administration', Access to finance, State aid & public procurement areas and environment. During 2015, major policy developments were made in the field of Entrepreneurship, Access to finance and Skills & innovation.

SME policy priorities: Despite significant progress, administrative burden, especially as regards taxes, is still a considerable challenge. Conditions allowing SMEs to take part in fair public procurement competitions have to be improved further. The use of regulatory impact assessments (RIAs) has to be broadened. Consultations with SME stakeholders on regulatory changes are not always effective and transparent. Insolvency procedures have to be strengthened and made cheaper to facilitate 'Second chance' and Entrepreneurship. Loan financing is still a bottleneck for many SMEs. Finally, although measures have been implemented to improve Hungarian SMEs' participation in EU research projects, further efforts need to be made to increase their innovation capacity and activity, and to leverage on eco-innovation and green technologies as a means to boost SME competitiveness.

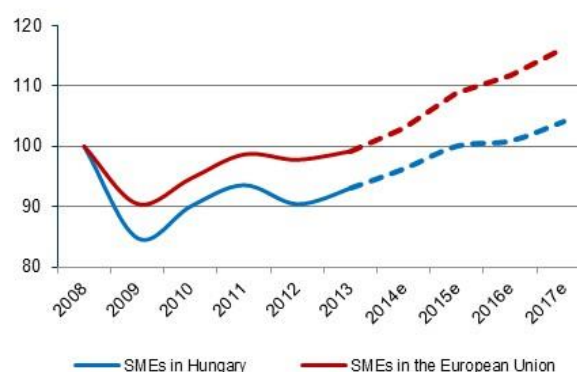
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2014 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2014 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. Published annually, the SBA fact sheets 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.

Table of Contents

Key points	1
1. SMEs — basic figures.....	2
2. SBA profile	3
3. SBA principles.....	6
3.0 'Think Small First'	6
3.1 Entrepreneurship.....	7
3.2 'Second chance'.....	8
3.3 'Responsive administration'.....	9
3.4 State aid & public procurement	10
3.5 Access to finance.....	11
3.6 Single market	13
3.7 Skills & innovation	14
3.8 Environment.....	15
3.9 Internationalisation	16
4. Interesting initiative.....	18

1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Hungary		EU28	Hungary		EU28	Hungary		EU28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	489 767	94.1 %	92.8 %	861 275	34.4 %	29.5 %	9.6	18.1 %	21.2 %
Small	25 750	4.9 %	6.0 %	479 997	19.2 %	20.2 %	8.6	16.3 %	18.0 %
Medium-sized	4 131	0.8 %	1.0 %	404 644	16.2 %	17.0 %	9.5	18.0 %	18.2 %
SMEs	519 648	99.8 %	99.8 %	1 745 916	69.7 %	66.8 %	27.7	52.5 %	57.4 %
Large	877	0.2 %	0.2 %	757 678	30.3 %	33.2 %	25.1	47.5 %	42.6 %
Total	520 525	100.0 %	100.0 %	2 503 594	100.0 %	100.0 %	52.9	100.0 %	100.0 %

These are estimates for 2015 produced by DIW Econ, based on 2008-13 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.

SMEs in the 'non-financial business economy' in Hungary account for slightly more than half of total value added and 70 % of total employment. This makes SMEs more important to the Hungarian economy in terms of employment, but less important as regards value added, when compared with the EU averages of 57 % and 67 % respectively. SME productivity, as calculated by the ratio of value added to employment, was approximately EUR 16 000 per person in 2015, just over a third of the EU average of around EUR 43 000 per person. *Manufacturing* and *wholesale and retail trade* are the most important sectors for SMEs, as is the case in most EU countries. Together, these two sectors are responsible for 46 % of total SME value added and 48 % of SME employment.

Although total SME employment stagnated in 2010-2015, SME value added grew by 11 %. As a result, SMEs almost fully

returned to their pre-crisis level of value added in 2015. At the same time, SME employment was still 7 % below its 2008 level.

SMEs in the *accommodation and food services* sector have performed particularly strongly in recent years. SME value added grew by 62 % in 2010-2015, whereas employment stagnated in the same period. Of the two subsectors, *accommodation* clearly outperformed *food and beverage service activities*. Although both subsectors experienced large gains in value added — 80 % and 53 % respectively — *accommodation* employment rose by 16 %, while employment in *food and beverage service activities* fell slightly, by 2 %. An important factor in the expansion of this sector was the 2011 launch of a national voucher system to promote domestic tourism.^{2,3} The Széchenyi Recreation Card (SZRC) is a deposit card which enables employers to provide allowances to their employees for nationwide accommodation,

catering and recreational activities. As a non-wage benefit, the allowance is taxed more favourably than employee salaries.⁴ By the end of 2015, a total of almost EUR 900 million had been spent domestically through this card.⁵ The effect on domestic tourism was that nights spent in hotels and similar establishments increased by 24 % in 2010-2014.⁶ Furthermore, the gains in SME value added of the whole sector partly stem from above-inflation-rate price increases in *catering and accommodation services* during 2013-2015, totalling on average almost 3 % per year.^{7,8}

One of the highest performing SME sectors has been *professional activities*. In 2010-2015, SME value added in this sector grew by 13 % and employment rose by 6 %. Growth was supported by a major increase in spending on research and development in 2010-2013, with an important source being EU structural funds.⁹ The amount of funding received by Hungarian SMEs from these EU programmes increased from HUF 9 billion in 2009 to HUF 40 billion in 2013.

Recent growth in the *construction* sector has been uneven. SME value added rose by 17 % in 2010-2015, whereas SME employment fell by 7 % within the same period, and did not start to recover until 2013-2015. SME value added and employment in this sector are still currently 12 % and 20 % below their respective pre-crisis levels. One factor which contributed to the recovery of the sector was public investment in roads, railways and civil engineering, all of which received massive support from EU funding. This included EIB loans of almost EUR 1.5 billion for transport and telecommunications in 2011-2015, and a further loan of EUR 250 million for the redevelopment of railway infrastructure in 2013-2016.^{10,11}

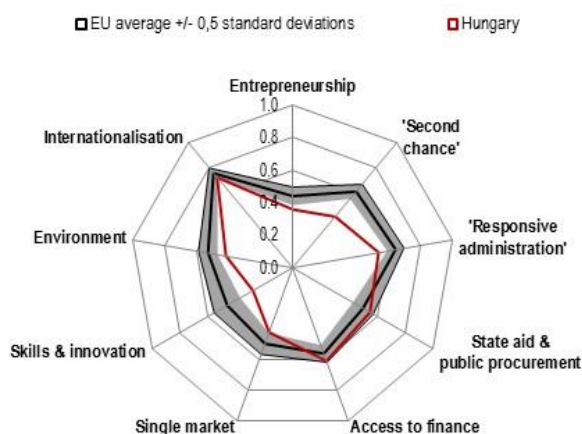
However, much of this funding is now about to end, or has already done so, with the consequence that continued sector growth is uncertain.

In 2015, there were roughly 111 369 new company registrations, an increase of 2 % compared to 2014. The previous year, registrations had fallen by 3 %. The registrations of corporations compared to entrepreneurs showed an opposing trend: whereas registrations for corporations dropped by 12 % in 2015, after a 14 % fall in 2013-2014, registrations by entrepreneurs rose by 12 %, following an 11 % increase in 2013-2014.¹²

De-registrations increased by a third, from 91 865 in 2014 to 122 215 in 2015. Although this rising trend applied to both corporations and entrepreneurs, there was a significant difference between the two, as was the case with registrations: de-registrations of corporations increased by roughly 45 %, de-registrations of entrepreneurs by 20 %.¹³ As a result, although the total number of registered businesses dropped from 1 847 522 in 2014 to 1 837 704 in 2015, the fall was mainly due to a decrease in the number of corporations, whereas the number of entrepreneurs actually rose.¹⁴ This drop in the number of corporations may be explained, at least in part, by a regulatory change implemented in March 2014, which raised the minimum equity requirement for limited liability companies from HUF 500 000 to HUF 3 million.¹⁵

From 2016 onwards, SMEs are expected to continue their uneven development of recent years. In 2015-2017, SME value added is predicted to rise by 4 %, while SME employment is expected to fall by 2 %.

2. SBA profile¹⁶



Hungary's SBA profile contains many weaknesses. In five of the SBA principle areas — Entrepreneurship, 'Second chance', 'Responsive administration', Skills & innovation and Environment — the country trails the EU average. Access to finance, Single market and Internationalisation are among the areas where Hungary is on a par with the EU in general. In all of these areas, however, there are specific problems. Overall, changes as compared to last year have been limited.

Since 2008, the country has improved its performance in all but one area: Skills & innovation. Only in a minority of areas, however, was the progress also meaningful, surpassing the rate of progress in the EU as a whole. These included 'Responsive administration', Access to finance and Environment. The considerable drop in performance in Skills & innovation since 2008 is a serious concern.

Since the introduction of the SBA in 2008, Hungary has implemented measures in all SBA areas, in particular regarding

Entrepreneurship, 'Responsive administration', State aid & public procurement, Access to finance, Single market, Skills & innovation and Internationalisation. Hungary implemented the 2014-2020 Development Strategy of Small and Medium Sized Enterprises in February 2014, as the official Hungarian SME strategy to support the achievement of the SBA goals. The strategy is backed and largely financed by the Economic Development and Innovation Operational Programme (EDIOP), which lays down specific measures incorporated in the SME strategy.

