



## **WP1: Synthesis report**

*Ex post evaluation of Cohesion Policy programmes  
2007-2013, focusing on the European Regional  
Development Fund (ERDF) and the Cohesion Fund (CF)*

# **Task 3 Country Report Hungary**

**September 2016**



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**WP1: Synthesis report  
(contract number 2014CE16BAT016)**

*Ex post evaluation of Cohesion Policy programmes  
2007-2013, focusing on the European Regional  
Development Fund (ERDF) and the Cohesion Fund (CF)*

**Task 3 Country Report  
Hungary**

September 2016

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### **List of abbreviations**

AIR	Annual Implementation Report
ERDF	European Regional Development Fund
ESM	European Stability Mechanism
EU	European Union
GDP	Gross Domestic Product
GDFCF	Gross Domestic Fixed Capital Formation
MA	Managing Authority
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Territorial Units for Statistics
OP	Operational Programme
R&D	Research and Development
RTD	Research and Technological Development
SME	Small and Medium Enterprise



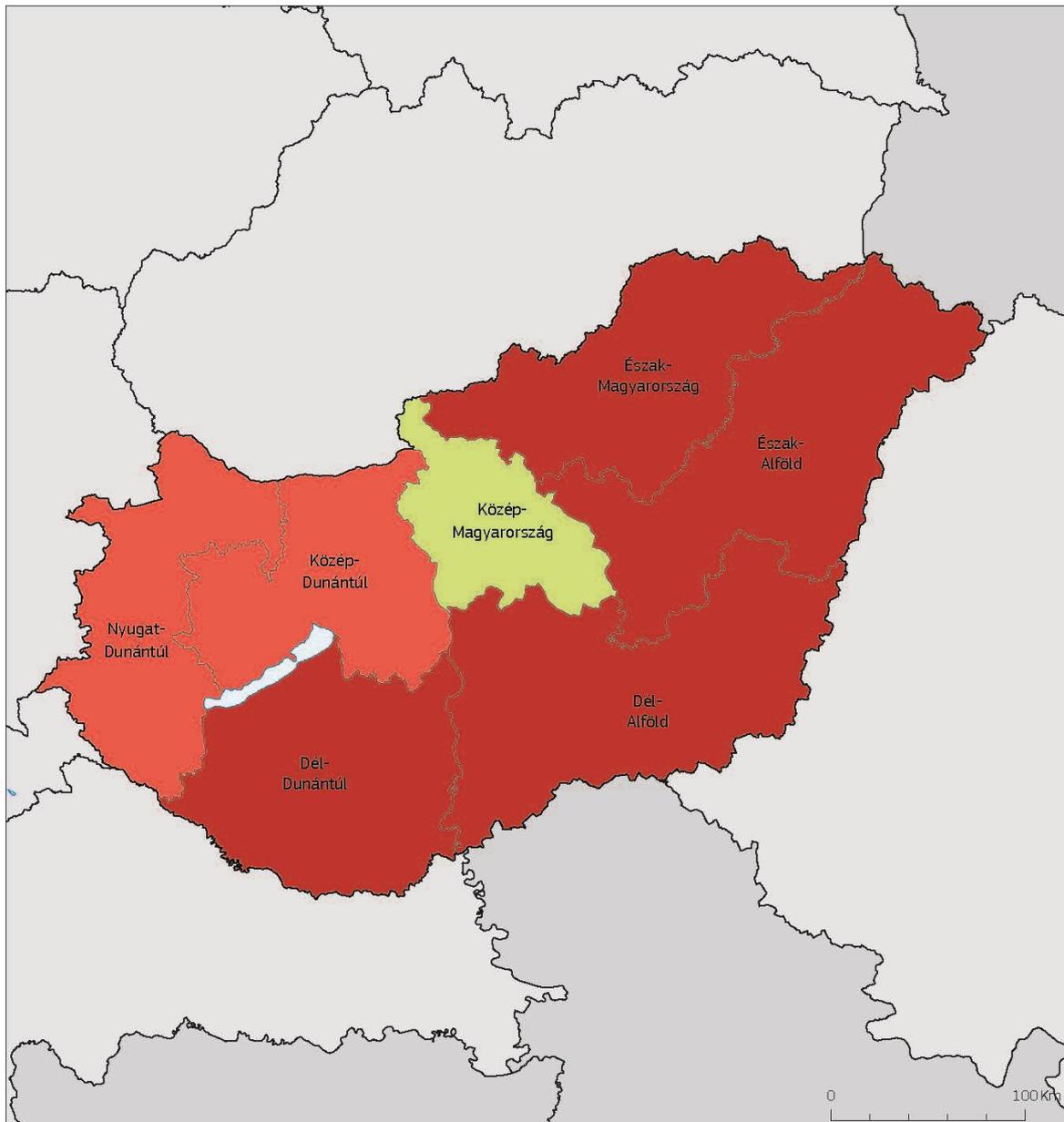
## List of programmes and link to beneficiaries of ERDF and Cohesion Fund support

CCI	Name of programmes	Link beneficiaries	Number of Projects
2007HU161PO001	OP Economic Development	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	24 444
2007HU161PO002	OP Environment and Energy	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	6 557
2007HU161PO003	OP West Pannon	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	1 080
2007HU161PO004	OP South Great Plain	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	1 833
2007HU161PO005	OP Central Transdanubia	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	1 039
2007HU161PO006	OP North Hungary	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	2 333
2007HU161PO007	OP Transport	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	685
2007HU161PO008	OP Social Infrastructure	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	2 464
2007HU161PO009	OP North Great Plain	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	2 091
2007HU161PO010	OP Implementation	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	83
2007HU161PO011	OP South Transdanubia	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	1 266
2007HU162PO001	OP Central Hungary	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	7 196
2007HU16UPO001	OP Electronic Public Administration	<a href="https://www.palyazat.gov.hu/tamogatott_projektkereso">https://www.palyazat.gov.hu/tamogatott_projektkereso</a>	132

Note: The web links above are to websites of the respective Managing Authorities who, under the rules governing the 2007-2013 programmes were required to publish the names of the beneficiaries of the funding allocated. The number of projects supported has been estimated on the basis of the information published on the website at the time when the data were downloaded. In the meantime the data concerned may have been updated. It may also be that the data have been moved to another part of the website, in which case the link may not work. If this is the case, those who wish to locate the data concerned will need to go to main OP website, as indicated by the beginning part of the link and search from there.



