Key points

Past & future SME performance:

SMEs in the ‘non-financial business economy’ in Hungary account for more than two thirds (68.3%) of total employment, slightly above the EU average of 66.6%. In recent years, Hungarian SMEs in the ‘non-financial business economy’ have generated strong value added growth. In 2017-2018, SME value added and employment grew by 10.1% and 2.4%. The forecast for SME value added is optimistic, with a projected rise of 12.7% in 2018-2020.

Implementing the Small Business Act for Europe (SBA):

Overall, Hungary’s SBA profile has seen mixed developments in the current reference period (2018 and the first quarter of 2019), with slight improvements in entrepreneurship, and a slight decline in State aid & public procurement and for the single market. For the other SBA fields, Hungary’s performance compared to the EU average has not changed significantly. Overall, there is considerable room for improvement in the fields of skills & innovation, the environment and internationalisation.

SME policy priorities:

The main challenge for Hungarian SMEs is to increase their productivity level by stepping up their innovation capacity. This entails the development of more innovative products and services of higher added value, which in turn requires tighter collaboration between SMEs and research organisations. Public contracting authorities should also give incentives through innovative public procurement. In this whole endeavour, digitisation of Hungarian SMEs plays a key role. Developing the necessary skills and competences of SME staff is crucial, all the more so as SMEs are affected by the labour shortage and by increasing wages more than larger companies.

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

<table>
<thead>
<tr>
<th>Class size</th>
<th>Number of enterprises</th>
<th>Number of persons employed</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hungary</td>
<td>EU-28</td>
<td>Hungary</td>
</tr>
<tr>
<td>Micro</td>
<td>548,744</td>
<td>94.1%</td>
<td>93.0%</td>
</tr>
<tr>
<td>Small</td>
<td>28,514</td>
<td>4.9%</td>
<td>5.9%</td>
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<tr>
<td>Medium-sized</td>
<td>4,669</td>
<td>0.8%</td>
<td>0.9%</td>
</tr>
<tr>
<td>SMEs</td>
<td>581,927</td>
<td>99.8%</td>
<td>99.8%</td>
</tr>
<tr>
<td>Large</td>
<td>990</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Total</td>
<td>582,917</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

These are estimates for 2018 produced by DIW Econ, based on 2008-2016 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 following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). 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 more than two thirds (66.6%) of total employment, slightly above the EU average of 66.6%. The SME share of 54.1% of total value added is slightly below the EU average of 56.4%. The productivity of Hungarian SMEs, calculated as value added per person employed, is €19,800, less than half the EU average of €44,600. The average number of people employed by Hungarian SMEs is 3.3, which is lower than the EU average of 3.9. As in many EU countries, the most important SME sectors in terms of both employment and value added are manufacturing and wholesale and retail trade, which together account for more than 40% of SME employment and SME value added.

In recent years, Hungarian SMEs in the ‘non-financial business economy’ have generated strong value added growth. In 2014-2018, SME value added rose by 38.1%, outperforming the value added growth of large firms, which increased by only 34.5%. SME employment also increased steadily, by 9.7%, but lagged behind the employment growth of large firms, which at 20.9% rose at almost double the rate. Most recently, in 2017-2018 SME value added and employment grew by 10.1% and 2.4% respectively.

The manufacturing sector has achieved strong value added growth in recent years. In 2014-2018, SME value added
increased by 22.0%. In contrast, SME employment growth in the sector was less robust, rising by just 4.0% in the same period. Large firms clearly outperformed SMEs, with value added growth of 32.7% and employment growth of 24.1%. In 2018, manufacturing achieved identical shares of 20.3% of both overall SME value added and overall SME employment. Hungary’s manufacturing sector plays an important role in the international value chain of the German car industry, which partly explains the sector’s strong growth. Another contributing factor was the Hungarian Government’s decision to reduce the corporate tax rate from 19.0% to 9.0% in 2017, thereby increasing inward foreign direct investment.

Hungarian SMEs in the construction sector generated very strong growth in 2014-2018, with SME value added and SME employment growing by 99.8% and 17.2% respectively. In 2016-2018, SMEs in the Hungarian building subsector created value added growth of more than 102.4%. A growth driver for the construction sector was the reduction of VAT from 27% to 5% on newly built residential properties. This was introduced in 2016, triggering a housing boom. However, the subsequent investment rush by both domestic and international buyers might lead to a housing bubble. As a result, the reduced VAT rate will be abolished at the end of 2019.

In 2017-2018, the number of new business registrations increased from 127,420 to 130,851. In the same period, the total number of registered companies in Hungary increased from 1,870,415 to 1,908,808. Business deregistrations totalled 93,080 in 2018. Many Hungarian firms have successfully scaled up in recent years. In 2016, 4,038 firms (13.0% of all firms in the “business economy” with at least 10 employees) were high-growth firms. This is higher than the EU average of 10.7%. As in previous years, high-growth firms are particularly prevalent in transportation and storage, with a share of 16.9%.

In 2018, Hungarian SMEs in the specialised knowledge-intensive services and high-tech manufacturing sectors, both of which are usually R&D-intensive, accounted for 28.4% of SME value added in the manufacturing and services sectors, which remains under the EU average of 33.0%.

The forecast for SME value added is optimistic, with a projected rise of 12.7% in 2018-2020.

2. SBA profile

Hungary’s SBA profile compared to the EU average has shown mixed developments during the reference period. Overall, Hungary’s performance remains below the EU average for ‘second chance’, responsive administration and the single market, and significantly lower for internationalisation, skills & innovation and environment. Since 2008, Hungary has achieved substantial progress in entrepreneurship, responsive administration and access to finance, while its performance has declined in skills & innovation.

