

HUNGARY

1. Introduction

Small and medium-sized enterprises (SMEs) are a major employer in the country and constitute a key priority for the Hungarian government. While the start-up ecosystem is dynamic (especially in the creative industry), the regulatory burden on SMEs remains high, and the integration of digital technology and employee training also lags behind.

Hungarian SMEs have been badly affected by the COVID-19 pandemic and the policy decisions taken to combat it, with SME value added impacted more than the EU average. Compared to 2019, it declined sharply by 10.5% in 2020 and SME employment fell by 0.7% in the same period¹. The two most affected sectors were *accommodation and food services*, where SME value added dropped by 40.2% and SME employment by 9.3%, and *administrative and support services*, where SME value added declined by 15.6% and SME employment by 5.9%. SME value added fell across all sectors in 2020, while SME employment grew by 3.6% and 3.0% respectively in the *construction* sector and the *professional, scientific and technical activities* sector.

In 2021, both SME value added and SME employment are expected to exceed their 2020 values. SME value added is forecast to grow by 4.7% and SME employment by 0.6% in 2021. However, value added and employment are still 6.3% and 0.2% lower than their respective 2019 levels.

SMEs play an important role in the Hungarian 'non-financial business economy'. In 2020, they accounted for 55.1% of total value added and 68.7% of employment, slightly more than the respective EU averages of 53.0% and 65.2%. However, average SME productivity, defined as value added per person employed, was EUR 19 800, considerably lower than the EU average of EUR 40 000. SMEs employed an average of 3.2 people in 2020, slightly fewer than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2020

	Number of enterprises			Number of persons employed			Value added		
	Hungary		EU-27	Hungary		EU-27	Hungary		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	570 622	94.5%	93.3%	946 331	33.7%	29.6%	14.5	20.9%	18.7%
Small	27 839	4.6%	5.7%	529 566	18.9%	19.7%	12.0	17.3%	17%
Medium-sized	4 434	0.7%	0.9%	451 996	16.1%	15.8%	11.8	16.9%	17.3%
SMEs	602 895	99.9%	99.8%	1 927 893	68.7%	65.2%	38.2	55.1%	53%
Large	883	0.1%	0.2%	876 359	31.3%	34.8%	31.2	44.9%	47%
Total	603 778	100%	100%	2 804 252	100%	100%	69.4	100%	100%

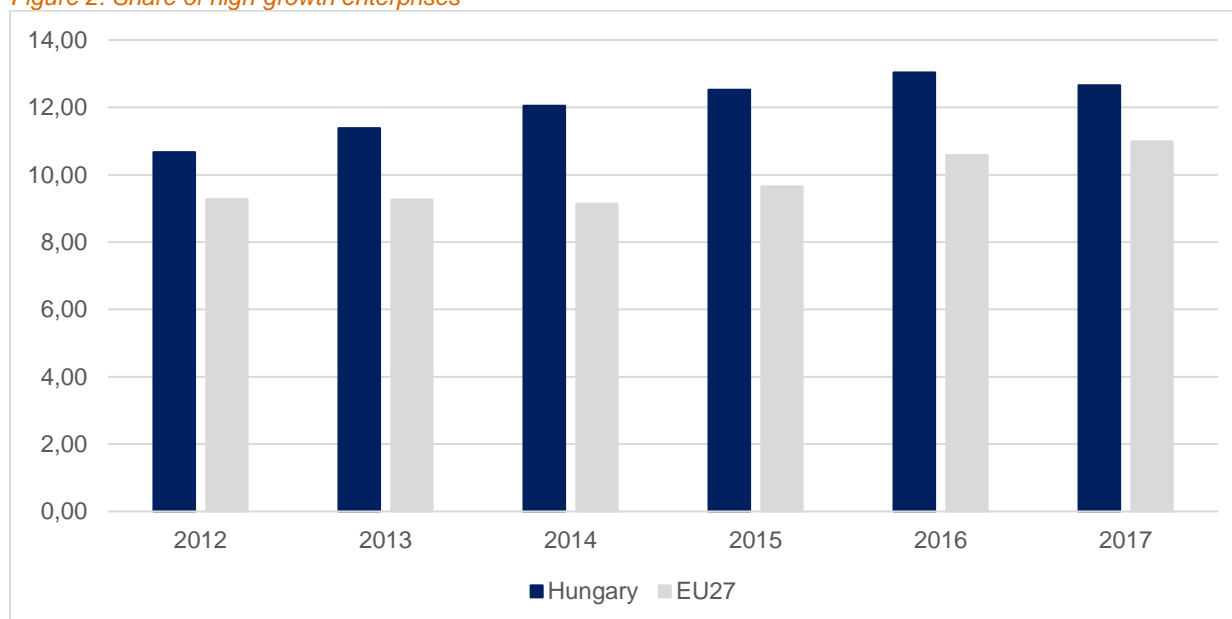
Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial 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).