Map 1 Hungary and NUTS 2 regions, GDP/head (PPS), 2014



Hungary: GDP/head (PPS) by NUTS-2 region, 2014

- Index, EU-27 = 100
- < 50
  - 50 - 75
  - 75 - 90
  - 90 - 100
  - 100 - 125
  - >= 125
- ∕ NUTS2 boundaries

Sources: Eurostat, DG REGIO



## **Preliminary note**

*The purpose of the country reports is to provide for each Member State a short guide to the findings of the ex post evaluation of Cohesion policy programmes 2007-2013 undertaken by DG Regional and Urban Policy and an overview of the context in which the programmes were carried out. It is based on information produced by Task 1 and Task 2 of WP1 and on the country specific findings from the various WPs that form the ex post evaluation. These are listed below with an indication in brackets of the case studies carried out in the Member State concerned.*

*WP0 – Data*

*WP1 – Synthesis*

*WP2 – SMEs, innovation and ICT*

*WP3 – Venture capital, loan funds (case study OP Economic Development)*

*WP4 – Large enterprises (case study OP Economic Development)*

*WP5 – Transport (country case study – Hungary, Budapest Metro Line 4)*

*WP6 – Environment*

*WP8 – Energy efficiency (country report Hungary, OP Environment and Energy)*

*WP9 – Culture and tourism*

*WP10 – Urban development and social infrastructure*

*WP11<sup>1</sup> – European Territorial Cooperation (case study Hungary-Slovakia Cross-border Cooperation programme)*

*WP12 – Delivery system*

*WP13 – Geography of expenditure*

*WP14 – Impact modelling*

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<sup>1</sup> The findings from WP11 – European Territorial Cooperation are summarised in a separate report as part of Task 3 of WP1.



## Executive summary

After continuous growth between 2000-2006, fuelled largely by domestic expansion, Hungary ran into financial problems, forcing the adoption of fiscal consolidation measures even before the global recession struck in 2008-2009. GDP declined sharply between 2007 and 2009 before recovering a little in the subsequent two years. Between 2011 and 2013, however, there was virtual stagnation and it was until 2014 that growth returned. The result of the recession in 2007-2009 was a decline in the employment rate and a rise in unemployment to 10% of the labour force. Unemployment rose further to 11% in 2011 and although the employment rate increased between 2011 and 2013, despite the lack of growth, it reduced unemployment only a little because of the increase in labour force participation. Growth in the subsequent two years was accompanied by a significant increase in the employment rate and unemployment falling by 7%.

Over the 2007-2013 period, significant disparities persisted between regions, in particular between Central Hungary, which includes the capital Budapest, and the other, less developed regions, in the country.

In total, support from the ERDF and the Cohesion Fund amounted to EUR 21 billion over the period, equivalent to 57% of government capital expenditure with funding averaging around EUR 304 per head per year. Support went to a large extent to investment in Transport and Environmental infrastructure, which together accounted for around 55% of total funding.

Overall, the investment co-financed over the period is reported to have led directly to the creation of over 108 908 jobs, almost 40 644 of them, in full-time equivalent terms, in SMEs and around 3 600 in research. This was achieved in part through the support given to 40 644 projects to help firms finance investment, 3 916 RTD projects and 640 cooperation projects between enterprises and research centres. In addition, help was given to 1 991 businesses to start up.

In Transport, funding enabled large, complex construction projects to be carried out that would probably not have been possible without the support. In total, as a result of the funding, 502 km of new roads were built, 135 km of them part of the trans-European Transport Network (TEN-T), and 20 km of new railway lines, all of the on the TEN-T. Some 2 521 km of existing roads and 216 km of railway lines were also upgraded. In addition, 478 000 more people were connected to new or upgraded wastewater treatment facilities as a result of the support for investment.

Overall, the investment supported is estimated to have increased GDP in 2015 by just over 5% above the level it would have been in the absence of the funding provided. In 2023, GDP will be an estimated 4.5% or so higher because of the additional investment carried out over the 2007-2015 period.



## 1. The policy context and background

### 1.1. Macroeconomic situation

After a continuous and relatively high growth over the period 2000-2006, fuelled to a large extent by an expansionary budgetary policy which saw both the budget and the balance of payments going into significant deficit, Hungary was forced to adopt fiscal consolidation measures which brought growth to an end even before the global recession struck. This pushed the economy further into decline and GDP fell by almost 3% a year between 2007 and 2009 (Table 1). Although there was a modest recovery over the subsequent two years, GDP virtually stagnated between 2011 and 2013 as growth slowed down in the rest of the EU. Growth returned in 2014, as investment expanded as a result of measures, such as subsidised loans to SMEs and the increased absorption of EU funds. Growth continued in 2015, though at a reduced rate.