Hungary has taken significant steps in implementing the SBA principles in the reference period. It implemented 20 policy measures addressing 8 out of the 10 policy areas under the Small Business Act. The vast majority of measures are financed through the European Structural and Investment Funds (ESIF) operational programmes.

According to the stakeholders’ opinions and based on the implemented measures, the most important milestones have been in entrepreneurship and responsive administration. New measures were also launched for State aid and public procurement, access to finance and skills & innovation. On environment and internationalisation, Hungary has introduced only a few, but nonetheless complex, measures, although there is still room for improvement. On ‘second chance’ and single market, no new measures were implemented. Nonetheless, there was some movement in the area of ‘second chance’, with some small changes made in 2018 to the bankruptcy law that came into force in 2017.

On entrepreneurship, a new, comprehensive mentoring programme was introduced for SMEs, and two measures were implemented, one to support women in starting or developing a business and another to enhance cooperation between equity funds and higher education institutions. The Hungarian State Treasury also launched two programmes to support young entrepreneurs and unemployed people to become entrepreneurs. On responsive administration, the Hungarian tax office continued its proactive behaviour towards SMEs. It now alerts SMEs when they make a mistake in their tax declarations.
and is preparing e-PIT (personal income tax) for self-employed people.\textsuperscript{18,19}.

On State aid and public procurement, several ESIF calls were opened for SMEs to help them in job creation and in adapting to the challenges of a changing environment.\textsuperscript{20} On access to finance, new measures were implemented, such as the Funding for Growth Scheme Fix programme. Several measures were introduced in the field of skills and innovation, for instance sample factories to help SMEs adopt Industry 4.0 technologies, new calls from the National Research, Development and Innovation Office\textsuperscript{21}, and the Technology Loan and Digital Welfare Loan measures.

Stakeholders agree that since 2017 SMEs looking for some form of financial support or a loan would find it relatively easy to acquire it on favourable terms. The calls for SMEs in the 2014-2020 period were all opened and adjusted to the needs of SMEs. Despite these improvements, tendering remains slow, held back mainly by the evaluation of applications.\textsuperscript{22}

The main national SBA strategy during the reference period focused on the digitalisation of small and medium-sized enterprises, along with the adoption of Industry 4.0 technologies (see the Irinyi Plan and the digital education strategy).\textsuperscript{23} Several calls were opened in order to reach the digitalisation and innovation targets, with the aim of strengthening SMEs’ productivity and competitiveness (see e.g. sample factories and the digital welfare loan).\textsuperscript{24} Furthermore, the government is placing more emphasis on the generational shift in SME ownership and management, and on reducing regional inequalities within the country.\textsuperscript{25}

The implementation of the SME action programme is in progress. In addition, the government continues to reduce the administrative and tax burdens for SMEs, supporting the implementation of the ‘only once’ principle.\textsuperscript{26,27} The main challenges remained the same: helping SMEs in internationalisation and digitalisation, along with improving innovation skills.\textsuperscript{28}
SBA performance of Hungary: state of play and development from 2008 to 2019

Legend:
1. Entrepreneurship
2. "Second chance"
3. "Responsive administration"
4. State aid & public procurement
5. Access to finance
6. Single market
7. Skills & innovation
8. Environment
9. Internationalisation

Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review: http://ec.europa.eu/growth/sme/business-friendly-environment/performance-review/
3. **SBA principles**

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 policymakers to take SMEs’ 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 has implemented several measures since 2008 to reduce administrative burdens and state overheads, and to decrease the tax burden on SMEs. As a result, corporate income tax and social contribution tax have been decreased since 2016. Hungarian corporate income tax is currently the lowest in the EU, while the social contribution tax is 17.5%. A significant step was the doubling of the VAT-free income of self-employed people, associated with the KATA (small taxpayers’ itemised lump sum tax) scheme. Meetings of the Business Development Council (Vállalkozásfejlesztési Tanács) are held every quarter, making it possible for NGOs to participate in the strategic decision-making process for SME development. In addition, public consultations are open to all interested persons in Hungary. These obligations can be observed in the case of any new calls or new legislation. In the last 15 months, two important measures were implemented, although there is a general intention for the ‘think small first’ principle to be applied in every measure. In the reference period several changes were introduced in SMEs’ taxation.

- First, the social contribution tax decreased by an additional 2 percentage points to 17.5%. Moreover, the eligibility criteria for choosing small business tax (KIVA, Kisvállalati adó in Hungarian) was broadened. The maximum limit of income and total balance sheet was increased from HUF 500 million (€1.5625 million) to HUF 1 billion (€3.125 million). As a result, more businesses can choose the small business tax, which provides more favourable taxation terms for such enterprises. In addition, the tax rate for small business tax was reduced from 14% to 13%. Thirdly, the VAT exemption for the smallest enterprises increased from HUF 8 million (€25,000) to HUF 12 million (€37,500). Additionally, they are relieved from the obligation to fill in the VAT return form.

- The introduction of easier electronic preservation of documents for SMEs granted some relief for SMEs in this area compared to the previous legislation. From 1 July 2018, SMEs are no longer required to use a time stamp in the case of electronic signature with advanced security. Furthermore, a certificate issued by an accredited certification body will no longer be mandatory for closed system storage, and the archiving method can be implemented by using an online account reporting system. These steps significantly reduce red tape for SMEs.
Hungary performs in line with the EU average in entrepreneurship. There has been moderate upward progress since 2008. A new indicator, high job creation expectation rate, showing the percentage of early or nascent entrepreneurs who expect to create six or more jobs in 5 years elevated the overall profile during the current reference period, exhibiting an above average performance. In fact, Hungary ranks as the second-best performer for this indicator. Furthermore, the percentage of high-growth enterprises maintains its above average position. Opportunity-driven entrepreneurial activity increased strongly between 2014 and 2016, from 36.3% to 52.6%. On the other hand, Hungary ranks second to last in terms of both media attention given to entrepreneurship and entrepreneurship education at pre-tertiary education. Nevertheless, despite a below average performance, the media attention given to entrepreneurship has increased from 33.5% in 2014 to 40.7% in 2016. In addition, since 2017 the promotion of entrepreneurship begins in secondary schools in the form of an obligatory course on financial skills and entrepreneurship, and an entrepreneurial-themed week is organised for students involving elementary and secondary schools.