2. Key strengths

The Hungarian start-up ecosystem helps innovative SMEs and start-ups develop

The Hungarian start-up ecosystem is dynamic. The share of high-growth enterprises in the country has been above the EU average for more than 5 years.

Figure 2: Share of high-growth enterprises



Source: Eurostat, 2017²

One of the most successful examples of the Hungarian start-up scene is the exportable segment of the domestic creative industry (i.e. design and software companies), which has grown by an average of 12-15% per year in the last 5 years. This sector is becoming a well-functioning economic sector. The number of people working in the creative industry in Budapest has been growing by an average of 18% year-on-year in recent years, making Hungary the leader in the EU^{3,4,5}.

The government seeks to promote entrepreneurship and build an entrepreneurial culture through a series of measures targeted primarily at young people⁶.

In 2020, 12 start-up companies established the Hungarian start-up alliance 'Start-up Hungary', with the Alliance for the Digital Economy, Google Hungary and Design Terminal involved. The main goal is to create and operate several successful and high-impact start-ups in Hungary⁷.

In Hungary, the percentage of people employed by SMEs is higher than the EU average

In Hungary, 67.2% of the total number of employees were employed by SMEs in 2018, against an average of 66.6% for the EU. This highlights the importance of SMEs and SME employment for the Hungarian economy.

Moreover, this trend has risen sharply in recent years, as shown by the rapid growth in employment among SMEs in Hungary between 2013 and 2018⁸. In 2013, the total number of people employed in micro firms with only 1 employee reached 473 129. This number increased to 506 567 in 2018, an increase of more than 7% in the number of people employed in micro firms over the period.

When looking at the numbers of people employed in micro firms with between 2 and 9 employees, a growth of around 6% can be seen in recent years, with 584 438 people employed in 2013 and 621 530 in 2019. Similarly, for small firms, there has been 18% growth in the number of employees (in 2013, 473 362 employed against 558 419 in 2018), while smaller growth of 3.5% can be seen in medium-sized firms (2013: 370 187 employed against 383 296 in 2018).

In the future, SMEs will remain a key priority for the Hungarian government, as illustrated by the SME Strategy of Hungary (2019-2030)⁹ developed to answer the needs of SMEs.

The Economy Protection Action Plan, which contains measures to strengthen businesses and the economy's resilience to overcome the crises caused by the COVID-19 pandemic, also contains several measures for SMEs¹⁰.

3. Key challenges

Hungary performs below the EU average on digital technology integration

In Hungary, digital technologies are mainly used by larger businesses. In other words, Hungarian SMEs lag behind in the adoption of e-business technologies. Only 13% of SMEs are considered digitally advanced, while just over 1% of them are very advanced, using corporate governance and administration systems. In comparison, 18.5% of SMEs in the EU are considered digitally advanced, with Denmark standing out – more than 36% of its SMEs belong to this category¹¹.

The share of Hungarian enterprises with a website (62%) and the share of enterprises selling through their website or an application (12%) are also lower compared to the EU average, which was 75.4% and 17.3% respectively^{12,13}.