The effect of the recession and the subsequent period of low growth was to reduce the employment rate of working-age population (defined as those aged 20-64), which declined by two percentage points between 2007 and 2011. As a reflection of this, unemployment rose from just over 7% of the labour force to 11%. Although the employment rate increased over the subsequent two years of stagnation, unemployment fell only slightly as more people joined the labour force (i.e. in effect, most people moving into employment were from the economically inactive rather than from the unemployed). The growth in 2014 and 2015 was accompanied by a sharp increase in the employment rate (to 69%) and a fall in unemployment to under 7% of the labour force.

**Table 1 GDP growth, employment and unemployment, Hungary and the EU, 2000-2015**

	2000-07	2007-09	2009-11	2011-13	2013-2014	2014-15
<b>GDP growth</b>	(Annual average % pa)					
Hungary	3.7	-2.9	1.2	0.1	3.7	2.7
EU average	2.3	-2.0	1.9	-0.1	1.4	1.9
	2000	2007	2009	2011	2013	2015
<b>Employment rate (% 20-64)</b>						
Hungary	60.9	62.3	60.1	60.4	63.0	68.9
EU average	66.5	69.8	68.9	68.6	68.4	70.1
<b>Unemployment rate (% lab force)</b>						
Hungary	6.6	7.4	10.0	11.0	10.2	6.8
EU average	9.2	7.1	8.9	9.6	10.8	9.3

Source: Eurostat, National accounts and Labour Force Survey

As a result of fiscal consolidation measures, the budget deficit was contained over the recession period, though in 2011, it still stood at over 5% of GDP (Table 2). The imposition of further restrictive measures led to the deficit being reduced to under 3% of GDP by 2013. In 2015, the deficit was still 2% of GDP despite the reducing effect of the growth in 2013-2015. Public sector debt also remained relatively high throughout the period at around 75-80% of GDP.

**Table 2 Government budget balance, accumulated debt and investment, Hungary and the EU, 2000-2015**

	2000	2007	2009	2011	2013	2015
<b>Public sector balance</b>	(% GDP)					
Hungary	-3.0	-5.1	-4.6	-5.5	-2.6	-2.0
EU average	0.0	-0.9	-6.7	-4.5	-3.3	-2.4
<b>Public sector debt</b>						
Hungary	55.1	65.6	78.0	80.8	76.8	75.3
EU average	60.6	57.9	73.1	81.1	85.5	85.2
<b>General Govt investment</b>						
Hungary	3.6	4.3	3.4	3.4	4.4	6.7
EU average	2.9	3.2	3.7	3.3	3.0	2.9

Source: Eurostat Government financial accounts

Government investment was reduced markedly during the first round of fiscal consolidation in 2007-2009 and it remained relatively low (as compared with the level in other EU12 countries) up to 2011. Over the subsequent four years, however,



especially after 2013, it was increased significantly as part of the measures taken to boost the economy and in 2015 stood at almost 7% of GDP.

One of the consequences of fiscal consolidation was that ERDF funding became a more important source of government expenditure and was used to finance measures with an immediate effect on economic activity. Attention shifted therefore from the pursuit of long-term objectives of bringing about structural change to countering the effects of the crisis.

## **1.2. Regional Disparities**

Over the 2007-2013 period, significant disparities persisted across Hungarian regions. The Phasing-in region of Közép-Magyarország (Central Hungary – the only region to receive support under the Competitiveness Objective over the period), which includes the capital Budapest and accounts for around a third of the total population, has a GDP per head twice that of the other regions – supported under the Convergence Objective – taken together. The gap narrowed a little over the period but only slightly.

There also differences, however, between the 6 Convergence regions, in particular between Közép-Dunántúl (Central Transdanubia) and Nyugat-Dunántúl (Western Transdanubia) and the remaining lagging regions (see Country folder for Hungary). In 2007, Nyugat-Dunántúl had a GDP per head which was just under a third higher than the Average for the Convergence regions taken together, Közép-Dunántúl, one which was 25% higher. Over the period, whereas the latter difference diminished a little, the gap in the case of Nyugat-Dunántúl widened to 40% in 2014.

The pattern of change in employment and unemployment rates in the regions was very similar, except that in Nyugat-Dunántúl, unemployment tended to rise by less during the crisis and in 2015 was under 4% of the labour force, below that in Közép-Magyarország and well below the average in other Convergence regions apart from Közép-Magyarország (except for the latter, the rate varied from 8% to 11% in 2015).

## **2. Main features of Cohesion Policy implementation**

### **2.1. Nature and scale of Cohesion Policy in the country**

The priorities of the Hungarian National Strategic Reference Framework (NSRF) for the 2007-2013 period were: (1) to sustain long-term growth to be achieved through those specific objectives which were improving competitiveness, strengthening the knowledge economy, widening the economic basis and developing the business environment; and (2) to increase employment through specific objectives which increased labour supply by improving employability and labour market activity, increased labour demand by promoting job creation, and develop a labour market environment that ensures balance between supply and demand.

In total, EUR 21 billion were allocated from the ERDF and Cohesion Fund to the 2007-2013 programmes, equivalent to 3% of GDP and 57% of total Government capital expenditure (Table 3). The funding going to Convergence regions amounted to EUR 399 per head of population per year over the period, just over 5 times the amount going to the Phasing-in capital city region<sup>2</sup>.

The priorities of the NSRF were pursued through 13 Operational programmes (OP): 7 regional OPs (one for each NUTS2 region) and 6 sectoral OPs under the Convergence Objective. About 93% of the funding available was allocated to the Convergence regions and the rest to the Phasing-in region. Over two-thirds of the funding went to sectoral OPs with the bulk of resources allocated to the Environment and Energy OP.

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<sup>2</sup> The funding to the Phasing-in region is included under the Competitiveness Objective.