In 2015 and the first quarter of 2016, which is the reference period for this year's fact sheets, Hungary implemented 25 policy measures addressing all 10 policy areas under the SBA. Overall, stakeholders acknowledge that the progress in implementing the SBA has been substantial. The areas that saw the most important progress were in the fields of Entrepreneurship, Access to finance and Skills & innovation.

Several measures were introduced to strengthen Entrepreneurship, including awareness-raising in elementary and secondary education and training on entrepreneurial experience during higher education. The 'Think Small First' and State aid & public procurement areas also saw progress, mainly due to a revised public procurement law, in accordance with EU directives, which introduced new procurement procedures in 2015 that may improve SME access to public procurement. In order to tackle the negative performance trend in Skills & innovation, a number of important measures were taken during the reference period,

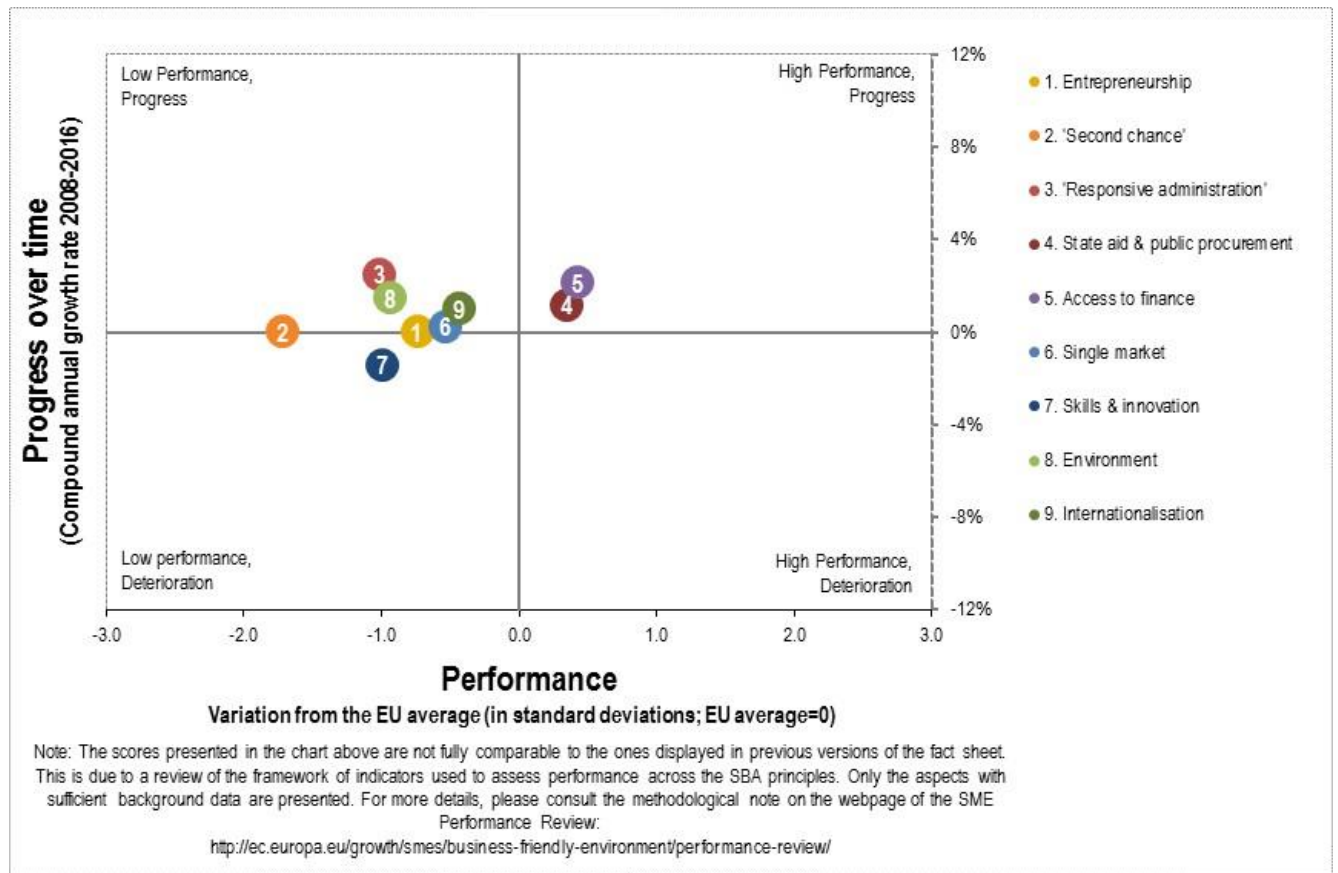
with a comprehensive programme of funding initiatives aimed at boosting RD&I activity among SMEs. In the field of Access to finance, several EDIOP actions have been launched to support the development and competitiveness of SMEs. Additionally, the Hungarian Central Bank implemented important measures to support the reduction of SME foreign-held debt and enhance lending.

Limited progress was witnessed in the areas of Single market, 'Responsive administration' and Internationalisation, where only one measure was introduced during the reference period. With regard to the 'Second chance' and environment principles, more could be done to fully implement the SBA agenda.

The SME envoy was appointed by the Ministry of National Economy and has gained visibility in recent years. The envoy participates in various forums, conferences, workshops and consultations across the country to support national SMEs.

In conclusion, important steps towards the implementation of the SBA agenda have been observed during the reference period, particularly compared to previous years. The EDIOP Programme and programmes promoted by the Hungarian Central Bank have contributed to the improvement in support of SMEs. Still, in light of the performance gap in many SBA policy domains, more needs to be done, especially as regards 'Think Small First', 'Second chance', Skills & innovation, Access to finance and Internationalisation. The fact that Hungary performs in line with the EU average in some of these takes nothing away from the potential for improvement in these policy domains.

SBA performance of Hungary: state of play and development from 2008 to 2016¹⁷



3. SBA principles¹⁸

3.0 'Think Small First'

The 'Think Small First' principle is intended as 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.

Hungary made limited progress in recent years regarding the 'Think Small First' principle and some important provisions (simplification of tax code and number of taxes, improving the quality of Szolgáltató Államigazgatás) still need to be put in place. However, some key 'Think Small First' principles have been implemented since 2008, namely the SME test and RIAs. In this respect, legislators have to identify and assess the relevant social and economic impacts on stakeholders (including SMEs and micro enterprises) at the early stage of policy development, in the form of an RIA process. Regulators should also identify aspects of burdensome legislation and take alternative solutions into consideration.

In Hungary, public consultations are, in principle, open to all interested parties. This right is enshrined in legislation. Meetings of the Business Development Council (*Vállalkozásfejlesztési Tanács*) are held four times a year, making it possible for non-governmental organisations to participate in the strategic decision-making process regarding SME development.

However, the actual handling of RIAs and the inclusion of the Council's proposals in the legislation is weak. According to a recent study,¹⁹ although the preparation of RIAs is compulsory by law, in practice only 21 % of the legislative proposals contain an RIA sheet. Also, there is considerable room for improvement in how well they are filled out. According to the study, the average rate of filled-out cells in the RIA sheets is only 16 %. In addition, the average number of days during which a public consultation is open in Hungary was five days in 2014 and only three and a half in 2015. In 2015, only 4 % of the consultations contained a summary of the consultation's results. In practice, policy-makers tend rather to consult selected stakeholders, where the consultations are not public, the results are not public and the basis for selecting the stakeholders consulted is not known. In sum, there is some potential for making better use of the legislation on RIAs and public consultation.

It should be noted that in 2015, Hungary started evaluating and reviewing the functioning of the current RIA system to strengthen the SME test. The evaluation phase had not been completed at the end of the reference period (March 2016) and

it is still not clear when it will be finished. The increase in transparency of the SME test – the introduction of which in 2011 was a milestone – remains a challenge. According to stakeholders, the role of the SME envoy has also been increasing since his appointment. He participates in the most important conferences and workshops, and meetings of the Business Development Council.

