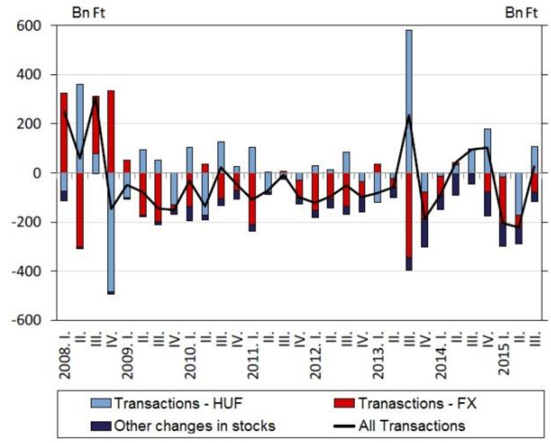
MINISTRY
FOR NATIONAL ECONOMY

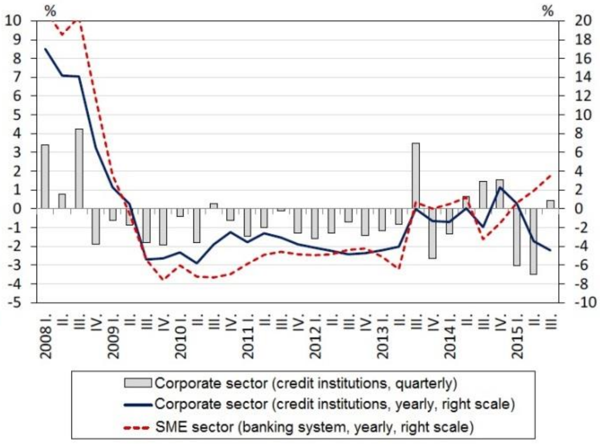
Financing facilities of the Economic Development and Innovation Operative Programme focus on SMEs

The SME sector and especially medium-sized companies play a key role in reviving economic and employment growth. The Economic Development and Innovation Operative Programme (EDIOP), which has prioritized the assistance of this segment, contains a larger number of refundable financial facilities aimed at SMEs than similar former blueprints. These are highly favourable financial instruments with unprecedented conditions that are partly financed from EU resources, and they enable Hungarian enterprises to fund a wide variety of projects with only 10-20 percent of own financial resources.

The financing status and economic performance of Hungarian SMEs have been burdened by four major issues: (1) low productivity, (2) low growth potential, (3) deficient support by the business environment and (4) financing difficulties. Low productivity and muted growth potential aptly reflected by accounting data are the root causes of financing obstacles faced by SMEs, and the lack of external resources hamper growth. Bank financing has been riddled with various lending disincentives on both the demand and the supply side, and these have narrowed funding options for SMEs and prevented banks to reach an optimal level of allocated loans.

One of the preconditions for the future growth of SMEs within the Hungarian economy, which has been recovering from the crisis and posting output growth again, is to create adequate financing facilities. Annualized corporate lending data show that a temporary upturn in 2013 was followed by a slight fall. Since the end of 2015, SME lending has picked up again, as banks – thanks to improving liquidity and capital adequacy ratios as well as to growing market competition – eased lending conditions in order to reach an ever larger number of potential borrowers in an improving economic environment.





(*National Bank of Hungary*)

In the second half of 2015, the volume of SME loans increased, and lending has accelerated throughout the entire banking sector. The high number of new SME loans signal that the Funding for Growth Scheme of the National Bank of Hungary has been a success. In the first and second phase of the programme, altogether 28 thousand enterprises received loans totalling some EUR 5.74bn.

The recently launched Funding for EDIOP, a financing scheme for SME loans with highly favourable conditions (0 percent interest rate, tenure of up to 15 years, grace period of up to 24 months) and a framework amount of EUR 140 million. Individual loans are limited to EUR 1.9 million. Lending is project-based and *ex-post* financed, as tranches of the loan are disbursed after project-related bills have been submitted and approved. Actually, the scheme enables the step-by-step implementation of corporate investment projects. The fact that financial facilities made available by the programme can be used – provided certain requirements are met -- for the purchasing of used machinery increases the number of suitable projects and widens the scope of applicability. This clause also hugely benefits start-up enterprises. In order to underpin economic expansion and assist start-ups, even newcomers can obtain loans from a total of EUR 476 000. Thus, the scheme offers even more for start-ups than the Funding for Growth Scheme did. As another bonus, early payment is free of charge, and it can be initiated several times during the tenure of the loan. The programme, however, forbids loans to be used for the re-financing of other loans or pre-financing of EU grants. The facilities have been elaborated by the Hungarian Development Bank (MFB), and the tendering and lending process is to be conducted by the network of MFB intermediaries. In light of conditions, such as interest rates and loan tenure – it can be stated that the EDIOP offers favourable loans that have been unprecedented in Hungary.

Loans of up to EUR 1.9 million that can be co-financed through EU funding may enable Hungarian enterprises to implement a wide variety of projects with contributing only 10-20 percent of their own resources to total costs. The Government has been working on an economic development policy with the aim of widening the applicability of EDIOP financial facilities: some combined instruments containing non-refundable grants are also being planned.

The close relationship between growth and financing is especially true in case of medium-sized enterprises with high growth potential, as these need massive funding for expansion and the implementation of investment projects. Companies need low-cost and predictable loans to realize investment plans and working capital loans with favourable conditions to boost output. The development and regional policies of the European Union, and – in accordance with that – the Hungarian operative programmes in the period 2014-2020 place a special emphasis on developing the SME sector.

The SME sector and especially medium-sized companies play a key role in reviving economic and job growth. The Funding for EDIOP, which has prioritized the assistance of this segment, contains a larger number of refundable financial facilities aimed at SMEs than similar former blueprints. This reduces dependence on non-refundable grants, which hinge on donor willingness, and increases the number of market-based facilities behind SME investment projects and, in general, the expansion of enterprises. Although there are some loans available on the market that are far larger than the framework amount of this scheme, EDIOP instruments are expected to motivate SMEs in adopting a new attitude to borrowing.