On the policy side, promoting entrepreneurship is one of the SBA areas where significant progress has been made in Hungary since 2008. Hungary has introduced training, financing and mentoring programmes for the development of entrepreneurial skills, focusing on women (see e.g. ‘Dobbertő’) and on young people and unemployed people (see StartUpCampus initiatives and the implementation of European Money Week). Hungary also places a great emphasis on self-employment (e.g. favourable, simplified taxation — see KATA and KIVA) and introduced a dual training system in 2010 to ensure that academic knowledge is tailored to market needs and that it provides young people with practical skills.

Overall, Hungary supports start-ups and scale-ups, as the already introduced measures show (see Innotrade, Golinho, Startup Campus programmes and services). Most Hungarian scale-up companies develop from innovative, knowledge-intensive start-up companies that are already able to exceed growth gaps. These businesses grow at a faster pace, move into international markets and become more export-oriented businesses than traditional SMEs. However, the domestic programmes do not always provide sustainable growth, innovation and internationalisation opportunities for start-ups. As a result, they need a platform that allows them to become a part of the global market more quickly and to adjust to the single digital market.

In the reference period the measures already in place continued, and four significant new measures were implemented.
- A ‘National Entrepreneurship Mentoring Programme’ (Országos vállalkozói mentorprogram) was introduced by the Ministry of Innovation and Technology to increase the competitiveness and efficiency of the SME sector by ensuring personal and professional mentoring for SMEs. The project ensures access to a network of experienced entrepreneurs and professionals for 500 micro firms and SMEs, which provides personal mentoring for female entrepreneurs, young entrepreneurs, companies facing generational change and for SMEs in internationalisation.

- Two new measures were introduced by the Hiventures equity fund. The ‘Hivventure StartUpHer Programme’ (HivVentures StartupHER program: főkusszban a jövő magyar vállalkozónői) aims to facilitate women starting a business or developing already existing businesses. After receiving training, the selected participants will receive HUF 9 million (€28,125) to carry out their projects with the help of a mentor. The overall budget for the programme is €1,800,000.

- The other programme is ‘Startup Campus BME powered by Hiventures Programme’ (BME Start-up Program a Hiventures támogatásában). The programme helps students and researchers at Budapest University of Technology and Economics to gain practical knowledge in setting up a start-up business. The best ideas are granted HUF 9 million (€28,125) to realise the students’ and researchers’ goals and to set up their companies. This initiative is planned to be expanded to other universities in the future.

- ‘Supporting young entrepreneurs and unemployed people to become entrepreneurs’ (Fiatalok vállalatkozóvá válásának támogatása és az állókeresők vállalatozóvá válásának támogatása programok) calls are implemented by the Hungarian State Treasury to promote entrepreneurship among young people (aged 18-30) and unemployed people (over 30). The programmes aim to reach 5,200 young people and 2,600 jobseekers over the age of 30, helping them establish start-ups and complete the first year of operations. The overall budget is €125 million.

3.2 ‘Second chance’

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Overall, Hungary performs somewhat below the EU average in this area, with a stagnating trend since 2008. The indicators for this SBA principle have remained at the levels they were at in the fact sheet for the previous reference period. It takes 2 years in Hungary to resolve insolvency; as a result, the indicator has maintained its position in line with the EU average. The fear of failure is also in line with the EU average. The rest of the indicators score below the average.

Since 2008, Hungary has introduced three measures: the amendment of the Civil Code, the ‘Second Chance for Entrepreneurs’ and the introduction of a new bankruptcy law in 2017. Representatives of business support organisation observe slight progress in this area, mainly thanks to the improvement in companies’ winding-up.

Despite this slight progress, improvements are still possible mainly in the form of information campaigns, training, information sessions on procedures to reduce the stigma of failure and to implement fast-track, early warning and help-desk mechanisms to prevent entrepreneurs from going into bankruptcy. It is also necessary to introduce the possibility of automatic discharge for honest entrepreneurs after liquidation or fast-track and specific procedures for SMEs.
3.3 ‘Responsive administration’

‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Hungary performs somewhat below the EU average in this SBA principle, although it has made positive progress since 2008. While most indicators remain in line with the average, there are some outliers. Hungary is the worst performer in terms of paid-in minimum capital, amounting to 40.1% in 2019. Despite remaining last in the ranking, there has been some improvement since the previous reference period, when the indicator stood at 43.8%. Additionally, the country has the third weakest performance in terms of the time it takes to pay taxes. The competency and effectiveness of government staff in supporting new and growing firms also scores poorly, ranking second worst in the EU. On the other hand, the cost of enforcing contracts continuously scores above the average, with the percentage of the claim that is enforced standing at 15% in 2019.