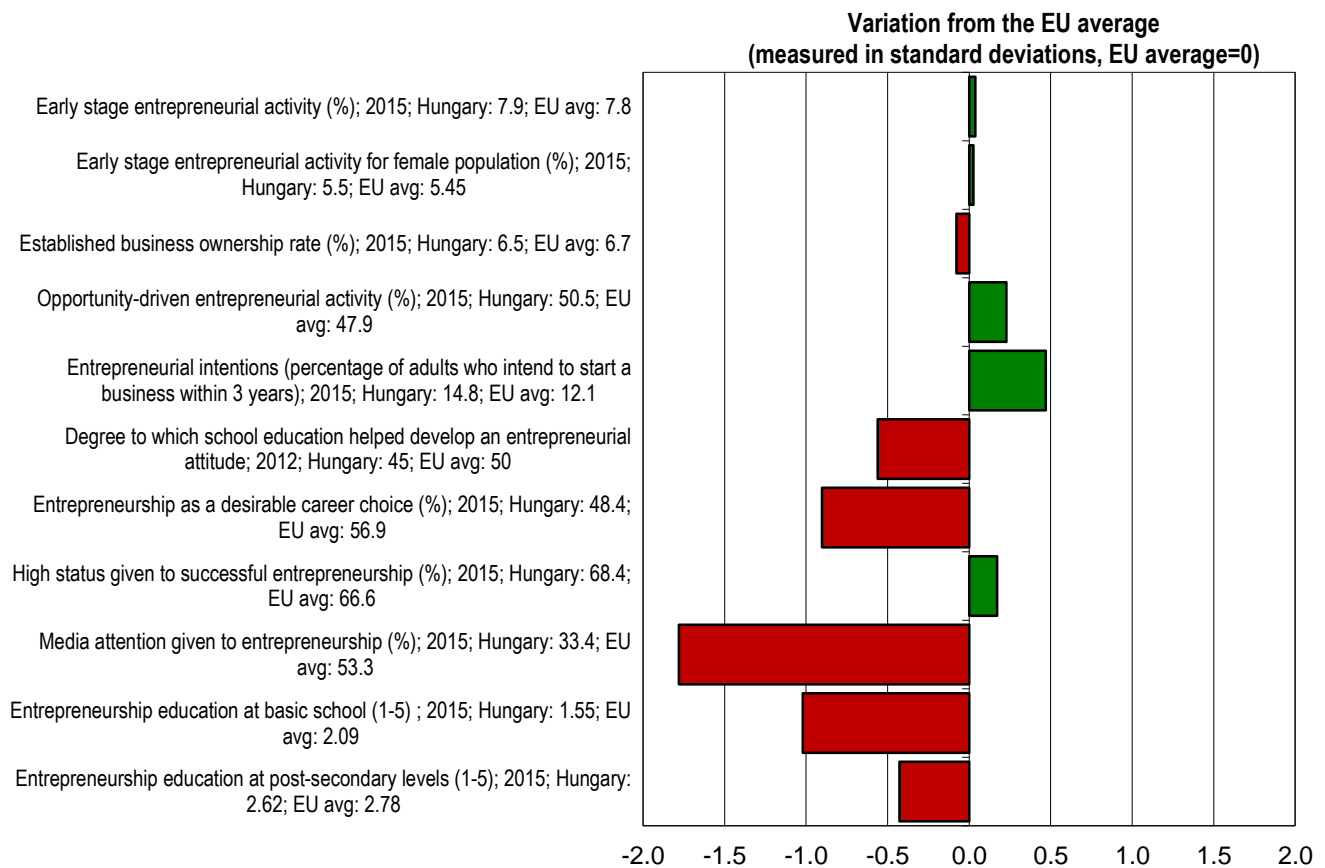
Businesses' perceptions of corruption in public procurement have improved but are still above the EU average. In 2015, 81 % of business representatives think that corruption is widespread (EU average: 71 %). A significant number of business respondents were concerned about corrupt practices in public procurement, 60 % citing tailor-made specifications and 52 % collusive bidding as widespread. Some 27 % of business representatives who have participated in a public tender recently said that corruption prevented the company from winning a public tender or a public procurement contract. The renewed 2015-2018 National Anti-corruption Action Programme (NAP) continues to emphasise the integrity management framework. However, no changes are envisaged to make the framework more effective in preventing corruption in public institutions.²⁰

Certain issues under this principle saw no progress in 2015 and remain unresolved (e.g. the compulsory registration fee in the Hungarian Chamber of Commerce or in the Hungarian Chamber of Agriculture causes controversies and extra costs).

During 2015 and the first quarter of 2016, one significant measure was introduced under this policy area:

- 'reduction of the State overhead charges' (*Állami költségek csökkentése*). The measure, in line with the objectives of the main programme, 'State Reform II – the reduction of state bureaucracy', is aimed at relieving citizens and enterprises (especially SMEs) from payment obligations in the course of administrative procedures. The legislative package includes amendments to eight acts and reduces a number of procedural fees and charges (e.g. the issuing of tax certificates, company documents and business certificates, the supplying of data from the registry court, permit procedures concerning store opening and running). The estimated overall financial relief is about EUR 32 million (HUF 10 billion). There is a plan at national level to focus further on simplifying procedures and reducing other administrative costs.

3.1 Entrepreneurship



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

Hungary performs below the EU average in this SBA area. The changes as compared to last year have been limited and are mostly concentrated among the indicators measuring entrepreneurial activity. In general, these indicators, with the exception of female entrepreneurship, have seen a moderate deterioration of performance. While the overall level of entrepreneurial activity seemed to have dropped slightly since last year, the proportion of entrepreneurs that start their business out of opportunity rather than necessity increased moderately from 13.8 % to 14.8 %. This is positive, as businesses started for this reason tend to be more sustainable and successful. Overall, the level of entrepreneurial activity in Hungary has remained stable since 2008 and is on a par with the EU average. More of a concern is the societal framework conditions for entrepreneurship. Media attention given to successful entrepreneurs is much lower than in the EU in general. Also, there is room for improvement as regards the integration of the subject in school curricula, especially as regards primary school education. As a result, a much lower proportion of Hungarians indicate that school education helped them to develop an entrepreneurial attitude.

Policy-wise, there have been a number of initiatives in this field since 2008. One focus has been the support for generational succession in SMEs. A major problem in the country is the replacement of the ageing manager generation in family businesses. Young people are reluctant to take over, also due to a lack of financial and managerial skills. To address this gap, several measures were implemented in previous years to support entrepreneurship, especially among younger generations. Such measures also target women and promote mentoring programmes. The mentoring of innovative start-ups (Go!nno programme), implemented in 2013, provided start-ups with professional advice in the fields of market entry, marketing, research and communication strategy, and innovation management. Several programmes have supported young people and women in starting a business, such as the Women Entrepreneur Competence Development Programme (*Dobbantó*) or Supporting Entrepreneurship for young people.

During 2015 and the first quarter of 2016, while continuing the implementation of the popular *Dobbantó* policy scheme, four main new measures were launched, focusing mainly on young people in the education system and aspiring entrepreneurs:

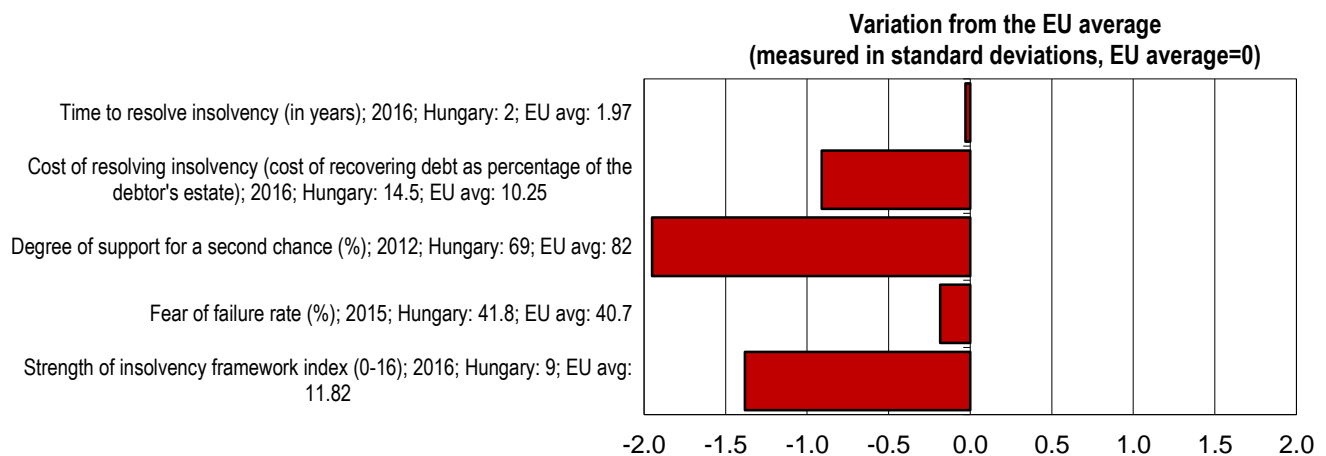
- the introduction of dual training programmes in the higher education system (*Duális képzés bevezetése a magyar felsőoktatásba*) ensures that academic knowledge is adjusted to market needs and gives young people practical skills, stimulating them to start their own business. Dual training programmes were launched in 2015 in the fields of engineering, IT, agriculture and economics, and will be extended in the future to other fields;
- the call for increasing RD&I activity in the higher education system, implemented in February 2016 with a budget of EUR 63.5 million, aimed to develop and enhance research services in higher education institutions. It involves the creation of a mentor system for start-ups and spin-offs and the promotion of corporate competencies and entrepreneurship among students, leading to new innovative R&D projects;
- Hungary joined the European Money Week programme, a joint initiative by European banking associations that aims

to raise public awareness on financial literacy and improve financial education for students from elementary and secondary schools. In March 2015, the first week of this programme in Hungary was organised, focusing on family budget; and

- the new Hungarian Business e-portal (*vállalkozói portál elindítása*) provides relevant information to SMEs and start-ups on administrative procedures, available online services, policy developments, market information, etc. The e-portal also provides entrepreneurs or aspiring entrepreneurs with entrepreneurship training and e-services to start new business initiatives.

While many recommendations of the SBA have been tackled, a number of measures still need to be addressed in a more comprehensive way. This refers in particular to the area of entrepreneurship education.

