



### ***COSME programme to add HUF 30bn to the growing volume of SME loans***

The share of SMEs within the total number of enterprises is significant both in Hungary and the entire European Union; therefore the Hungarian Government and the EU place special emphasis on assisting the sector. In Hungary, the MNB's Funding for Growth Scheme (NHP and NHP+) 1 and 2 had succeeded in reversing a negative SME lending growth trend and the stock of loans within the sector has been rising steadily. Large enterprises, however, rather focus on adding to cash reserves than taking out new loans. Until the end of October 2015, 28 000 micro-, small- and medium-sized enterprises participated in the two schemes. More than 70 percent of micro-sized enterprises requested new loans for investment, while the share of these loans in case of SMEs was below 50 percent. The new agreement, concluded between the European Investment Fund and the Hungarian K&H Bank will provide charge-free loans for micro-, small and medium-sized enterprises with a 50 percent guarantee, totalling HUF 30bn.

In Hungary, the SME sector generates more than half of added value within the economy and employs some 70 percent of labour force, but it provides more than 90 percent of construction sector jobs.

#### **SMEs in numbers**

	Number of enterprises			Number of persons employed			Value added		
	Hungary		EU-28	Hungary		EU-28	Hungary		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
<b>Micro</b>	478 021	94.2%	92.7%	847 980	34.6%	29.2%	9	18.7%	21.1%
<b>Small</b>	24 617	4.9%	6.1%	461 790	18.8%	20.4%	8	16.1%	18.2%
<b>Medium-sized</b>	4 039	0.8%	1.0%	400 148	16.3%	17.3%	9	18.8%	18.5%
<b>SMEs</b>	<b>506 677</b>	<b>99,8%</b>	<b>99.8%</b>	<b>1 709 918</b>	<b>69.8%</b>	<b>66.9%</b>	<b>26</b>	<b>53.6%</b>	<b>57.8%</b>
<b>Large</b>	867	0.2%	0.2%	741 405	30.2%	33.1%	23	46.4%	42.2%
<b>Total</b>	<b>507 544</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2 451 323</b>	<b>100.0%</b>	<b>100.0%</b>	<b>49</b>	<b>100.0%</b>	<b>100.0%</b>

*Source: Eurostat*

*Data cover the 'non-financial business economy', which includes industry, construction, trade and services, but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health.*

The Hungarian SME sector has been restrained by three major problems: **a not especially SME-friendly business environment, low growth potential and funding hurdles**. Over the past years, obtaining financial resources has become easier. The basic problem used to be that



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FOR NATIONAL ECONOMY

SMEs had had difficulties in securing funding, although there had been growing demand both on the demand and the supply side. This situation became even more challenging, as the financial and economic crises of past years had made it even more difficult for enterprises to get funds, as banks had tightened lending conditions, but companies also became more hesitant about their loan plans. Furthermore, they had also been insufficiently informed of financing options.

Currently, there are two state-backed financing schemes for SMEs, of which we are to highlight two: the **Funding for Growth Scheme**, which is still available but being gradually phased out (as of the end this year the SME sector will only have access to market loans), and the loan agreement concluded between the EIF and the K&H Bank. The NHP has significantly contributed to the expansion in the volume of SME loans, which trend – according to a study by the MNB – would still be negative without this programme. The EU loan programme is the first COSME (Competitiveness of Enterprises and Small and Medium-Sized Enterprises) facility in Hungary.

### **Funding for Growth Scheme**

**In 2015, the NHP substantially added the SME sector loan growth.** The programme once again gained momentum in October 2015 as a second phase, called NHP+, was launched with fresh capital. The Monetary Council decided on 18 February 2015 to initiate NHP+, which already demands more financial involvement from companies. Thanks to this scheme, even high-risk enterprises do not miss out on cheap, long-tenor loans. The NHP framework fund totals HUF 500bn. In the two phases of the scheme, more than 28 000 thousand enterprises have received funding of some HUF 1 810bn. Until the end of October 2015, credit institutions participating in the second phase of the programme notified the MNB to have signed contracts with a total value of HUF 1 137bn. Of that amount, some HUF 575bn was contracted in 2014 and HUF 535bn in 2015. Since 2014, NHP loans have accounted for some one-third of the total volume of new loans. Some 96 percent of the volume of loans contracted in the second phase were new loans, which shows a marked change in comparison to the first phase, when this indicator showed 40 percent. Within new loans, investment loans, current asset loans and loans for the pre-financing of EU funding constituted 58 percent, 30 percent and 12 percent, respectively.