A number of relevant measures have been adopted since 2008 to reduce administrative burdens for SMEs, we can observe significant progress in this area. Hungary has already developed electronic building management and information systems, introduced one-stop shop portals and e-government systems. The most important step undertaken since 2008 is the Magyary Zoltán public administration development programme, which has accelerated company registration procedures, the evaluation of requests and the receipt of necessary permits, and reduced the amount of required data and documents. Moreover, since the Hungarian tax system has often been seen as difficult and highly taxing, the simplification of business-related legislation and the reduction of state overhead charges and corporate taxes (e.g. corporate income tax and social contribution tax) has been ongoing since 2016.

Only one SBA recommendation, the ‘only once’ principle, remains partly unaddressed. The existing databases of different public administrations are not sufficiently connected, meaning that companies are unable to provide information only once.

The stakeholders highlighted that the most visible progress in this field is the attitudinal change of the Hungarian tax authority. This change can be dated to the last reference period and has continued throughout the current one: besides the authority’s mentoring programme, it now first warns SMEs before punishing them and pays greater attention to informing SMEs if they make a mistake in their tax declarations.

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.
In the reference period, one significant measure was taken, which contains three relevant changes in the procedures of the Hungarian Tax and Customs Authority (NTCA):

- ‘Measures against tax evasion and for enhanced proactivity’ (Adóelkerülés elleni harc és proaktivitás erősítése). The NTCA has started carrying out post-audits of taxpayers who claim not to be operating but where the tax authorities suspect that in reality they are. The purpose of the investigations is to explore the real activity of taxpayers and to establish and prescribe the actual tax liability. Moreover, companies that made mistakes in their tax declarations, receive first a warning by the National Tax and Customs Administration to remedy it. This helps them avoid similar mistakes in the future.
3.4 State aid & public procurement

Important methodological changes have been introduced for this principle in this year’s fact sheet. Three new indicators from the Tenders Electronic Daily (TED) database have been added and refer to procurement above EU thresholds:

- percentage of awards for which the winner was an SME;
- proportion of bids by SMEs;
- percentage of calls for tenders which were split into lots.

In addition, the indicator on e-procurement has been removed. Therefore, the overall performance in this area cannot be compared to last year’s.

Hungary has made positive progress since 2008 and performs in line with the EU average in this SBA principle. In fact, the country performs in line with the EU average for most indicators with the exception of one, for which it scores above the EU average: for the percentage of calls for tenders, which were split into lots, Hungary scored 37.8% in 2018 (the EU average was lower than 30%).

As for the share in the total value of awarded public contracts accounted for by SMEs, at 58.9% Hungary is in line with the EU average. This is a great improvement since 2014, when the indicator stood at 12.0%.

Among the most important measures in the case of public procurement, particular stress should be placed on the implementation in 2015 of the new Public Procurement Act, which transposed the three EU Public Procurement Directives of 2014 into national law. The Act included helping SMEs access procurement markets, reducing fees for legal remedies, eliminating unnecessary administrative burdens, and promoting openness and transparency in public procurement procedures (e.g. through electronic access to procurement documents). It also includes the normative limitation of selection criteria, the principle of technical equivalence, broader publication of contract notices on the internet, and the introduction of the European single procurement document. Looking at State aid programmes, of particular note is the ‘Enhancing the competitiveness of SMEs through adaptive technological innovation’ call from 2017, through which 662 SMEs received support to introduce new market products and 938 SMEs received support to introduce new firm products\(^2\). Consultations with SMEs were continuous during the implementation of these measures. All aspects of the SBA agenda in this domain are in place\(^3\).

Three new steps were taken in the field of State aid and public procurement during the reference period.

- ‘Amendment of the Public Procurement Act’ (a közbeszerési törvény változása). Parliament amended the Public Procurement Act (Law No 2018/LXXXIII) in December 2018, which introduced changes in several areas, mainly related to improving the operation of the electronic public procurement system. Under another important amendment, contracting authorities can no longer restrict the right of tenderers to involve subcontractors in the tender, which is particularly important in the case of...
construction tenders. This measure does not have a significant impact on the budget.

- The Ministry for Innovation and Technology introduced the ‘Support for capacity building and efficiency improvement investments for construction companies’ (Építőipari vállalkozások kapacitásnövelő és hatékonyosságjavító beruházásainak támogatása) scheme to help companies in the construction sector enhance their capacities and become more efficient. The reason for the measure is the labour shortage in Hungary, coupled with the extremely high demand for housing. The overall budget of this grant scheme is €87,500,000, from which 82 applications are supported. The ‘Job creation programme’ (Munkahelyteremtési program), carried out by the Ministry of Finance, provides job creation opportunities for SMEs, mainly in the underdeveloped regions of Hungary (in Northern Hungary, the Northern Great Plain, the Southern Great Plain and the Southern Transdanubia NUTS2 regions) and for one vulnerable group in particular (women with small children). The subsidy amounts to HUF 1.5 million (€4,687) for each new job. In addition, SMEs can receive a further HUF 1.5 million (€4,687) if the newly employed are women raising children under the age of six. An additional HUF 400,000 (€1,250) support is available for those who create jobs in an underdeveloped region. The overall budget for this programme is €625 million.

3.5 Access to finance

Similar to the previous reference period, Hungary performs in line with the EU average in this SBA principle, with the country making substantial progress since 2008. The access to finance indicators scoring above average are: the strength of legal right index, the total amount of time it takes to get paid, the willingness of banks to provide a loan and bad debt loss. Although the first three of these indicators maintained their good position, they have declined since last year. In contrast, bad debt loss improved from 2.1% in 2017 to 1% in 2018. The cost of borrowing for small loans relative to large loans remained below the EU average, also improving on the previous reference period (71.3% in 2017, against 68.7% in 2018). The country ranked second worst for the cost of borrowing for small loans and for access to public financial support, figures that were reflected in the percentage of respondents indicating a deterioration. The latter figure increased from 21.17% in 2016 to 25.98% in 2018. Nevertheless, there is a general consensus among stakeholders that a Hungarian SME wishing to access...
finance can find it nowadays easily and at a low cost. More than 20% of SME bank loans are attached to a state-supported guarantee.