3.2 'Second chance'



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

'Second chance' means ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. This is the SBA area where Hungary performs worst. As last year, it scores well below the EU average. In fact, it features among the three worst performing EU countries in this SBA domain. Since 2008, not much progress has been made. Except for the duration of insolvency procedures, which remain on a par with the EU average, the insolvency framework is weaker than elsewhere in the EU. This includes the costs of insolvency, which are almost 50 % higher in Hungary than in the EU in general. The fact that the degree of support for a second chance is much lower than in the EU in general ties in with the fact that, to date, no nationwide awareness-raising campaign to combat the stigma of business failure, as recommended by the SBA, has been implemented.

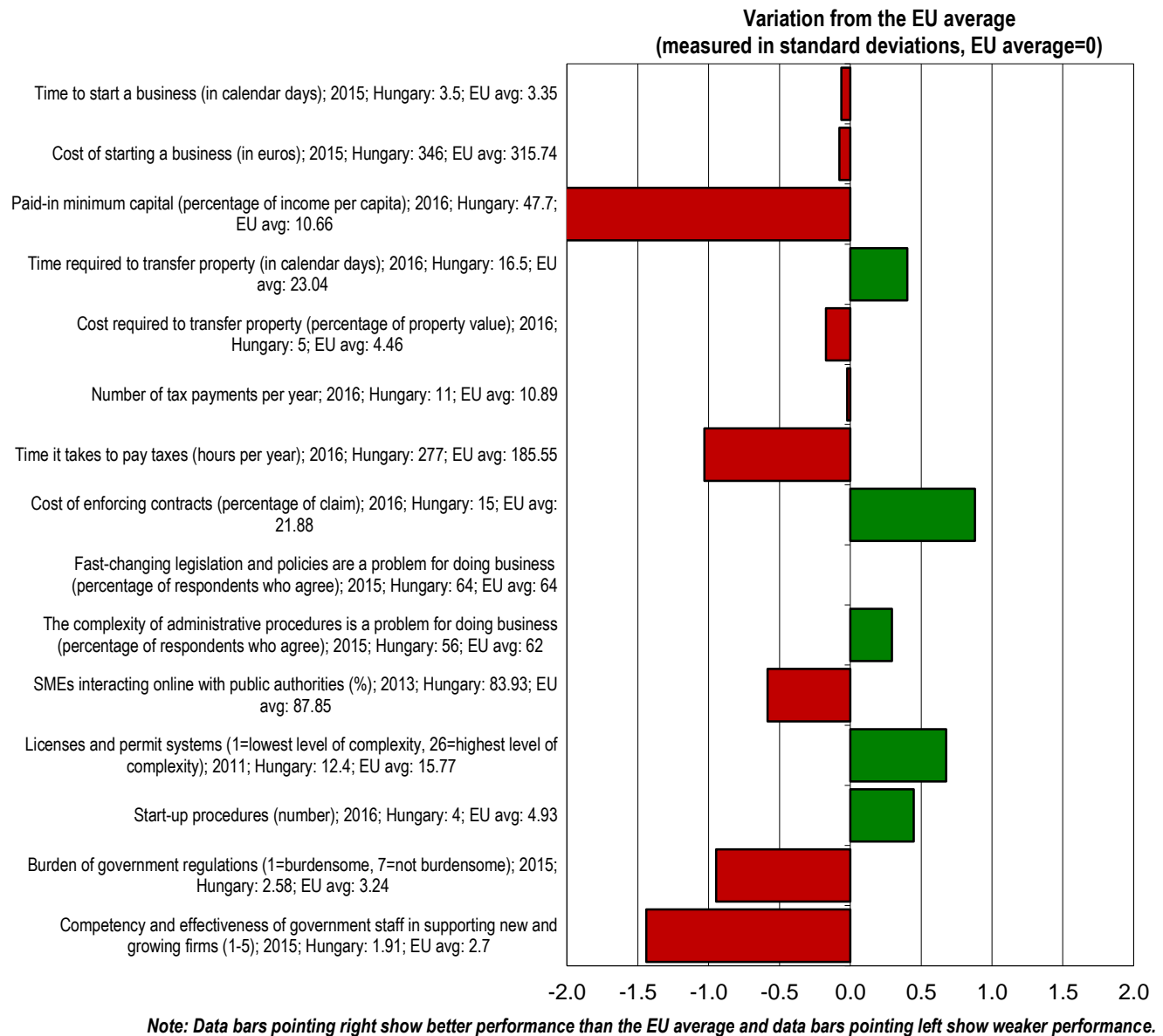
Also, in general, policy activity in this SBA area has been very limited since the introduction of the SBA. There is very little by way of institutions or infrastructure geared to facilitate a re-start for 'Second chance' entrepreneurs and bring them back into the productive economy.

During 2015 and the first quarter of 2016, one measure was implemented. The Second Chance for Entrepreneurs (*Vállalkozások adósságrendezése*), adopted in 2015, is a new law on debt settlement. The measure helps indebted entrepreneurs initiate debt settlement proceedings and is meant to help tackle some of the weaknesses of the insolvency framework. Under the law, assets necessary for the continuation of the entrepreneur's economic activity cannot be distributed to the creditors, so the entrepreneur may continue to honour debts

from own revenues. If the debtor respects the terms of the proceedings during the five-year debt settlement period and creditors' claims are honoured up to the required level,

remaining debts are cancelled by a court discharge decision. The discharge gives entrepreneurs a second chance, restoring their solvency and allowing them to continue their economic activity.

3.3 'Responsive administration'



'Responsive administration' means public administration being responsive to the needs of SMEs. Hungary still trails the EU average in this area. However, since 2008, it has been catching up. Its performance in 'Responsive administration' has improved at a faster pace than the EU's. Since the start of the SBA, it has improved on all indicators. However, a number of weaknesses persist. The overall burden of government regulation is still heavier than in the EU in general, including tax administration. Also, there is room for improvement as regards the competency

and effectiveness of government staff. As regards more specific issues, the paid-in minimum capital is still much higher than in the EU. There is also unexploited potential as regards e-government, with only a relatively low proportion of SMEs interacting online with public authorities. On the positive side, start-up conditions are no longer a problem. The costs and time required for starting up a business in Hungary are not very different from those in most other EU countries. However, it should be noted that these conditions have deteriorated slightly

over the past 12 month. Costs have gone up from EUR 239 last year to EUR 346 this year and the time has also almost doubled from two days.

A number of measures have been adopted since 2008 to reduce administrative burdens for SMEs. Hungary has already developed electronic building management and information systems, introduced one-stop-shop portals and e-government systems. These measures, as well as the Magyar Zoltán Public Administration Development Programme, have accelerated company registration procedures, the evaluation of requests and receipt of necessary permits. While there have been improvements related to online administration services, there are still administrative burdens for SMEs, particularly in the field of taxation (numerous taxes should be paid in several instalments and to several entities). One major aspect of the SBA agenda in this domain which is still unaddressed is the 'only once' principle.

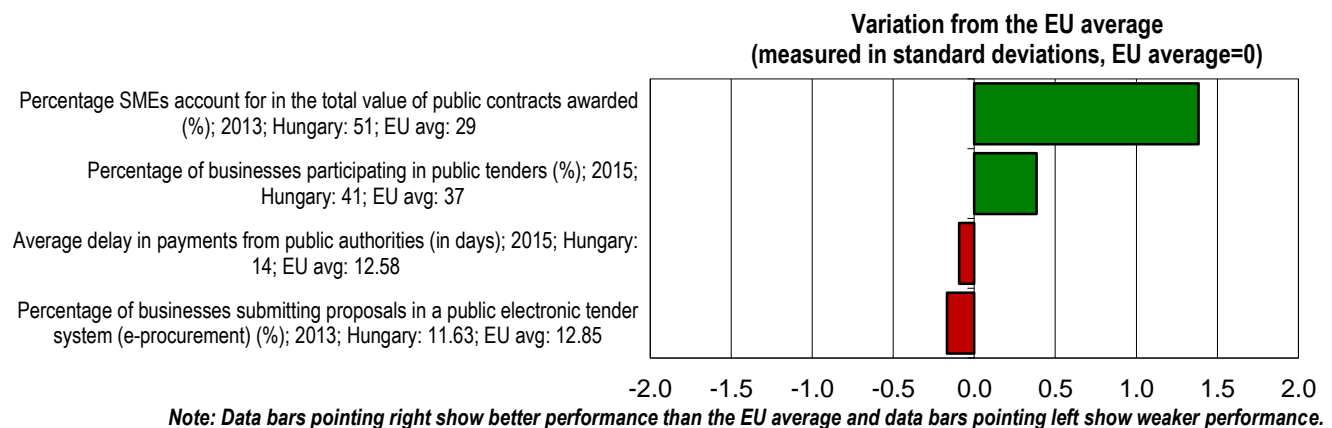
During 2015 and the first quarter of 2016, three significant new measures were implemented.

- an initiative that provides online administration services for sole trader businesses (private entrepreneurs) (*Egyéni*

vállalkozók számára nyújtott online ügyintézési lehetőség) for a variety of procedures (notification of commencement, suspension, continuation, termination of business activity, notification of changes in data, request for an entrepreneurial certificate, etc.). These services have been available online since October 2015 and aim to produce time and cost savings in starting a business, to reduce administrative burdens and to promote Entrepreneurship;

- as of January 2016, the Ministry for National Economy shortened authorisation deadlines for excise goods (*Jövedéki termékek engedélyeztetési határidejének csökkentése*) for registered traders (from 45 to 35 days), for tax warehouses (from 60 to 45 days) and for quota licences (from 30 to 21 days). The measure aims to reduce bureaucracy and accelerate authorisation procedures; and
- 'easier duty paying in electronic ways' (*Elektronikus vámfizetés*). The measure relates to the simplification of the payment of duties that, until June 2015, could only be paid by stamp duty. This procedure has significantly extended time for import activities. With the introduction of the measure, duty payment is allowed through bank transfers, also initiated via telephone.