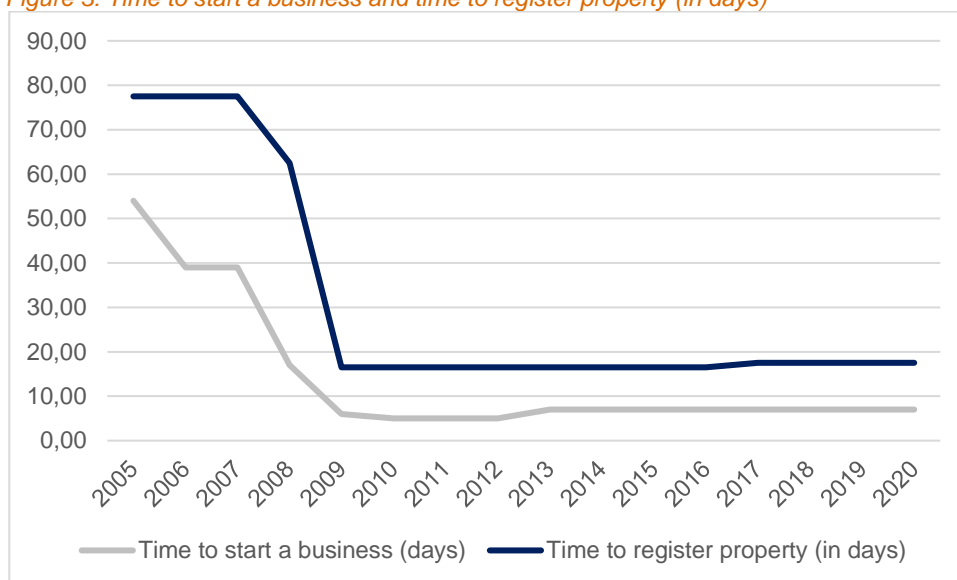
In addition, more than 55% of Hungarian SMEs have made only minor investments in digital technologies in recent years. This is reflected in the country's low performance in the Digital Economy and Society Index (ranking 21st), in particular in the 'Integration of digital technologies' dimension, where it remains one of the worst performing EU countries, ranking 26th in 2020¹⁴.

Regulatory burden has been decreasing but remains high

According to the IMD World Competitiveness Index, the Hungarian government gained in efficiency between 2014 and 2019. Improvements in government efficiency are mainly linked to tax policy and public finance¹⁵.

The World Bank's Ease of Doing Business Index also points to an improvement in the regulatory burden in Hungary, even if the country still performs below the EU average¹⁶. According to its Doing Business survey, a medium-sized enterprise in Hungary spends 277 hours on average on activities related to tax payments. Entrepreneurs cited three types of regulatory issues as the main obstacles to their operations: a complex tax system, frequent changes to laws, and bureaucracy¹⁷.

Figure 3: Time to start a business and time to register property (in days)



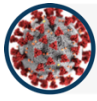
Source: World Bank Doing Business, 2020¹⁸

Employee participation rate in continuing vocational training is low in Hungary, especially for SMEs

In Hungary, only 45% of enterprises provided continuing vocational training in 2015, while the EU average was already above 70%. The Ministry for Innovation and Technology identified this low rate as one of the weakest points of Hungarian SMEs. Despite this poor performance, Hungary is promoting adult learning for all¹⁹.

The country also performs below the EU average on the share of SMEs that provide training to their staff to develop and upgrade their ICT skills (15.1% against 21.6% for the EU in 2019)²⁰.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

More than 50% of SMEs were hit by the first wave of the pandemic. The most severely hit sectors were tourism and hospitality, where 94.7% of SMEs have been affected. In those sectors, 53.3% of SMEs stopped operating in mid-March 2020²¹.

Most of the support measures implemented aim to preserve jobs and ensure liquidity for SMEs in the hardest-hit sectors.

The Funding for Growth Scheme 'Go!' run by the Hungarian Central Bank also aims to support the liquidity needs of SMEs²².



GREEN TRANSITION OF SMES

Hungary's performance on the green transition of SMEs needs to be further improved. However, several measures have already been implemented to help SMEs invest in green technologies (such as technological modernisation or the installation of solar power systems²³), even if SMEs often deem the budget for such measures to be insufficient²⁴.



SOCIAL ASPECTS OF SUSTAINABILITY

70% of Hungarian companies have committed to one or more of the UN's Sustainable Development Goals²⁵. While large companies are taking action to improve social sustainability, Hungarian SMEs need to make additional efforts.



MARKET ACCESS

Hungarian SMEs lag behind the EU average in internationalisation activities. The SMEs' share in export activities is low, representing only 20-25% of overall exports in 2019²⁶.



ACCESS TO FINANCE

Hungary performs above the OECD average in terms of getting credit²⁷. The Hungarian Central Bank has recently implemented new measures (Funding for Growth Schemes 'Fix' and 'Go!') and equity funds (Hiventures) to help SMEs gain access to credit.