**Table 3 ERDF, Cohesion Fund and national co-financing for the 2007-2013 period in Hungary, initial (2007) and last (April 2016)**

	2007				2016			
	EU funding	National public funding	National private funding	Total	EU funding	National public funding	National private funding	Total
EUR million								
Convergence	19 719.2	3 479.9	-	23 199.1	19 711.3	2 773.5	705.0	23,189.8
Competitiveness	1 572.8	277.6	-	1 850.4	1 569.5	170.6	106.4	1,846.5
Total	21 292.1	3 757.4	-	25 049.5	21 280.8	2 944.1	811.4	25,036.3
<i>Change, 2007-2014</i>								
Convergence					-7.9	-706.4	705.0	-9.3
Competitiveness					-3.3	-107.0	106.4	-3.9
Total					-11.2	-813.4	811.4	-13.2
% GDP	3.0	0.5	-	3.6	3.0	0.4	0.1	3.6
% Govt. capital expend	57.1	10.1	-	67.2	57.1	7.9	2.2	67.1
Per capita (EUR) pa	303.7	53.6	-	357.3	303.6	42.0	11.6	357.1
of which:								
Convergence	398.8	70.4	-	469.2	398.7	56.1	14.3	469.0
Competitiveness	76.1	13.4	-	89.6	76.0	8.3	5.2	89.4
<b>EU12</b>								
% GDP	2.1	0.4	0.1	2.6	2.2	0.4	0.1	2.6
% Govt. capital expend	38.3	7.6	1.0	46.9	38.7	6.4	1.4	46.5
Per capita (EUR) pa	204.6	40.5	5.3	250.4	206.8	34.2	7.4	248.4
of which:								
Convergence	212.4	42.1	5.6	260.2	214.6	35.5	7.8	258.0
Competitiveness	69.7	12.3	-	82.0	70.1	12.2	0.2	82.5

Note: EU funding relates to decided amounts as agreed in 2007 and as at 14 April 2016. The figures for % GDP and % Govt. capital expenditure relate to funding for the period as % of GDP and Govt. capital expenditure aggregated over the years 2007-2013. Govt. capital expend is the sum of General Government gross fixed capital formation and capital transfers. The EU12 figures are the total for the EU12 countries for comparison.

Convergence and Competitiveness categories for EU12 include the Phasing-out and Phasing-in regions, respectively. For Hungary, the Phasing-in region of Central Hungary is included in the Competitiveness category.

Source: DG Regional and Urban Policy, Inforegio database and Eurostat, national accounts and Government statistics

## 2.2. Division of funding between policy areas and changes over the period

The division of funding between broad policy areas differed in the Convergence regions from that in the Competitiveness one (Table 4,). In the former, 38% of the funding available went to Transport, reflecting the priority of improving communication links. The rest of funding was shared across the Environment (23%), Enterprise support (18%), and Social, culture and territorial dimension (16%). On the other hand, in the Competitiveness region, over a third of funding went to support of the social, culture and territorial dimension and the remainder was shared between Enterprise support and Transport (both nearly 26%), while only 8% of funding available was allocated to Environment. Overall, over 50% of funding in both groups went to policy areas aimed mainly at economic objectives (item 1 and 2 in Table 4) followed by areas aimed more at social and sustainability objectives (items 3 and 4).



**Table 4 Division of ERDF financing for the 2007-2013 period in Hungary by broad category**

	Convergence		Competitiveness	
	EUR mn	%	EUR mn	%
1. Enterprise Support	3 520.1	18.1	379.9	25.9
2. Transport, energy, ICT (incl broadband)	7 342.6	37.7	376.9	25.7
3. Environmental	4 408.5	22.6	118.7	8.1
4. Social, culture+territorial dimension	3 157.8	16.2	538.9	36.7
5. Human capital, Labour market	242.7	1.2	-	-
6. Technical assistance, capacity building	794.8	4.1	52.8	3.6
<b>Total</b>	<b>19 466.4</b>	<b>100.0</b>	<b>1 467.2</b>	<b>100.0</b>

Note: Division of decided amount of funding as at 14 April 2016. Territorial dimension' includes support for urban and rural regeneration and tourist services and measures to compensate for climate conditions.  
Source: DG Regional and Urban Policy, Inforegio database

Over the 2007-2013 period there were significant shifts of funding between policy areas, but this did not modify the pattern of priorities defined initially<sup>3</sup>. The main changes were a reduction in funding going to Transport (in particular to roads and other transport). The Environment and, to a lesser extent, innovation and RTD and an increase in that going to Energy and other investment in enterprises (i.e. apart from innovation and RTD). These shifts were concentrated in the Convergence regions and there no changes were evident in the Phasing-in region.

**Table 5 Division of financial resources in Hungary for 2007-2013 period by category, initial (2007) and last (April 2016) and shift between categories**

Category	EUR mn					% Total	
	2007	2016	Added	Deducted	Net shift	2007	2016
1. Innovation & RTD	1 591.2	1 488.4	478.3	-581.0	-102.7	7.5	7.0
2. Entrepreneurship	298.9	375.9	77.0	0.0	77.0	1.4	1.8
3. Other investment in enterprise	1 583.4	2 035.7	452.3	0.0	452.3	7.4	9.6
4. ICT for citizens & business	749.5	654.0	0.0	-95.5	-95.5	3.5	3.1
5. Environment	4 567.6	4 191.8	1.4	-377.3	-375.9	21.5	19.7
6. Energy	359.1	1 042.2	708.1	-25.0	683.2	1.7	4.9
7. Broadband	0.0	20.8	20.8	0.0	20.8	0.0	0.1
8. Road	3 591.8	3 276.7	0.0	-315.2	-315.2	16.9	15.4
9. Rail	1 657.4	1 720.1	62.8	0.0	62.8	7.8	8.1
10. Other transport	1 944.3	1 681.8	0.0	-262.5	-262.5	9.1	7.9
11. Human capital	233.6	190.1	0.0	-43.5	-43.5	1.1	0.9
12. Labour market	82.8	52.6	0.0	-30.2	-30.2	0.4	0.2
13. Culture & social infrastructure	2 926.1	2 832.9	4.6	-97.7	-93.2	13.7	13.3
14. Social Inclusion	16.6	16.6	0.0	0.0	0.0	0.1	0.1
15. Territorial Dimension	847.1	847.1	0.0	0.0	0.0	4.0	4.0
16. Capacity Building	4.3	4.3	0.0	0.0	0.0	0.0	0.0
17. Technical Assistance	838.4	849.8	35.9	-24.4	11.5	3.9	4.0
<b>Total</b>	<b>21 292.1</b>	<b>21 280.8</b>	<b>1 841.1</b>	<b>-1 852.3</b>	<b>-11.2</b>	<b>100.0</b>	<b>100.0</b>