Since 2008, the Hungarian Government has taken measures addressing all aspects of access to finance. A number of policy measures were instrumental in this regard. Of particular note is the Funding for Growth Scheme, which was introduced in 2013 by the Hungarian Central Bank. This scheme positively influenced access to loans, increased competition among banks and contributed to a significant increase in SME investments. Another important measure was the introduction of financing programmes by the EXIM Bank (Hungarian Export-Import Bank Plc), aiming to support access to finance for SMEs and to encourage export activity. The introduction and recapitalisation of the agricultural Széchenyi card loan programme and the three new equity funds from the last reference period (Irinyi II, Carpathian Basin and Stock Exchange Capital Fund) are also very important: through the former, financial support for agricultural SMEs has improved significantly since 2008. With the latter, SMEs now have greater access to finance in the long run through capital investments in line with the Industry 4.0 strategy.

Two significant measures were introduced during the reference period.

- The ‘Funding for Growth Scheme Fix’ (Növekedési Hitelprogram Fix) was introduced by the Hungarian Central Bank, providing 0% interest loans for credit institutions for a maximum of 10 years (the minimum lending period is 3 years). The financing can then go to SMEs in the form of a loan or financial lease. The Hungarian Central Bank introduced the Funding for Growth Scheme in 2013 to mitigate the observed disturbances in lending to SMEs, aiming to strengthen financial stability and reduce the country’s external vulnerability. This new ‘Fix’ framework aims to make the structure of domestic SME lending ‘healthier’ by providing long-term fixed-rate loans for SMEs through credit institutions. The total budget is €3,125 million.

- The ‘Easier and faster loans for SMEs through equity funds’ (Gyorsabb kkv hitel tőkealapokon keresztül) measure aims to make SMEs’ financing easier and faster. Since 5 July 2018, the customers of CIB Bank can access loans from the Garantiqa Equity Fund without run-time (based on the COSME programme). The plan is to expand this to other equity funds and customers. The guarantee fee for loans is just half a per cent, even though the guarantee rate is 85 or 90%. This measure ensures that SMEs gain access to finance much faster. Moreover, since the fee is low with a high coverage, this is a quite favourable financing resource for SMEs. The overall budget is €250 million.
3.6 Single market

Hungary performs below the EU average in this SBA principle, marking a deterioration compared to the previous reference period, where it scored in line with the average. However, the country has made positive progress overall since 2008. The largest variation compared to the results in the previous fact sheet is in the number of single market directives not yet transposed (9 in 2018, compared to 3 in 2017). This is associated with the deterioration of another indicator — the average transposition delay for overdue directives, which was 9.3 months in 2018, compared to 6.8 months in 2017. Furthermore, the number of pending infringement proceedings has increased (29 in 2018, against 26 in 2017), although remaining around the average. The percentage of the total value of public contracts secured abroad by SMEs also showed deterioration, amounting to 0.09 % in 2017, a drop from 1.4% in 2016. In contrast, the percentage of SMEs with intra-EU exports of goods marked a positive development, increasing between 2015 and 2016 from 15.8% to 17.9% respectively.

Although Hungary did not introduce any new measure in the reference period, there has been significant progress in the area of the single market since 2008; the legal harmonisation of all areas has been achieved in Hungary, meaning that it fulfils all of the SBA principles. Overall, the country has been carrying out legal harmonisation in accordance with EU legislation. One of the most important measures was the new Civil Law, which entered into force in 2014 and which transposed various EU directives (e.g. Directive 93/13/EEC and the amendment of Directive 1999/44/EC on consumer rights). In the previous reference period, the bankruptcy law was introduced, in line with the European Commission’s proposal for a directive on insolvency, restructuring and second chance. Moreover, several programmes were implemented to help Hungarian SMEs to participate in international RD&I programmes (e.g. in Horizon 2020) and benefit from the single market. Several advisory and training services are provided for SMEs to promote their internationalisation and support their participation in international consortia and EU initiatives. As a result, we see more and more success stories each year. Nevertheless, there is still room for further improvement, mainly after the institutional changes. Overall, single market legislation is transposed into national law correctly and on time in Hungary.
3.7 Skills & innovation

Hungary continues to perform below the EU average in skills & innovation, with some improvements compared to the last reference period. Hungary’s score in the 2019 European Innovation Scoreboard was slightly better than in 2018, but overall it remains a moderate innovator. Most Hungarian indicators for the skills & innovation SBA principle score below the EU average, and only one scores above: the percentage of enterprises employing ICT specialists maintained a strong position, albeit with some deterioration (24.6% in 2018 against 25.8% in 2017). While still scoring below average, the share of SMEs introducing product or process innovation marked some positive developments, increasing from 15% in 2014 to 18% in 2016. Corresponding to the decrease in the percentage of SMEs selling online, turnover from e-commerce fell from 10% in 2017 to 8.8% in 2018.

Overall, Hungarian SMEs should develop more innovative products and services of higher added value (including those contributing to the greening of the economy) and commercialise them on domestic and foreign markets. This would also require intensifying collaboration between SMEs and research organisations. Public contracting authorities could also stimulate innovation by giving incentives through innovative public procurement. In this whole endeavour, digitisation of Hungarian SMEs plays a key role, one which should be tailor-made to the SMEs’ development phase. This can start with the introduction of web shop solutions, but for manufacturing SMEs it should ultimately lead to adoption of Industry 4.0 technologies, along with key new technologies such as blockchain and artificial intelligence.