3.4 State aid & public procurement



Hungary's performance is on a par with the EU average. As regards individual indicators, very little has changed since last year. The proportions of SMEs participating and taking a share in public tenders remain relatively high.²¹ However, the time it takes to get paid is now slightly longer than in the EU in general. Also, e-tendering can be improved. Despite some dedicated policy initiatives, the proportion of Hungarian SMEs participating in e-tendering is smaller than in the EU in general.

However, the cited statistics cover not all relevant issues related to public procurement in Hungary. For instance, regulatory changes have to be implemented in a more predictable and less burdensome way. Also, the high numbers of negotiated

procedures without publication and of contract awards with a single bid has to be reduced. A comprehensive e-procurement strategy for increased transparency and efficiency has to be developed. This increased transparency would also be useful in monitoring whether the increased share in public contracts accounted for by the SME sector is also benefiting an increasing number of SMEs or whether it remains concentrated on a limited number of businesses. In general, competition in procurement procedures has to be stimulated.²²

Since 2008, some actions have been taken. The 2011 Act on Public Procurement, amended in 2013, aimed to further facilitate the participation of SMEs in public procurement

through workshops, conferences, provision of assistance and support in interpreting public procurement-related provisions.

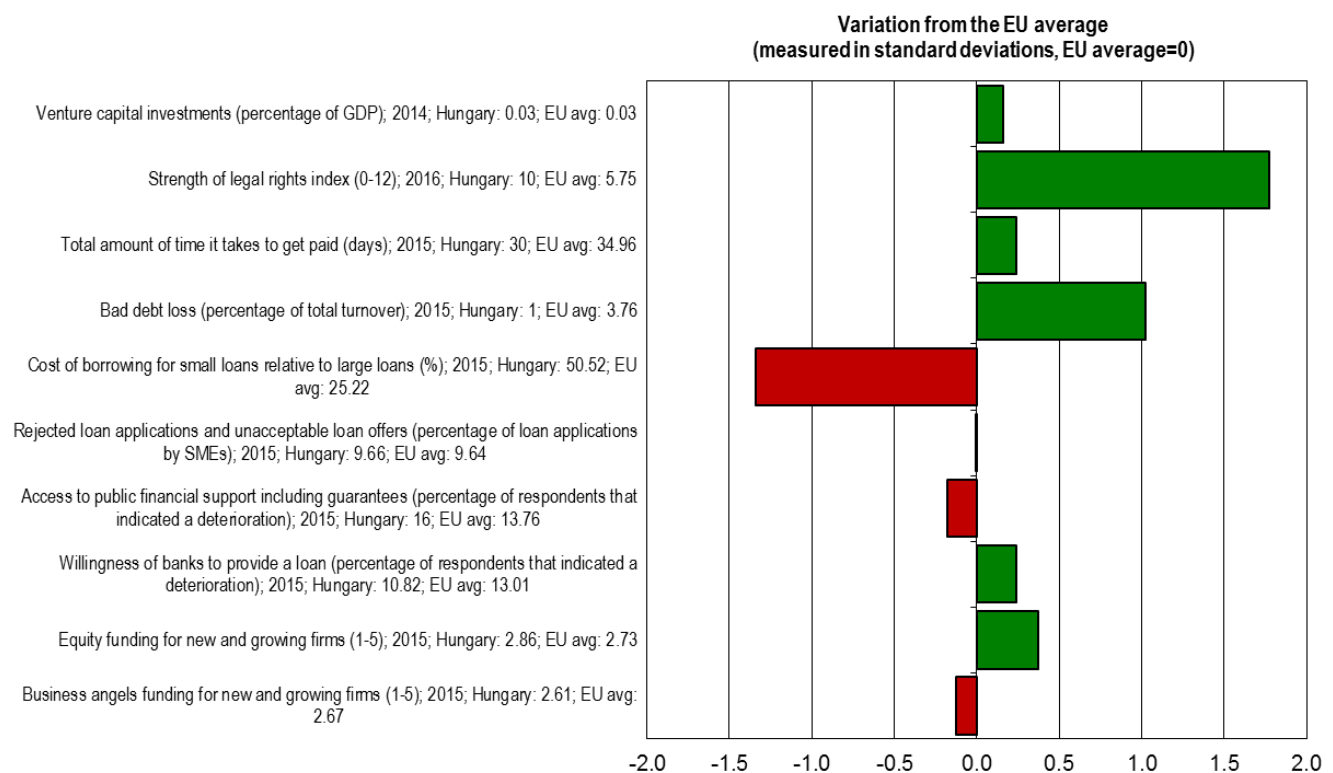
During the reference period of January 2015 to March 2016, two new significant measures were implemented under this SBA principle:

- the New Act on Public Procurement (*Új közbeszerzési törvény*), transposing the three EU public procurement Directives of 2014 into national law. The aim of the Act includes helping SMEs access procurement markets, reducing fees of remedies, eliminating unnecessary administrative burden, and promoting openness and transparency in public procurement procedures (e.g. through electronic access to procurement documents). The new law also includes the normative limitation of selection criteria (e.g. the required amount of the references cannot exceed 75 % of the value of the project), the principle of technical equivalence (e.g. all evidence of expertise with projects which are similar in nature to the tender project), broader publication of contract notices on the internet, and the introduction of the European single procurement document (ESPD). It also narrows the scope of application for low-value tenders. The Act entered into force through a rapid implementation process and prior consultations took

place only with a small group of stakeholders. Stakeholders, however, may provide feedback at any time. It should be noted, though, that the law has already been the subject of two amendments; and

- The provision of training and feedback opportunities for SMEs in order to deliver information about the new Public Procurement Act (*Az új közbeszerzési törvénnyel kapcsolatos tájékoztató konferenciák tartása illetve visszajelzési lehetőség biztosítása*) was promoted by the Public Procurement Authority in 2015. The Authority organises several conferences for professionals to share their experiences with regard to implementation of the new Procurement Act and receive up-to-date information on the changing legislative environment and institutional reforms. Training is also organised to promote the development of SMEs' professional skills to deal with public procurement, contributing to enhancing opportunities for their successful participation in public tenders. The Public Procurement Academy was also set up, in order to establish an effective communication platform among public procurement experts and ensure continuous consultation. The Authority intends to continue its educational activities throughout 2016.

3.5 Access to finance



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

Hungary's performance dropped this year to being on a par with the EU average. The main causes for this change are related to credit finance. The mark-up costs for small loans as compared to those of more than EUR 1 million have shot up from less than 20 % last year to more than 50 %. Although the fall in interest rate levels in more absolute terms and the fact that about half of the loans in Hungary come with interest subsidies had a mitigating effect, this sudden jump made loan financing more difficult for many SMEs. There was also a small increase in the proportion of SMEs which stated that it had become more difficult to access public financial support instruments. This rose from 14.7 % to 16 % in 2015. At the same time, however, financial institutions seemed to be more inclined to provide loans to SMEs. The proportion of SMEs complaining about rejected loan application or unacceptable conditions fell from 25 % in 2014 to less than 10 % in 2015. At the same time, the proportion of SMEs reporting a reduced willingness of banks to provide loans also fell from 17 % to less than 11 %.

Since the start of the SBA in 2008 and the height of the financial crisis, the financing situation for Hungarian SMEs has improved markedly. A number of policy measures were instrumental in this regard. The Funding for Growth Scheme (FGS), initially introduced in 2013, positively influenced access to loans, increased competition among banks and contributed to a significant increase in SME investments. So far, over 26 000 enterprises have been supported in the first and second phases of the scheme, with granted financing amounting to more than HUF 1.7 billion (EUR 5.5 billion). It should be noted, though, that despite the above-mentioned encouraging signs, market-based corporate lending outside the subsidised schemes has yet to significantly expand again.

As regards equity finance, in 2009, Hungary implemented the JEREMIE venture capital programme, with EU co-financed venture capital funds being established, contributing to the improvement of the Hungarian venture capital and private equity market.