Note: 'Added' is the sum of additions made to resources in OPs where there was a net increase in the funding going to the category. 'Deducted' is the sum of deductions made to resources in OPs where there was a net reduction in funding. 'Social inclusion' includes measures to assist disadvantaged groups and migrants. 'Territorial dimension' includes support for urban and rural regeneration and tourist services and measures to compensate for climate conditions.  
Source: DG Regional and Urban Policy, Inforegio database, April 2016

The shifts, which mostly occurred in 2012 and 2013, were to a large extent motivated by the aim of increasing the rate of implementation, though in other cases, there was change in policy goals and reorientation of spending towards measures which would have a quicker and more direct effect on economic activity. The increased support to enterprises reflects the difficulties they were experiencing in obtaining finance from the capital market. New types of interventions were also introduced, such as the Joint Seed Capital programme, an experimental housing rehabilitation project, and a financial incentive to encourage the use of renewable energy.

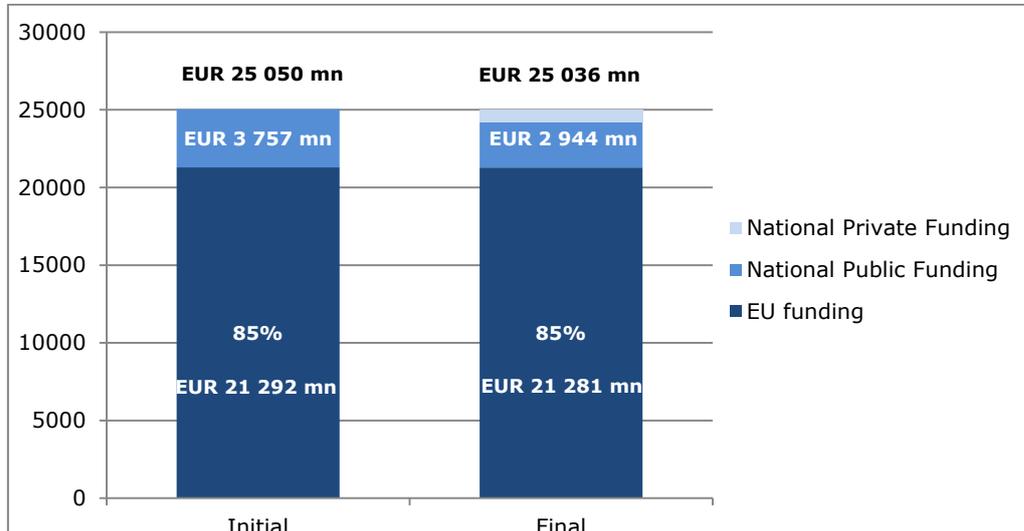
<sup>3</sup> The 17 categories shown in table 5 are aggregations of the more detailed 87 categories into which expenditure was divided in the period for reporting purposes.



### 2.3. Policy implementation

The average EU co-financing rate (85%) remained unchanged over the period, while the amount of the national public funding was slightly reduced but this was compensated by private funding (Figure 1).

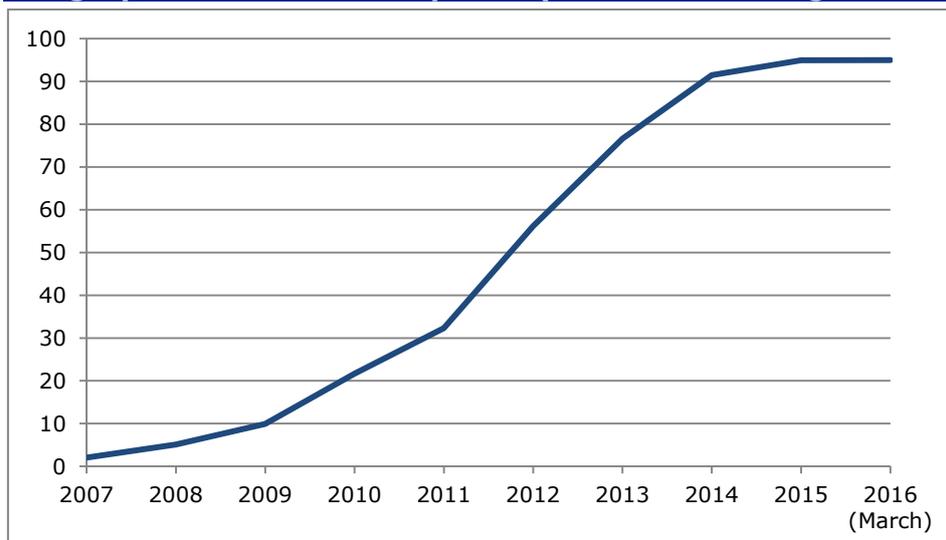
**Figure 1 Total funding going to expenditure on Cohesion policy programmes for the 2007-2013 period, initial planned amount and final amount (EUR mn)**



Source: DG Regional Policy financial data, 14 April 2016

After an initial delay, due mainly to the overlap with the previous period, the pace of programme implementation, as reflected by payments of funding in relation to the total amount available, increased steadily over the period, especially after 2011, when, 5 years into the period, payments amounted to under a third of total available funding (Figure 2).