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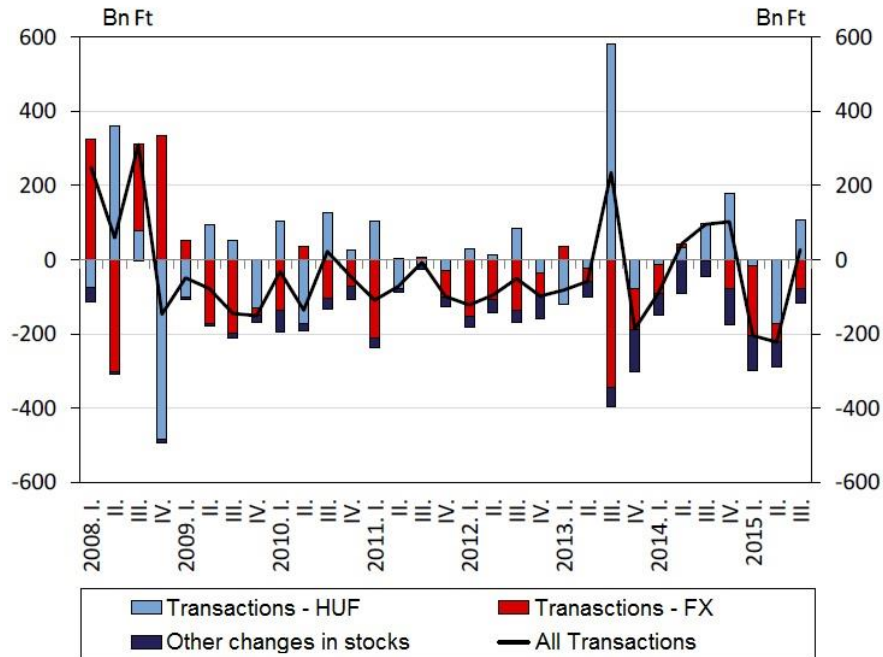
As far as various economic branches are concerned, the volume of loans taken out by the agricultural, retail and wholesale trade as well as the repair and manufacturing sectors was the highest (20-25 percent each), and thus more than two-thirds of loans have been received by these three sectors. In the first phase of the programme, however, the retail and real estate sectors showed the highest demand. **Some three-fourths of loans have been obtained by micro-, small and medium-sized enterprises.** Taking a closer look at company sizes, it can be concluded that more than 70 percent of loans taken out by micro-sized enterprises were investment loans, while in case of SMEs these instruments accounted for 50 percent of total.

**In Hungary, the volume of corporate loans grew again in Q3 2015.** Lending by credit institutions to corporations increased by HUF 28bn as a result of transactions in the third quarter. HUF loan transactions increased by HUF 106bn, while foreign currency loan transactions decreased the total outstanding borrowing of corporations by HUF 78bn. The ratio of foreign currency loans (consisting mainly of EUR loans) within the total outstanding portfolio decreased further and reached 47 percent at the end of September. Apart from transactions, write-offs and reclassifications reduced outstanding loans by HUF 39 billion in total. Unused credit lines available for corporations, which had previously reached a high level, continued to increase in the reporting period, rising by HUF 179 billion in total. **The volume of credit lines can be deemed high compared to the average of previous periods, suggesting that some companies may be postponing their borrowing decisions.**



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### Quarterly change in the stock of corporate loans



Source: MNB

**Outstanding loans to small and medium-sized enterprises increased further in the past quarter.** In an annual comparison, credit institutions' outstanding corporate loan portfolio decreased by 4.4 per cent in the third quarter of 2015. Despite the positive transactions, the growth rate deteriorated due to the base effect, as the latest data on transactions was exceeded by the 2014 Q3 figures. On the other hand, the annual growth rate of SMEs' outstanding borrowing from the banking system continued to accelerate<sup>2</sup>, reaching 3.5 per cent by the end of the quarter. Accordingly, corporate lending processes continue to show a dual trend based on corporate size, as the volume of loans of large enterprises fell by some HUF 46bn.