Also, the financing programmes of the EXIM Bank (Hungarian Export-Import Bank plc), aiming to support Access to finance for

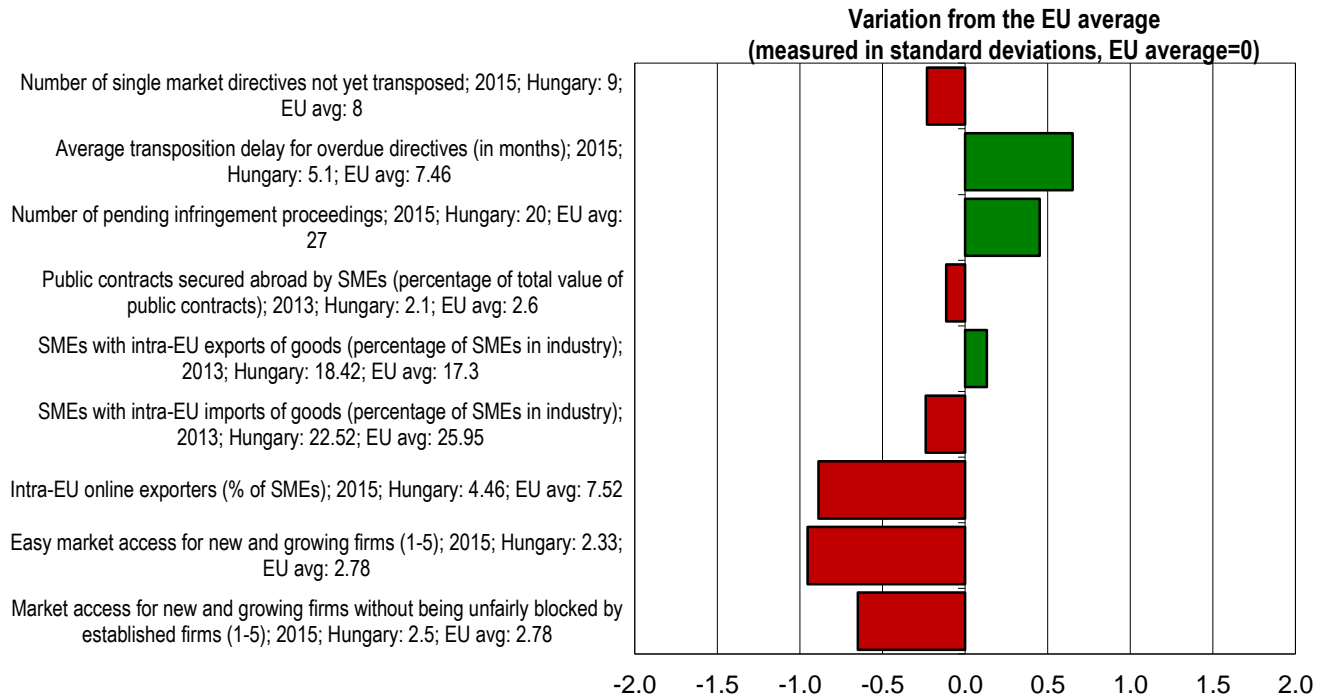
SMEs and encouraging export activity, are also noteworthy. For instance, in 2014, the EUR 600 million Lending for Export Programme was launched. Between 2010 and 2013, the EXIM Bank distributed HUF 28 billion (EUR 90 million) in the form of export loans to SMEs in the Carpathian Region.

During 2015 and the first quarter of 2016, substantial progress was achieved, with three main new measures being put in place:

- since January 2016, the Hungarian Central Bank (MNB) has launched the third phase of the FGS (*Növekedési Hitelprogram 3. Szakasz*), providing refinancing loans to commercial banks, which in turn lend the available resources at a preferential interest rate (2.5 %) to SMEs. The FGS has two pillars, of HUF 300 billion (EUR 963 million) each, supporting HUF investment loans and helping SMEs reduce their debt in HUF and foreign currency. In parallel, the Growth Support Programme was launched, designed to help domestic banks return to market-based financing by gradually phasing out the FGS;
- several new financial programmes (*EDIOP programok a magyar KKV-k versenyképességének növelése érdekében*), managed by the Hungarian Development Bank (MFB), were implemented in 2015 under the EDIOP framework, to increase the competitiveness of Hungarian SMEs and ensure better Access to finance. The main financial tools are loans, loans combined with grants, counter-guarantee assets and risk capital, for a total budget of EUR 2.9 billion; and
- in 2015, the MFB introduced three targeted working capital loan programmes for the agro-food sector (*Három új forgóeszköz hitelprogramja*), with a budget of EUR 500 million, which ensure promotional working capital finance for primary agricultural producers and food processors at the lowest interest rate.

In general, the SBA agenda in this principle is addressed without major exceptions. In each of the areas, ranging from loan to equity financing, there is still room for improvement, though.

3.6 Single market



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

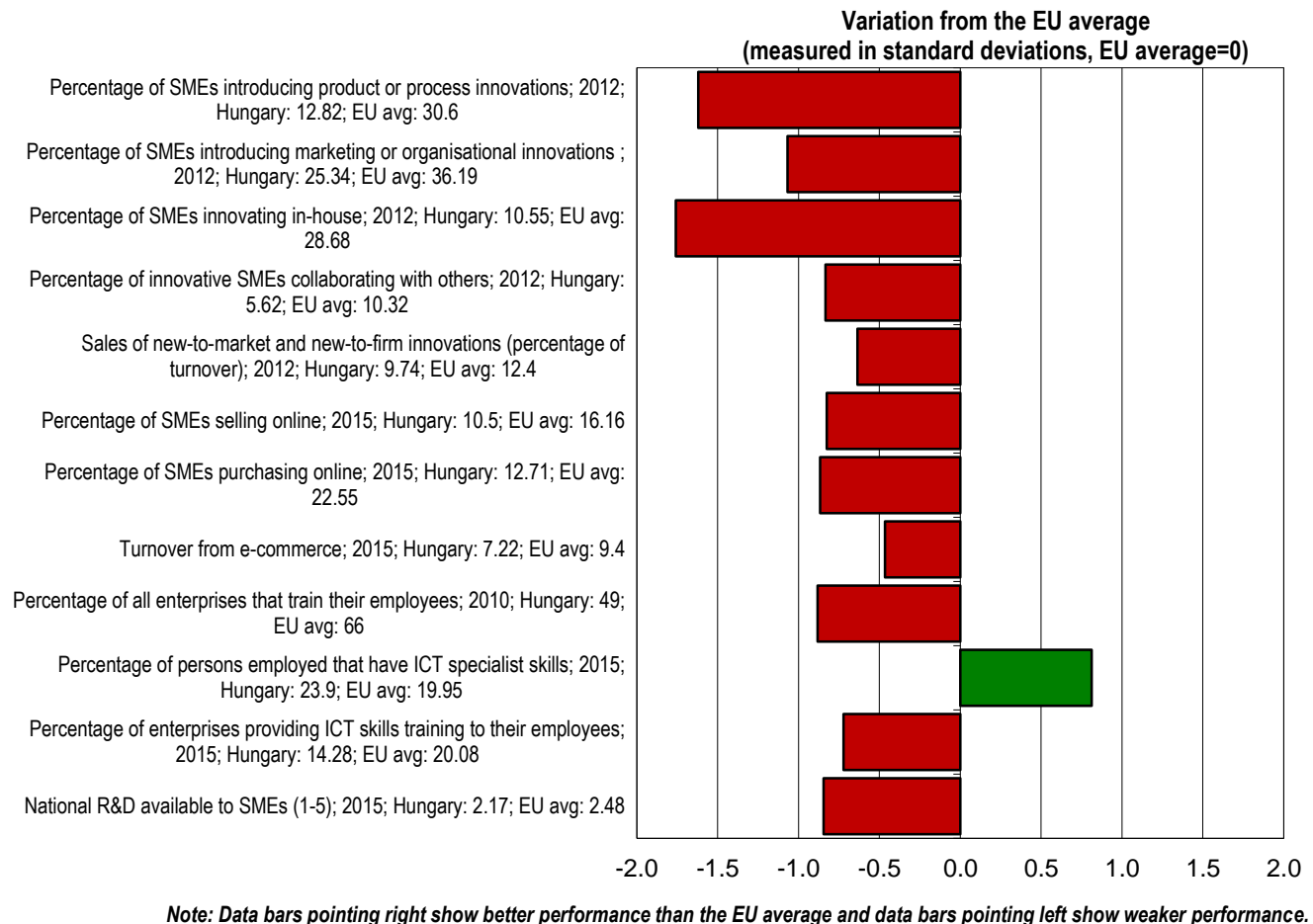
Hungary performs in line with the EU average, but only just so. As compared to last year, there have been only moderate changes. The trading performance of Hungarian SMEs improved slightly. The proportion of SMEs exporting goods to the Single market increased from 17.3 % to 18.4 % while the proportion of SMEs doing so online expanded slightly from 4.1 to 4.5 %. Also, the proportion of importers went up as compared to last year. These increases are in a line with a longer-term trend since 2008. Overall, Hungarian SMEs trade as much with partners from the Single market as their average EU peers. Hungary is also in line with most other EU countries when it comes to implementing Single market legislation. Also in this respect, Hungary has, albeit only modestly, improved its performance since 2008. Problems remain in the general market access for new and growing firms. This is more difficult than in the EU in general, partially because there is a bigger issue with unfair behaviour by incumbent firms blocking market access for new and growing firms. Untransparent procurement processes may further exacerbate this problem.

Since 2008, progress was focused on the transposition of EU law into national legislation. The new Civil Law came into effect in

2014, transposing various EC directives (Directive 93/13/EEC and amendment of Directive 1999/44/EC on consumer rights).

During the reference period, only one significant measure was implemented in this area, 'facilitating Hungarian companies in taking part in international RD&I programmes' (Phase 2)' (*Magyar vállalkozások nemzetközi kutatás-fejlesztési és innovációs programokban való részvételének elősegítése 2. Szakasza*). The first phase of this programme was launched in the last reference period, but due to the high interest raised among SMEs, it has turned into a standing measure. With a budget of EUR 4.7 million, it provides Hungarian SMEs with advisory and training services in order to promote Internationalisation and support for participation in international consortia and EU initiatives. It also raises awareness among Hungarian enterprises on Horizon 2020 funding opportunities, through information sessions, consultations and through the Hungarian Horizon 2020 webpage run by the National Research Development and Innovation Office. The measure provides e-learning courses for SMEs to boost their applications for EU funds.