**Figure 2 Time profile of payments from the ERDF and Cohesion Fund to Hungary for the 2007-2013 period (% of total funding available)**



Source: DG Regional and Urban Policy, Inforegio database, end-March 2016

By the end March 2016, 91% of the funding available had been claimed for, which suggests, given lags in making claims and the 5% held back until expenditure is approved, all the funding had been spent by the end of 2015 as required by the regulations.



At the end of 2012, the supervision of the NSRF implementation became part of the Prime Minister's office, under the control of a new State Secretary. This institutional change implied a further centralization and a greater speed of expenditure.

### **3. The outcome of Cohesion Policy programmes – main findings from the ex post evaluation**

The main findings summarised here come from the evaluations carried out under the Work Packages (WPs) of the ex-post evaluation exercise. These covered in detail the following policy areas:

- Support to SMEs – increasing research and innovation in SMEs and SME development (WP2);
- Financial instruments for enterprises (WP3);
- Support to large enterprises (WP4);
- Transport (WP5);
- Environment (WP6);
- Energy efficiency in public and residential buildings WP8);
- Culture and tourism (WP9);
- Urban development and social infrastructure (WP10);
- European Territorial Cooperation (WP11);
- Delivery system (WP12);
- Geography of expenditure (WP13);
- The impact of cohesion policy 2007-2013: model simulations with Quest III and Rhomolo (WP14).

All of these are covered Hungary, except the evaluation of the delivery system under WP12 which did not include Hungary among the selection of countries examined in detail. The evaluation of ETC (WP11), it should be noted, is the subject of a separate report, while the estimates produced by WP13 on the allocation of funding and of expenditure between regions are not considered here<sup>4</sup>.

#### **3.1. Enterprise support and innovation (WP2, WP3, WP4)**

Over the programming period, around EUR 4 billion was allocated to this broad policy area, equivalent to just over 18% of the total funding available. Overall, up to the end of 2014, 3 916 RTD projects had been supported, along with 640 cooperation projects between companies and research institutes. The support provided helped to start up 1 991 new businesses and co-financed 40 644 investment projects in SMEs. In total, 41 453 full-time equivalent jobs in SMEs, in gross terms, were directly created as a result of the funding together with 3 623 research jobs (Table 6 at the end of this section).

##### **SME support, R&D and innovation (WP2)**

ERDF support to SMEs in Hungary was accorded high priority and amounted to 1.6% of the total national investment (well above the average in other EU12 countries - - 0.8%), though the relatively high figure reflects the low level of investment as much as the amount of funding concerned.

Although the evaluation under WP2 did not carry out an in-depth analysis of the Hungarian OPs. It did indicate the important role of the Economic Development OP (EDOP) for job creation. Given that Hungary experienced one of the largest declines in

<sup>4</sup> They are available at: [http://ec.europa.eu/regional\\_policy/en/policy/evaluations/ec/2007-2013/#1](http://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/#1).



employment in SMEs over the period in the EU, the number of jobs directly created by the end of 2014 was more than in any other EU12 country.

### Financial Instruments for enterprises (WP3)

During the programming period, Hungary made extensive use of financial instruments (FIs) co-financed by ERDF, the funding to FIs for enterprises amounting to EUR 897 million (EUR 762 million of which coming from the ERDF). By the end of 2014, 84% of this had reached final beneficiaries.

The evaluation indicates that 8 out of 13 OPs financed a total of 170 FIs. All OPs with an SME development focus provided support in the form of loans or venture capital, mainly under the JEREMIE programme.

#### Economic Development OP case study<sup>5</sup>

The case study shows that the OP paid EUR 720 million (EUR 618 million from the ERDF) into FIs by the end of 2014. Of this, EUR 600 million had been paid to final recipients. At this time, there were more than 13 000 final recipients of funding, mostly micro and small firms, 64% of which had no credit history, with around 14 000 transactions and a balanced regional distribution of funds. By the end of 2014, only 25% of these transactions had been closed. According to the indicators (cited in the AIR for 2014), there was: i) a reduction of 5.8% in micro enterprises and SMEs without access to loans and ii) improved access to financial intermediation for SMEs, the share of SMEs having access to credit by the end of 2013 increasing by 4.2%. These figures suggest a slow convergence in SME financing and a slowly closing gap in the Hungarian financial markets.

In addition, both government and market stakeholders emphasised the significant market-making effect generated by the venture capital funds and a potential market-clearing effect for SME microcredits. They also pointed to indirect effects, such as the birth of a start-up network linked to the interventions, better market know-how of FIs and positive perceptions of FIs. The added value of the FIs is reflected in the quick revival of the venture capital market after the 2008 financial crisis. The case study shows that the FI market would have been much more limited without EDOP support.

### Large enterprises (WP4)

Over the programming period, support amounting to EUR 453 million (2% of total ERDF) went to large enterprises and 409 investment projects involving 273 large enterprises were carried out.

A primary rationale for providing such support was to mitigate the significant economic disparities across regions. Most of the large and medium-sized enterprises are located in and around Budapest and along the M1 motorway connecting Budapest to Győr and Vienna, the main gateway to Western Europe, whereas in the rest of the country larger firms were much less present. ERDF support to large enterprises was, therefore, intended to create new growth centres in the Convergence regions.