**SME loan volume growth is likely to have been accelerated by the fact that credit conditions were once again eased in the third quarter.** According to the answers in the

<sup>1</sup> Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment, excluding individual institutional effects

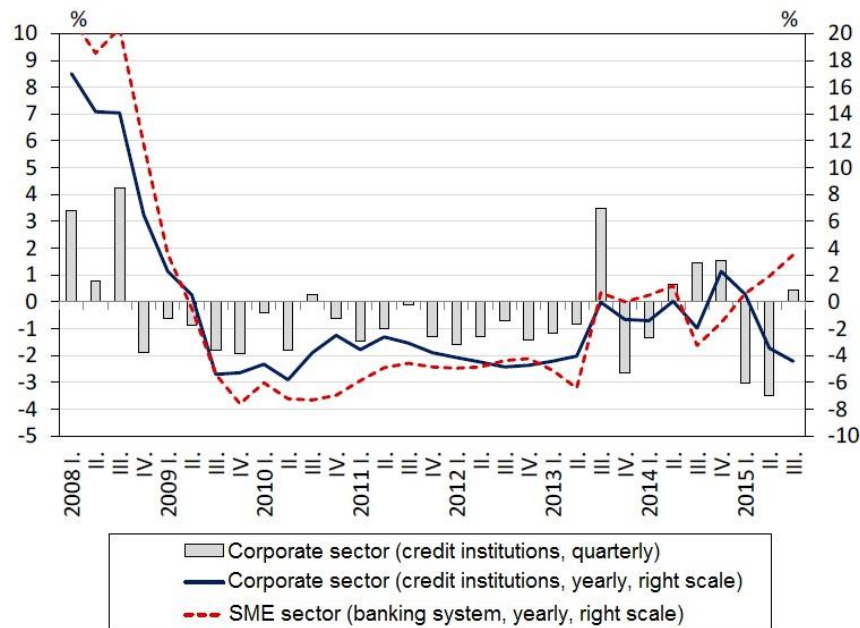
<sup>2</sup> The growth rate of SME lending may be distorted by the fact that as an indirect result of the large loan amounts, some companies may be reallocated to the large enterprise segment



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Lending Survey, about 31 per cent of the banks, in net terms, eased corporate lending conditions<sup>3</sup>. Among the factors contributing to easing, respondent banks mentioned – similarly to previous periods – market share objectives and the intensification of competition in the highest ratio.

**Total volume of corporate and SME sectors (corporate loan time series calculated by actual transactions, while SME time series calculated by estimated transactions since Q4 2013)**



Source: MNB

In addition, the favourable liquidity and capital position of the banks, as well as the change in risk tolerance also contributed to easing.

### COSME (2014-2020)

It is good news for SMEs that **the European Investment Fund (EIF) and the K&H Bank signed the EU loan guarantee programme, COSME, the first of its kind in Hungary, on 4 February 2016.** Under this contract, the EBA provides loan portfolio guarantee of HUF 15bn for the Hungarian retail commercial bank. Accordingly, the K&H Bank becomes capable of lending HUF 30bn in total to several thousands of Hungarian SMEs, which would otherwise not

<sup>3</sup> Net ratio is the difference between tightening and easing banks weighted by market share.



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qualify as credit-worthy, due either to their past activities or because they fall short of complying with collateral requirements. Obtaining this guarantee will be offered free of charge, up to HUF 45 million per credit transaction. The K&H Bank is also launching new bank products related to COSME, such as overdrafts for over a one-year period and a business loan package. K&H Group CEO Hendrick Scheerlink pointed out that COSME-related loan contracts can be concluded for fixed durations, with a minimum tenor of 1 year and a maximum tenor of 10 years. Although the bank focuses primarily on the financing of the agricultural and healthcare sectors, COSME-related facilities will be offered for SMEs in almost any sector. The K&H Bank has hitherto been one of the leading banks in terms of loan programme participation, as they utilized the largest share, some 15 percent, of the total amount available through NHP and NHP+ (HUF 2300bn).

In the future, more funding may become available, because as EIF CEO Pier Luigi Gilibert said at a press conference on 4 February 2016, **there exists no country-quota for COSME**, which is highly favourable for small countries such as Hungary, and thus in case other Hungarian banks also show interest in the scheme, other agreements might also be realized. As it is among the top priorities of the European Commission to facilitate new investment in order to underpin pro-growth efforts, future prospects are highly encouraging.