3.7 Skills & innovation



Hungary's score remains below the EU average in this area. It is, in fact, the only SBA domain where Hungary's performance has deteriorated since the adoption of the SBA in 2008. Partly, this decline is fuelled by the drop in innovativeness of Hungarian SMEs since 2008. Although this year there were no updated figures available, the falling trend for the preceding years for practically all innovation-related indicators remains the same. The situation is more mixed as regards the use of ICT by SMEs and also concerning skills levels of SMEs' employees. Although Hungary is also trailing the EU average in almost all of these indicators, there are a few positive developments. Hence, the proportion of SMEs selling online has almost doubled, from 5.6 % in 2009 to 10.5 % in 2015. The importance of e-commerce for Hungarian SMEs has also increased modestly. In recent years, there has been also a slight increase in the proportion of SMEs providing their employees with ICT skills training. The only area where Hungary performs better than the EU in general concerns the proportion of personnel with specialised ICT skills. However, while still about four percentage points higher than the corresponding EU average, Hungary's

advantage is shrinking. Since 2012, the proportion fell by five percentage points.

The government has tried in recent years to counter the negative trend in this area with a number of policy measures.

Examples of existing measures include a programme supporting and improving the activities of 'gazelles', or high-growth start-ups, and the Go!nno mentoring initiative, supporting innovative start-ups by providing professional advice from mentors in various relevant areas. The Researcher Contribution Allowance offers entrepreneurs a tax allowance of up to EUR 1 550 for each new researcher hired holding a Ph.D.

One significant and complex measure, articulated into various sub-programmes, was introduced in 2015 and the first quarter of 2016, with a significant budget (EUR 237.4 million). The EDIOP programmes supporting Hungarian SMEs' RD&I activity (*EDIOP programok a magyar KKV-k K+F+I tevékenységének támogatására*) were implemented in 2015 by the National Research Development and Innovation Office and the Ministry

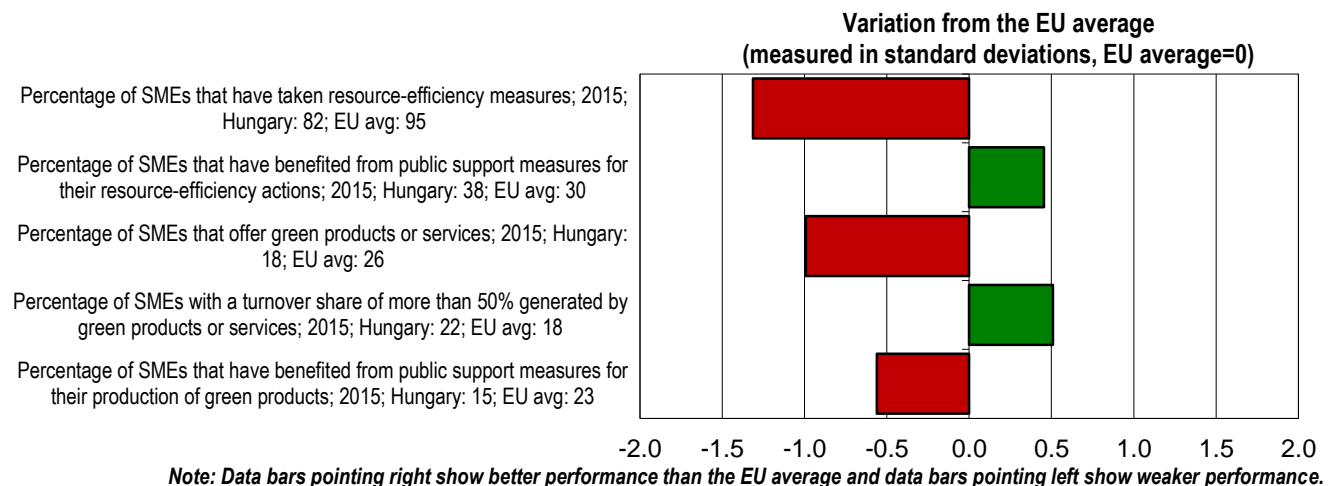
for National Economy. They aim to integrate micro enterprises and SMEs into the innovation chain and strengthen their innovation capacity, by driving commercialisation of R&D results and protecting existing industrial property rights. The measure involves five calls encompassing:

- the co-funding of applied industrial research and experimental development;
- the development of in-house prototypes by SMEs and commercialisation of innovative solutions for new products, processes and services;
- the protection of intellectual property rights;

- co-funding for R&D services purchase by micro- and SMEs; and
- the use of ICT solutions in internal business processes.

Overall, Hungary has addressed most of the requirements of this SBA principle. However, in light of the negative performance trends, more needs to be done. A particular challenge is to boost the effectiveness of the existing measures, which proved unable to halt the loss of innovation capacities and drop in skill levels.

3.8 Environment



Hungary performs below the EU average in this area. Although its overall position has not changed, there were some considerable changes on the level of individual indicators. The number of SMEs benefiting from public support for resource-efficiency measures has doubled since 2013, when the data were last compiled. This may well be the result of some of the policy support programmes which came into full effect only recently. However, the overall number of SMEs investing in resource efficiency did not increase. To the contrary, it fell between 2013 and 2015 from 91 % to 82 %.

For SMEs producing green products, the reverse happened. The proportion of SMEs producing green products is still below the EU average, but it increased from 10 % to 18 %. At the same time, the number of SMEs benefiting from public support measures for the production of green products decreased considerably, from 28 % to 15 %. Given that the latter figure is based on a sub-sample of the survey population in question, it needs to be treated with some caution. Still, there are no signs of a long-term improvement in this policy domain. Rather, it appears that SMEs have not fully grasped the opportunities linked to eco-innovation and green technologies. An additional

challenge is the lack of financial resources to modernise production and invest in green technologies.

Policy-wise, the first significant actions were taken with some delay. It was only in 2011 that the Green Economy Development Programme under the New Széchenyi Plan of 2011 was introduced, aiming to increase resource efficiency and support environment-friendly companies. One of the most important measures was the Environmental and Energy Efficiency Operational Programme (4th and 5th priority axes), launched in 2012, with EUR 3.4 million of funds available. It helped SMEs acquire the necessary managerial and technical skills to adapt their business to the low-carbon, resource-efficient economy through, *inter alia*, the European Social Fund.

During the reference period, two significant measures were implemented in this area, constituting substantial progress towards aligning Hungarian SMEs with European priorities and helping them access available funding programmes:

- the ESCO financing of energy efficiency and renewable energy projects for SMEs (*ESCO finanszírozási modell bevezetése a Nemzeti Energiagazdálkodási Zrt. Keretében*)

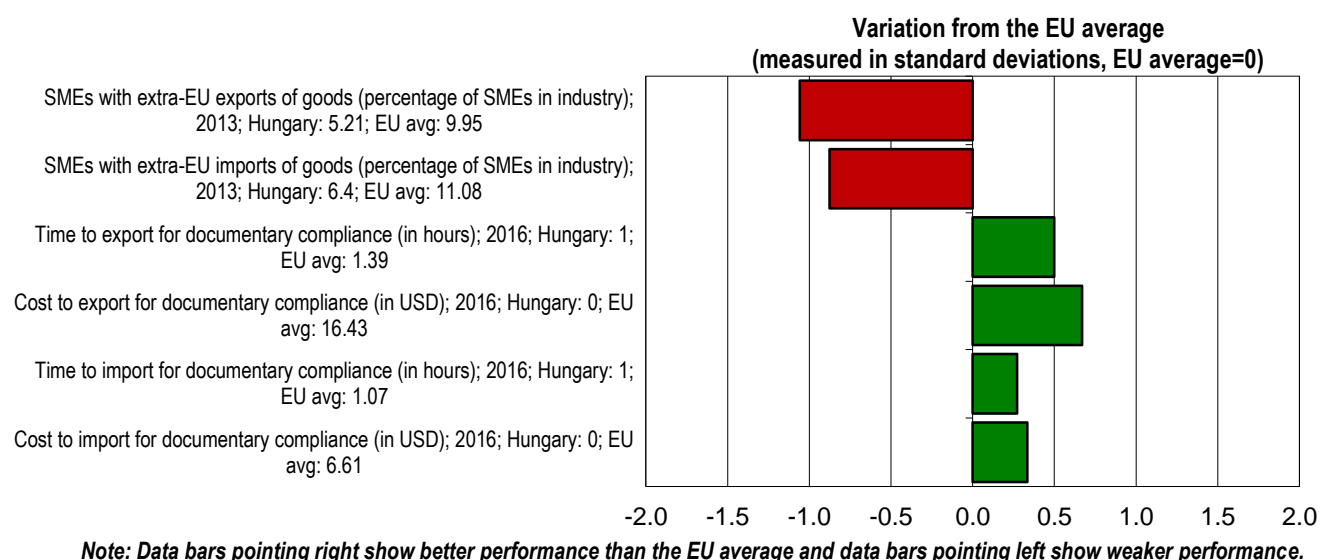
entered into force in 2015. It was introduced by the National Energy Management plc (NEG), under the control of the MFB. The main objective of the measure is to increase the resource and energy efficiency of SMEs by providing them with sophisticated energy services. These include energy consulting and auditing, modernisation of energy infrastructures, promotion of renewable energy production and a wide range of energy efficiency investments (e.g. solar panel installation, waste gas and biomass utilisation facilities, upgrading lighting and public lighting systems). The funding of eligible 'green' projects consists of an 85 % loan and 15 % equity. The plan is to support 25 projects in 2016; and

- the 'support SMEs in waste management' (*KKV-k támogatása a hulladékgazdálkodásban*) measure aims to increase the scale of waste prevention and recycling and involve Hungarian SMEs in environmental European goals,

by facilitating their access to European funds related to EcoAP. Implemented in 2015 by the Ministry of Agriculture, the measure has a budget of EUR 274.2 million. In this framework, a conference was held in October 2015 to inform SMEs and present the Environmental Technology Verification mechanism as a new tool to help innovative environmental technologies reach the market.