#### Economic Development case study OP<sup>6</sup>

The funding to large enterprises under EDOP was regarded as a means of stimulating R&D and increasing employment in less developed regions of indirectly supporting SMEs. The OP allocated EUR 386 million to support 338 projects in 234 large enterprises through non-refundable grants. 70% of the firms supported were foreign multinationals and 40% were in high and medium-high tech industries.

Evidence from the case study shows that the large-scale business investment of firms was successful in attracting both FDI and domestic firms into the area, as well as in increasing employment. However, these results can only partly be attributed to the interventions, as the decision of large companies to invest was made primarily on a strategic basis, considering factors such as low wages, tax breaks and other financial and non-financial benefits. Nevertheless, EU funding was effective in influencing the scale and timing of the projects.

<sup>5</sup> The full case study report can be consulted here:

[http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2013/wp3\\_final\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp3_final_en.pdf).

<sup>6</sup> The full case study report can be consulted here:

[http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2013/wp4\\_case\\_study.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp4_case_study.pdf).



Similarly, EU funding was considered an important factor in stimulating new investment in R&D, though the case study revealed that the location decision of enterprises was primarily driven by business rationale rather than the availability of financial support. EU funding strengthened the strategic decision-making of the companies more than their location choices. Conversely, in the case of domestic enterprises, without the support provided, investment in modernisation would have been implemented 5-6 years later with a consequent loss of market share.

The general outcomes indicate that the effectiveness of the support, the benefits for companies and the expected sustainability were in line with the initial objectives. Nevertheless, the contribution to the economic growth of the area in which large enterprises are located and to the SMEs based there was found to be modest.

### 3.2. Transport (WP5)

EUR 6.7 billion of the ERDF and Cohesion Fund, or 31% of the total funding available, was allocated to Transport, half of this going to roads and the rest almost evenly shared between rail and other transport. In total, nearly two-thirds of the funding available for transport was allocated to 23 major projects.

Cohesion Policy was the main source of funding for transport infrastructure in Hungary over the period, being estimated to be the equivalent of 82% of total public investment in transport in these 7 years. Accordingly, most of the projects implemented would not have been undertaken without EU support.

Up to the end of 2014, funding contributed to the construction of 502 km of new roads, of which 135 km were part of the TEN-T, and 20 km of railway lines, part of them on the TEN-T, as well as the upgrading of 2 521 km of existing roads and 216 km of railway lines.

#### Country case study<sup>7</sup>

According to the evaluation carried out under WP5, over the 2007-2013 period, the significant levels of Cohesion Policy investment enabled large and complex projects to be constructed that would not have been carried out without such a level of support.

The funding provided also led to the extension and improvement of the urban transport network in Budapest (including Metro Line 4) and Szeged (including tram improvement works).

In addition, EU transport policy has had a considerable influence on Hungarian transport policy. The development of the national transport strategy was mandated by the EU Commission following a review of the initial OP for Transport and the content of the strategy was greatly influenced by the EU White Paper on transport.

The evaluation highlights the fact that Hungary priorities for the 2014-2020 programming period are similar to those in the past, but a greater emphasis in Cohesion Policy will be on the development of the rail network, with national funds having an increased focus on roads.

#### Budapest Metro Line 4 case study<sup>8</sup>

Metro Line 4 links east and west Budapest, over a 7.34 km route incorporating 10 stations and providing interchange facilities with heavy rail, two other metro lines and surface modes. The construction of the line began in 2006. In 2009 Hungary requested Cohesion policy support when the project was about 50% complete. Completion was initially estimated for 2011, but, due to delays the line only opened in March 2014.

Construction was managed by BKV (the public transport company of Budapest), but several contractors were involved in the design and implementation of the project. This caused delays in the management of the project and gave rise to several issues relating to procurement. The estimated final cost is about EUR 1.45 billion, of which EUR 729 million was provided by the Cohesion Fund.

The analysis considered that the data and method used in the application were reasonably robust, but two key issues concern the timeliness the data (given that the first feasibility study was carried out in 1996) and the fact that there is no clear explanation of why the metro was chosen over other transport alternatives. The case study identifies a number of issues relating

<sup>7</sup> The full case study report can be consulted here:

[http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2013/wp5\\_task5\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp5_task5_en.pdf).

<sup>8</sup> The full case study report can be consulted here:

[http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2013/wp5\\_task3\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp5_task3_en.pdf).



to the underestimation of costs and the time-frame, as well as to the over-estimation of demand and the value assumed for time saved in future years. In 2014, the number of passengers were 40% less than forecast in the cost benefit analysis. This gap, however, is likely to be reduced in the future as travel behaviour changes and the ancillary planned projects to be implemented alongside the Metro Line 4 come into operation.

### 3.3. Environmental infrastructure (WP6)

EUR 4.2 billion, or 20% of the total funding available, was allocated to the Environment, almost all of it being in Convergence regions. Of this, EUR 2 billion went to investment in waste management, water supply and wastewater treatment, the focus of WP6, over 80% of this going to the last two areas. The main motivation was to comply with EU Directives in those areas where Hungary was lagging behind.

During the programming period, the share of recycled municipal solid waste increased by more than 10% and compliance of Hungary with the main requirements of the EU Urban Waste Water Treatment Directive also improved. The investment resulted in 478 000 more people being connected to main drainage and wastewater treatment facilities.

### 3.4. Energy efficiency in public and residential buildings (WP8)

EUR 693 million, only just over 3% of the total funding available, was allocated to energy efficiency, co-generation and energy management, which co-financed 385 projects in total.