Since 2008, Hungary has introduced numerous measures to improve SMEs’ skills and innovation capabilities (e.g. the calls under the Széchenyi Plan 2020 and the Irinyi Plan). Nevertheless, the innovative capacities of Hungarian SMEs still lag behind the EU average as the vast majority of SME innovations still relate to smaller scale process innovations. According to stakeholders, Hungarian start-ups should receive more support. Due to SMEs’ high interest in the calls, several of them were closed before the final deadline and were opened again with a new budget (e.g. see ‘Increasing the competitiveness of SMEs through adaptive technological innovation’ and ‘Call for supporting the Hungarian participation in Horizon 2020 SME Instrument’).

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.
Six significant measures were introduced in the reference period under skills & innovation, of which the first four are grant measures and the last two are loan measures.

- The ‘Industry 4.0 sample factories programme’ (Ipar 4.0 mintagyárok program) was introduced to support the government’s Industry 4.0 strategic plan. The programme has three phases. In the first phase, the sample factories (Continental, Eltec, Festo, Macher, Roto) demonstrate to SMEs how a modern factory using Industry 4.0 technologies works. In the second phase, SMEs participate in training, learning how to adapt and use Industry 4.0 technologies. In the third phase, selected companies are assigned a mentor and a detailed, concrete development plan is drawn up to adopt Industry 4.0 technologies. The aim is to support the automation and digitalisation development of SMEs, increase their openness towards Industry 4.0 technologies, and help them join the fourth industrial revolution in line with their level of development by transferring practical and theoretical knowledge. The total budget is €7,340,000\(^6\).

- ‘New calls of National Research, Development and Innovation Office in 2018-Q12019’ (NKFIH új pályázati forrásai 2018-2019Q1-es időszakban) contains four sub-programmes: ‘Increasing the competitiveness of SMEs through adaptive technological innovation, Phase 2’, ‘R&D Competitiveness and Excellence Collaboration’, ‘Support for Micro and Small Businesses Innovation Activities’ and finally, ‘Supporting RDI Activities of Small, Medium and Large Enterprises’ The overall budget of these calls is €219,375,000. Approximately 1,200-4,000 SMEs can be supported by these programmes\(^2\).

- Increasing the value of agricultural products in processing (Mezőgazdasági termékek értéknövelése a feldolgozásban) was introduced by the Ministry of Agriculture to develop the processing of agricultural products, thus making companies more efficient, productive and competitive in the agricultural sector. There are two target areas: development of food processing plants and development of winegrowing enterprises. The amount of support ranges between HUF 200 million (€625,000) and HUF 1.5 billion (€4,687,500). Above the support received, the projects must be self-financed. The total budget is €156,250,000. The expected numbers of supported projects are 250 and 150 respectively\(^8\).

- ‘Setting up of Sectoral Skills Councils in Vocational Education and Training (VET) provision’ (Ágazati kézségtanácsok létrehozása a szakképzésben) was introduced by the Ministry for Innovation and Technology in order to involve employers directly in updating the VET curriculum. Some 19 sectoral skills councils were set up in total. The annual budget is €1,230,000. The impact of the measure is twofold: curricular content will be updated and adjusted to labour market needs and the number of VET qualifications in the National Qualifications Register should be less than 200\(^9\).

- The ‘Technology Loan Programme’ (Technológiai korszerűsítési célú hitelprogram) aims to: (i) modernise the technology used by micro, small and medium-sized enterprises; (ii) create and expand modern product and service development capabilities; and (iii) increase SMEs’ technological readiness. The programme was introduced by the Hungarian Development Bank and provides interest-free loans for SMEs for technological upgrades. The amount of the loan varies between a minimum of HUF 1 million (€3,125) and a maximum HUF 50 million (€156,250). The overall budget is €186 million\(^70\).

- The ‘Digital Welfare Financial Programme’ (Digitális Jóléti Pénzügyi Program) was also implemented by the Hungarian Development Bank. It provides preferential financing to innovative businesses that are looking for a source of digital development, in line with the strategic objectives of the digital welfare programme. SMEs may apply for interest rate-free loans for digital development at MFB (Hungarian Development Bank) outlets. The minimum loan is HUF 5 million (€15,625), while the maximum is HUF 20 million (€62,500). Participation requires a contribution from the applicant of 10%. It is expected that 300-350 domestic companies and self-employed people will receive repayable financial support, helping these companies to successfully engage in the digital ecosystem\(^71\).

Some of the activities of the Hungarian Export Promotion Agency (HEPA) support also innovation in SMEs: under the ‘Workshops and guidance for SMEs by HEPA’ (HEPA workshopjai és tanácsadási kkv-knak) measure, innovation assessments and consultation for SMEs are offered so that they can build up their innovation capacities. Some 45 SMEs received this service so far and another 45 SMEs should receive it in 2019 and 2020. The ‘Knowledge to Money Club’ is a quarterly event organised by HEPA, which informs Hungarian SMEs about Horizon 2020 SME Instrument opportunities and helps them apply for grants. Entrepreneurs who already received grants share their experiences during these events. A total of 151 entrepreneurs
participated in ‘Knowledge to Money Club’ events in 2018; in the first quarter of 2019 there was one event, with 26 participants.

3.8 Environment

Hungary performs significantly below the EU average, scoring the worst in this SBA principle among the Member States. The indicators in this area have experienced negative developments since 2015. For instance, the percentage of SMEs that benefited from public support to produce green products dropped from 15% to 0% in 2017, the lowest score in the EU. Similarly, the percentage of SMEs providing green products or services fell from 18% in 2015 to 12% in 2017, also ranking last in the EU. In line with these developments, the percentage of SMEs with more than 50% of turnover generated from green products or services fell from 22% in 2015 to 16% in 2017. Overall, all but one indicator deteriorated: the percentage of SMEs taking measures for resource efficiency has remained stable since 2015, standing at 82%.