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ² Eurostat 2017, available at: <http://ec.europa.eu/eurostat/web/structural-business-statistics/data/database>
- ³ Product of the Year (2020), *Az innováció és a start-upok helyzete Magyarországon – Interjú Ács Zoltánnal, a Design Terminál inkubációs programjának vezetőjével*, available at: <https://productoftheyear.hu/az-innovacio-es-a-startup-ok-helyzete-magyarorszagon-interju-acs-zoltannal-a-design-terminal-inkubacios-programjanak-vezetojevel/>
- ⁴ Piac és Profit (2019), *Ömlik a pénz a magyar start-upokba*, available at: https://piacesprofit.hu/kkv_cegblog/omlik-a-penz-a-magyar-startupokba/
- ⁵ NKFIH (2020), *KKV-Start Innováció*, available at: <https://nkfi.gov.hu/palyazoknak/nkfi-alap/kkv-start-innovacio-2020-111-kkv-start/palyazati-felhivas>
- ⁶ OECD (2018), *Inclusive Entrepreneurship Policies: Country Policy Assessment, Hungary*, available at: <https://www.oecd.org/cfe/smes/HUNGARY-IE-Country-Note-2018.pdf>
- ⁷ Startup Hungary (2020), available at: <https://www.startuphungary.io/>
- ⁸ The numbers and categories might differ from those available in the Eurostat database.
- ⁹ Emerging Europe (2019), *Hungary reveals new SME strategy*, available at: <https://emerging-europe.com/news/hungary-reveals-new-sme-strategy/#:~:text=According%20to%20the%20state%20secretary,with%20knowledge%20and%20securing%20the>
- ¹⁰ About Hungary (2019), *Here's the government's Economy Protection Action Plan*, available at: <http://abouthungary.hu/blog/heres-the-governments-economy-protection-action-plan/>
- ¹¹ Origo (2019), *Küzdenek a hazai kkv-k a digitalizációval*, available at: <https://www.origo.hu/gazdasag/20190822-digitalisan-fejletlenek-a-kkvk-kutatas-cegmenedzser.html>
- ¹² Eurostat (2019), *Websites and functionalities*, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ciweb&lang=en
- ¹³ Eurostat (2019), *E-commerce sales*, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_eseln2&lang=en
- ¹⁴ European Commission (2020), *The Digital Economy and Society Index (DESI)*, available at: <https://ec.europa.eu/digital-single-market/en/scoreboard/hungary>
- ¹⁵ IMD (2019), *Country Profile Hungary*, available at: <https://www.imd.org/globalassets/wcc/docs/release-2018/talent-2018/hu.pdf>
- ¹⁶ World Bank Group (2020), *Doing Business 2020*, Economy Profile Hungary, available at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/h/hungary/HUN.pdf>
- ¹⁷ Ibid.
- ¹⁸ World Bank Group (2020), *World Bank Doing Business*, available at: <http://www.doingbusiness.org/methodology/resolving-insolvency>, <http://www.doingbusiness.org/>
- ¹⁹ European Center for the Development of Vocational Training (2019), Hungary, available at: <https://www.cedefop.europa.eu/en/tools/vet-in-europe/systems/hungary>
- ²⁰ Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises*, available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ske_itn2&lang=en
- ²¹ Budapest LAB (2020), *Így reagált a magyar kkv-szektor a koronavírus járványra*, available at: <https://budapestlab.hu/index.php/igy-reagalt-a-magyar-kkv-szektor-a-koronavirus-jarvanyra/>
- ²² Nemzeti Bank, *Most önért versenyeznek a bankok!*, available at: <https://www.mnb.hu/nhphajra>
- ²³ Zöld Nemzeti Bajnokok, available at: <https://znb.ifka.hu/>
- ²⁴ Ministry of Foreign Affairs and Trade of Hungary (2018), *Voluntary National Review of Hungary on the Sustainable Development Goals of the 2030 Agenda*, available at: https://sustainabledevelopment.un.org/content/documents/20137Voluntary_National_Review_of_Hungary_v2.pdf
- ²⁵ Ibid.
- ²⁶ 24.hu (2019), *Ki kellene lépniük a komfortzónából a kkv-knak*, available at: <https://24.hu/fn/uzleti-tippek/2019/06/20/ki-kellene-lepniuk-a-komfortzonabol-a-kkv-knak/>
- ²⁷ See note 16.