Investment in improving energy efficiency in residential and public buildings, which was the focus of WP8, was co-financed by the Environment and Energy OP and by most regional OPs, the former focussing on public buildings, the latter on housing. Most of the support took the form of non-repayable grants. In the case of residential buildings, the focus was on modernising old apartment blocks built during the Soviet era, investment being funded by the Green Investment Scheme and the Climate-friendly Home Panel Sub-programme. Support was also given to the construction of new energy efficiency houses, funded, for example, by 'Our Home and Building New Home' sub-Programme under the Green Investment Scheme.

#### Environment and Energy OP case study<sup>9</sup>

Although the OP specifically indicated that a key focus area for energy saving was housing, especially as regards heating and electricity use, the programme did not support investment in residential buildings, but only public buildings (and enterprises) under the "Energy efficient use" priority axis. Residential buildings were primarily supported by national measures and regional OPs. According to the MA, around EUR 247.8 million from the Cohesion Fund was allocated to public buildings. The focus was on two areas: modernisation of energy consumption of public and business buildings and upgrading of heating. Over the programming period, the OP increased support to the measures concerned significantly in order to absorb resources that had not been spent by other OPs and to respond to the high demand for funding. Support exclusively took the form of non-repayable grants with high co-financing rates (in some cases, 100%).

The results of the investment were reflected in two indicators: energy savings and the reduction in GHG emissions in terms of CO<sub>2</sub> equivalents. Up to June 2015, energy savings amounted to 2 064 Pico joules a year (75% of the target) and reduced GHG emissions by 355 663 kilotonnes a year (25% of the target).

### 3.5. Culture and tourism (WP9)

Over the period, EUR 858 million, 4% of the total funding available, went to investment in culture and tourism. In addition, EUR 33 million was allocated to support of investment in individual hotels and restaurants. Support took the form exclusively of non-repayable grants.

<sup>9</sup> The full case study report can be consulted here as separate annex to final report: [http://ec.europa.eu/regional\\_policy/en/policy/evaluations/ec/2007-2013/#1](http://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/#1).



In the case of tourism, which the ERDF allocation amounted to EUR 448 million, investment was almost evenly split between the promotion of natural assets, the protection and development of natural heritage and assistance to improving tourist services. In the case of culture, half of the resources earmarked (EUR 204 million) went to finance investment in cultural infrastructure and another 39% to the protection and preservation of the cultural heritage.

### **3.6. Urban development and social infrastructure (WP10)**

Some EUR 3.1 billion of the ERDF, one of the largest amounts in the EU and almost 15% of the total funding available for the period, was allocated to support of urban development and social infrastructure. Nearly 80% of this went to social infrastructure, especially to healthcare facilities and education establishments.

Much of the funding was managed by the Social Infrastructure OP which placed a strategic emphasis on a country-wide renewal of the healthcare system, by investing in facilities and equipment, the development of out-patient specialist care centres and blood transfusion services, improving IT systems and the ambulance service. The regional OPs complemented the national programme by supporting investment in smaller facilities.

### **3.7. ETC (WP11)**

Hungary was involved in four Interreg programmes financed under the Cross-border Cooperation strand of the ETC Objective. These were, respectively, with the Austria, Romania, Slovenia and Slovakia. The ETC-funded programmes are the subject of a separate report.

### **3.8. Impact on GDP(WP14)**

The investment supported by Cohesion and rural development policies in Hungary is estimated to have increased GDP in 2015, at the end of the programming period, by just over 5% above the level it would have been in the absence of the funding provided<sup>10</sup>. It is further estimated that in 2023, 8 years after the funding came to an end, GDP will be around 4.5% higher as a result of the investment concerned.

### **3.9. Overview of achievements**

Table 6 summarises the data reported by MAs for core indicators. Up to the end of 2014, the investments undertaken with the support of the ERDF for the 2007-2013 period in Hungary resulted in the direct creation of over 108 908 gross jobs, almost 40 644 of them in SMEs.

In addition to the achievements reported above under the different WPs, the investment co-financed provided broadband access to an additional 72 403 people inhabitants and contributed to the rehabilitation of 581 km square km of land. It should be emphasised that since not all MAs report all of the core indicators, and in some cases, only a minority, the figures tend to understate achievements, perhaps substantially. In addition, the data reported relate to the situation at the end of 2014, one year before the official end of the period in terms of the expenditure which can be financed, and as result also understate achievements over the programming period.

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<sup>10</sup> Estimates by the Quest model, a new-Keynesian dynamic general equilibrium model in kind widely used in economic policy research, developed by DG Economic and Financial Affairs to assess the effects of policies. See The impact of Cohesion Policy 2007-2013: model simulations with Quest III, WP14a, final report, [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2013/wp14a\\_final\\_report\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp14a_final_report_en.pdf).

**Table 6 Values of core indicators for ERDF co-financed programme in Hungary for 2007-2013 period, as at end-2014**

<b>Core Indicator Code</b>	<b>Core and common indicators official name</b>	<b>Value up to end of 2014</b>
1	Jobs created	108 908
4	Number of RTD projects	3 916
5	Number of cooperation project enterprises-research institutions	640
6	Research jobs created	3 623
7	Number of direct investment aid projects to SME	40 644
8	Number of start-ups supported	1 991
9	Jobs created in SME (gross, full time equivalent)	41 453
12	Number of additional population covered by broadband access	72 403
14	km of new roads	502
15	km of new TEN roads	135
16	km of reconstructed roads	2 521
17	km of new railroads	20
18	km of TEN railroads	20
19	km of reconstructed railroads	216
26	Additional population served by waste water projects	478 117
29	Area rehabilitated (km <sup>2</sup> )	581

*Note: The figures in the table are those reported by MAs in Annual Implementation Reports. Core indicators for which no data were reported by the Member State are not included.*

*Source: Annual Implementation Reports, 2014 and DG Regional Policy post-processing of these, August 2016*