Some progress can be observed in this field since 2008, but Hungary still performs below the EU average. While Hungary has realised that eco-innovation and green technologies are important for the future of the Hungarian economy, more efforts must be made in this area. One notable measure was the adoption in 2012 of the green economy development programme. In addition, Hungary promotes the usage of electric cars indirectly and through favourable taxation (exempting companies from paying car registration tax, corporate car tax or regular car tax). There were several calls for improving the efficiency of agricultural producers and forestry companies. Most of the calls and measures that have been implemented rely on European Structural and Investment Funds. Another important step was the introduction of energy service companies (ESCO) financing in 2015. In 2017, a new Hungarian support system for electricity production from renewable energy sources (METÁR) was introduced in line with the EU Renewable Energy Directive and competition policy. With this new system, Hungary has started to move forward to a more cost-efficient supporting system in electricity production from renewable energy sources, mainly from solar energy.

Overall, the measures already implemented are working, and there is a clear intention to make progress on the environment. However, green public procurement is still not in place and there are no measures helping SMEs obtain EMAS certificates. SMEs should also be given more incentives to invest in environmental-friendly projects.

During the reference period, one new measure was implemented:

- ‘Supporting building energy developments through the use of renewable energy’ (Megújuló energia használatával megvalósuló épületenergetikai fejlesztések támogatása). This measure was introduced by the Ministry of Innovation and Technology with a total budget of €164 million. Under this call, SMEs can apply for support to improve the energy efficiency of their buildings (e.g. by installing solar panels or insulation). The amount of grants is between HUF 1.5 million (€4,687) and HUF 100 million (€312,500). The project can support 800-1,750 applications to improve the energy efficiency of buildings. The aim of this call is to reduce greenhouse gas emissions by cutting primary energy consumption and increasing the use of renewable energy sources by SMEs.
Hungary still performs below the EU average in internationalisation. The percentages both of SMEs with extra-EU exports and with extra-EU imports of goods have increased, delivering a small improvement for these indicators. The former stood at 4.8% in 2015, rising to 4.9% in 2016, while the latter was 6.7% in 2015 and grew to 6.8% in 2016. Hungary ranks last in the EU in terms of information availability, but first in the ‘Trading across borders’ section of the World Bank’s Doing Business report (referring to the time and cost for documentary compliance and border compliance to export and import).

Since 2008, several measures have been implemented to help the internationalisation of Hungarian SMEs, with mixed results. Among the most important measures were the establishment of Export-Import Bank Plc (Eximbank), Hungarian Export Credit Insurance Plc (MEHIB) and of the Hungarian Export Promotion Agency (HEPA) in 2013. These new institutions serve Hungarian exporters by providing effective financing and insurance facilities, providing economic policy incentives and facilitating the sale of Hungarian goods and services in foreign markets. Other measures included training and workshops for SMEs to help with their internationalisation efforts. Beyond that, more than a thousand SMEs participated in international trade fairs (see e.g. the Innotrade and ScaleMeUp Hungary initiatives). One of the main strategic goals of the Hungarian Government is to increase Hungarian SMEs’ exporting activities. The aim is to increase these by 50% by 2030, based on the export of innovative products and services.

In 2016, the percentage of SMEs in total exports was 24.2%, out of which the percentage of Hungarian-owned SMEs was 50%. The highlighted areas in the national export strategy are: health economy, agriculture, engineering services, innovative construction solutions, fashion and design activities. Although Hungary fulfils the main SBA principles in the case of internationalisation, it still lags behind the EU average, mainly due to a lack of foreign language knowledge and low export capacities.

During the reference period, one measure was implemented, which contains several activities to support SMEs’ internationalisation.

- ‘Workshops and guidance for SMEs by HEPA’ (HEPA workshopjai és tandcsadássai kkv-knok). This measure is carried out by HEPA. As a partner of the Enterprise Europe Network, HEPA organised a workshop entitled ‘Public Procurement in Austria — Business Expansion Opportunity in the Austrian Market’. The aim of the workshop was to provide information on public procurement opportunities in Austria for Hungarian SMEs. HEPA organised also several business culture training sessions, which focused on cultural differences in commerce and business with South Korean, Japanese, ASEAN and Russian companies. Some 35 SME representatives participated in the workshop on the Austrian public procurement process and another 92 entrepreneurs participated in the cultural training.
4. Interesting initiative

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

**National entrepreneurship mentoring programme**

This is a comprehensive programme for transferring general business knowledge to SMEs in Hungary. Its novelty lies in its being managed by a consortium including the most important institutions helping Hungarian SMEs in several areas: the Hungarian Chamber of Commerce and Industry, the Ministry of Innovation and Technology and the SEED Small Enterprise Development Foundation. The scheme is part of the Széchenyi 2020 programme, which kicked off on 6 February 2019 and will be fully implemented by the end of 2020.

The aim of the programme is to provide personal and professional mentoring services for SMEs and to improve SMEs’ financial and entrepreneurial attitudes. This programme reaches out to all SMEs from all regions of Hungary; this includes the Central Hungarian region, which is the most developed NUTS2 region in the country, hence fewer programmes are generally available for SMEs from this region. The project ensures access to a network of experienced entrepreneurs and professionals for SMEs that want to enhance their competitiveness and are open to development. The target group is wide, reflecting the most important needs of SMEs: (i) female entrepreneurs; (ii) young entrepreneurs (below the age of 35 years); (iii) companies facing generational change; and (iv) SMEs that a) would like to enter international markets, and/or b) would like to increase their foreign market share, and/or c) wish to become direct suppliers, and/or d) would like to increase their supplier share.