There are some SBA recommendations which still need to be implemented. These include the introduction of incentives for EMAS certification and the introduction of green public procurement. Also, there is a lack of systematic and large-scale incentive schemes to boost eco-efficiency. Since the National Environmental Energy Centre was subsumed into the Ministry of National Development in 2014, no organisation has been set up yet which would be responsible for providing strategic support to SMEs as regards their compliance with environmental regulations.

3.9 Internationalisation



Hungary's overall performance has improved to be on a par with the EU average. This improvement has to be treated with some caution. The principal reason for the change as compared to last year was technical in nature. For all indicators describing the costs and duration of trading, the definitions have been adjusted by the original data source, i.e. the World Bank. These changes have worked, in general, to the advantage of landlocked countries such as Hungary, as the only costs included are those over which the country has executive power. In the case of Hungary, this means, for instance, the omission of any port-related administrative fees. As a result, Hungary, scores well on all aspects related to the costs and duration of exporting and importing with non-EU countries. Another, much less

important, reason for the improvement was a slight uptick in the trading performance of Hungarian SMEs. The proportions of SMEs exporting to and importing from non-EU countries improved modestly (from 4.8 % to 5.2 % and from 5.8 % to 6.4 %). This is a continuation of a longer-term trend, but on a very moderate level. There are still no signs of a sustained internationalisation boom of Hungarian SMEs as set out as an explicit policy goal by the government. This had been identified as a policy priority in the SME strategy to boost trade and increase the export activity of SMEs (also non-EU) to 30 % of total exports by 2020. There has been relatively slow progress since 2008, but measures have been implemented in this respect. The Hungarian National Trading House was established

in 2013 by the government and the Hungarian Chamber of Commerce and Industry to seek new market opportunities for SMEs, boosting their export potential and expansion. Moreover, the Hungarian Investment Promotion Agency supported SMEs through matchmaking activities with potential foreign partners and the establishment of a database with around 300 marketable project ideas, to be presented to foreign partners. Since 2013, the EXIM Bank has also helped the internationalisation of SMEs, providing them with low-interest funds to support export activity (see

3.5 Access to finance). However, the lack of foreign language skills is a major barrier which hinders the internationalisation of Hungarian SMEs.

During the reference period, two important measures were implemented by the Ministry for National Economy in the framework of EDIOP, ensuring that SMEs in the manufacturing industry and professional cluster organisations can participate in European and international exhibitions and fairs. These constitute substantial progress, promoting SMEs network-building and market-specific support:

- 'helping national innovative SMEs to enter the international market (phase 2)' (*A hazai innovatív KKV-k nemzetközi*

piacra lépésének támogatása 2. Szakasz — EDIOP-1.3.1-15) was implemented in 2015 with a budget of EUR 16.1 million. The fund helps SMEs in the manufacturing industry to take part in European and international exhibitions and fairs, and can also support marketing development. With this measure, SMEs are expected to launch new businesses, get new partners and, in the long term, improve their export capacity and competitiveness on European and international markets; and

- the 'support for professional cluster organisations' programme (*Professzionális klaszterszervezetek minőségi szolgáltatásnyújtásának támogatása — EDIOP-1.3.2-5*) is available from December 2015 to December 2017, with a budget of EUR 6.5 million. It helps professional clusters improve the services they offer, boost their presence on foreign markets and increase international cooperation by taking part in international exhibitions and fairs.

Overall, the SBA recommendations in this area have been tackled. However, much more effort is needed to ignite the desired internationalisation drive as set out in the SME strategy.

4. Interesting initiative

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

Count with the future! — road show for raising the awareness of new generations and for the dissemination of economic knowledge in public education

Launched in 2015 by the Ministry for National Economy, the programme raises financial and entrepreneurial awareness among young people by involving local schools, entrepreneurs and local governmental bodies. In 2015, the road show visited four big cities (Budapest, Pécs, Győr and Debrecen). Through the programme, the Ministry for National Economy aims to raise the economic and financial knowledge of students in elementary and secondary schools. The road show helps collect information, experiences and best practices, which will encourage teachers to integrate financial and business skills in school curricula.

Ultimately, the goal is to raise entrepreneurial interest among young people, helping them make conscious financial and economic decisions after school. This can contribute to promoting the generational change required in the Hungarian SME sector.

The measure can be considered as an interesting and innovative policy practice also by other countries, since it stimulates an innovative and entrepreneurial mind-set among young people. Due to the strong cooperation among the parties, the measure operates on a low budget, around EUR 500 for each destination of the road show. It can serve as best practice for Member States where family companies struggle to replace the ageing manager generation, as is the case in Hungary.

References:

<http://szamoljunkajovovel.kormany.hu/orszagjarasrol>

Ministry for National Economy

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. 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 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

grow-spr@ec.europa.eu

Small Business Act:

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

Endnotes

¹ 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 2014, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008–2013 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

² https://www.mkbszepakartya.hu/pdf/dolg_english.pdf, last accessed 12.04.2016

³ http://bbj.hu/business/playing-the-trump-card-to-boost-domestic-tourism_63827, last accessed 12.04.2016

⁴ https://www.mkbszepakartya.hu/pdf/munk_english.pdf; last accessed 12.04.2016.

⁵ Hungarian Tourism Ltd., *Tourism in Hungary 2015*, with preliminary data, p.15, accessible at http://itthon.hu/documents/28123/8118959/MTE_4001_105x210_LA4_StatElo_2015_ENG_TELJES_web.pdf/ae097433-2c69-4893-a42c-00ee677f0865; last accessed 19.4.2016

⁶ OECD (2016), 'Hungary: domestic, inbound and outbound tourism', in *OECD Tourism Trends and Policies 2016*, OECD Publishing, Paris. DOI: <http://dx.doi.org/10.1787/tour-2016-table40-en>, last accessed 12.4.2016

⁷ Eurostat, *Harmonised index of consumer prices: restaurants and hotels for Hungary*, Federal Reserve Bank of St. Louis <https://research.stlouisfed.org/fred2/series/CP1100HUM086NEST>; accessed 12.4.2016

⁸ OECD, *Consumer price index: all Items for Hungary*, Federal Reserve Bank of St. Louis <https://research.stlouisfed.org/fred2/series/HUNCPIALLAINMEI>, accessed 12.4.2016

⁹ Detailed information on the funding programmes can be found here: http://emir.nfu.hu/nd/kozvel/?link=umft_1_1&prq_abbr=uszt_umft&sc=1&ml=3&sr=1051&offset=8&id_op=9&id_tamogatascel=67&id_paly_tip=94&id_paly_altip=-1, last accessed: 12.4.2016

¹⁰ <http://www.eib.org/projects/regions/european-union/hungary/index.htm?lang=-en>, last accessed: 12.04.2016

¹¹ <http://www.eib.org/infocentre/press/releases/all/2014/2014-001-eib-supports-the-rehabilitation-of-railway-infrastructure-in-hungary-with-eur-250-million-loan.htm?lang=en>, last accessed: 12.04.2016

¹² <http://www.ksh.hu/docs/hun/xftp/gyor/gaz/gaz1512.pdf>; last accessed 12.04.2016.

¹³ Ibid.

¹⁴ https://www.ksh.hu/docs/eng/xstadat/xstadat_annual/i_qyd010.html; last accessed 12.04.2016.

¹⁵ <https://www.kpmg.com/HU/en/IssuesAndInsights/ArticlesPublications/Documents/20150624-Investment-in-Hungary-2015.pdf>, last accessed 12.04.2016.

¹⁶ The 2016 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.

¹⁷ 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 2016. These are measured against the individual indicators which make up the SBA area averages. This means that 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 2016. 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. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

¹⁸ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2015 and the first quarter of 2016. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2016 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 a policy database on the DG GROW website.

¹⁹ *Report on the quality of Hungarian legislation 2015*, Corruption Research Centre, Budapest; <http://www.crcb.eu/?p=904>

²⁰ European Commission, *2016 Country Report*

²¹ According to the 2015 annual report of the Hungarian Public Procurement Authority, the proportion of contracts awarded to SMEs in all procurement contracts was 27.%, in 2013, 40.7 % in 2014 and 51.3 % in 2015.

²² European Commission, *Recommendation for a Council Recommendation on the 2016 national reform programme of Hungary and delivering a Council opinion on the 2016 convergence programme of Hungary*, 18 May 2016 (COM(2016) 337 final).