A total of 500 SMEs can benefit from professional mentoring. In addition, further 1,500 micro, small and medium-sized enterprises will receive free entrepreneurial and financial advice. This programme can be considered as very relevant since it provides a solution for the challenges of Hungarian SMEs, which are: (i) improving SMEs’ chances for survival, as only 60% of newly established SMEs are still operating 3 years after their creation; (ii) helping with generational change in SMEs, which currently affects around 250,000 Hungarian SMEs; and (iii) helping SMEs in the different stages of internationalisation.

Besides mentoring and changing the attitudes of SMEs, this programme also develops an SME efficiency measurement indicator system and coordinates the activities of business development organisations in order to attain noteworthy results in the near future.

References:

https://mkik.hu/oroszagos-vallalkozoi-mentorprogram
http://www.vallalkoztudatosan.hu/
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, 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:
grow-spr@ec.europa.eu

Small Business Act:

Entrepreneurship and SMEs:
https://ec.europa.eu/growth/smes

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 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 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/

2 http://publikaciocatert.reporzitorium.uni-bge.hu/1083/1/Antaloczy-K.pdf; https://www.ft.com/content/d5f4115e-e8bb-11e8-8a85-04b8afea6ea3; last accessed 12.6.2019

3 https://www.parlament.hu/documents/126660/1249496/2+-+neqved%C3%A9h+sr%C3%A1zadv%C3%A9h+elemz%C3%A9h/pdf76ab841c-b080-4d59-492d-92b5575fcf0; https://taxfoundation.org/publications/corporate-tax-rates-around-the-world/; last accessed 12.6.2019


5 ibid


7 ibid

8 ibid

9 Due to data availability, the data on high-growth firms refers to the ‘business economy’ only, which covers sections B-N including section K (financial activities, except activities of holding companies). The ‘non-financial business economy’ excludes section K.

10 In line with the Commission implementing regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a 3-year period. The share of high-growth enterprises is the number of high-growth enterprises divided by the
number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2, last accessed 15.4.2019).

11 The 2019 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.

12 Source: https://www.portfolio.hu/finanszir%C3%B3zas/hitel/valtozik-a-csodtorveny-kihagyjaek-a-hitelezoket-a-felszamolas-vegebol.291846.html

13 Source: https://mkik.hu/orszagos-vallalkozoi-mentorprogram

14 Source: https://mkik.hu/orszagos-vallalkozoi-mentorprogram


16 Sources: interviews with stakeholders and https://www.palyazathirek.eu/vallalkozasok/3970-negyvenmilliard-forint-vallalkozova-valas-tamogatasara

17 Source: https://www.vg.hu/gazdasag/bejott-a-nav-nak-a-szemeleletvaltas-839555/


22 Based on policy measures from previous years and interviews with stakeholders.


24 Sources: https://www.vg.hu/kkv/hirek/jovore-forrast-is-kapnak-ipar-4-0-s-terveiske-hez-a-cegek and https://digitalisloptprogram.hu/hu/tartalom/digitalis-lopt-hitelprogram

25 Source: http://www.kormany.hu/hu/innovacios-es-technologiaiminiszterium/gazdasagstrategiaert-es-szabalyozasert-efelesos-allamtitkik/hirek/a-kormany-celja-a-novekedesi-potenciailal-rendelkezo-vallalkozasok-segitese and was also confirmed during interviews with stakeholders.

26 Source: http://www.piecesprofit.hu/kkv_ceo/blog/20190201uj-vilaq-kezdodik-az-adozasban/

27 Source: interviews with stakeholders

28 Source: interviews with stakeholders

29 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. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. 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 2019. 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.

30 The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. The national SME policy expert that PwC (DG GROW’s lead contractor for the 2019 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.

34 Source: https://www.nav.gov.hu/nav/ado/a/afa080101_hatalyos/Valtoznak_a_digitalis20180630.html
35 Sources: http://eduline.hu/kozoktatas/2017/9/7/iuj_tantargyak_SJCHFR and http://www.penz7.hu/
36 Based on policy measures from previous years and from the reference period.
38 Source: https://www.felvi.hu/felveteli/dualisdiploma/partnerservezetek
41 Source: https://www.hiventures.hu/hirek/hiventures-startupher-program-fokuszban-a-ijo-nyugary-vallalkozonoi.html
44 Based on identified policy measures from previous years.
45 Based on the inventory checklist and interviews with stakeholders.
48 Based on the inventory checklist and interviews with stakeholders
Source: https://www.nav.gov.hu/nav/mentoralas
50 Sources: interviews with stakeholders
52 Source: https://www.palyazat.gov.hu/ginop-218-17-k-kv-k-versenykpesgnek-rvelese-adapty-technolgiai-inovci-rvn-1
53 Based on previous policy measures excel tables and the inventory checklist.

67 Based on interviews with stakeholders.

68 Based on previous policy measures.


70 Sources: https://www.napi.hu/magyar_vallalatok/egyzenes_gyorsabban_juthatnak_hitelhez-a_kkv-665653.html and https://garantiqa.hu/garanciavallalas/20190101.pdf

71 Based on interviews with representatives of the Ministry of National Economy.

72 Source: https://www.doingbusiness.org/en/data/exploreeconomies/hungary#DB_tab


74 Source: Based on policy measures from previous years.

75 Source: https://net.iqohtar.hu/ipozsabalyp@docid=A19H1171.KOR&txtrefeer=00000001.txt

76 Based on interviews.