Bruno DALLAGO

SME POLICY AND COMPETITIVENESS IN HUNGARY

Small and medium-sized (SMEs) enterprises in Hungary account for 99.9% of all enterprises and for more than two thirds of employment. Since transformation started in 1989 they have been the only net makers of employment. In spite of such remarkable importance, results have been modest compared to the amount of Hungarian and foreign, mostly EU resources poured into the sector. Less than a sixth of SMEs are fast-growing and only a tiny number use bank credit. According to various indicators and in spite of bright spots, the SMEs context is problematic and SMEs features are often unfavourable and hardly competitive. In recent years the goal of upgrading SMEs and strengthening their contribution to the economy has acquired central position among policy goals and activity. Although progress has been made, the results are weak and in some cases drawbacks have happened. The paper starts from analysing the SMEs situation, reviews the main features of the recently implemented policy strategies, assesses whether these strategies are appropriate to address the situation, including the effects of the domestic and international crises, and considers whether the targets pursued are realistic and important, and the instruments considered in line with the targets.

Keywords: Hungary, SMEs, Transformation, Entrepreneurship, Competitiveness, Policies, Crisis, Strategy

Transformation is about creative destruction: dismantling old economic, political and social system and fostering a new one. A similar observation holds for economic, political and social actors. The issue of creative destruction has been considered during transformation in Central and Eastern European Countries (CEECs) (Kornai, 1990; Dallago, 1989). Entrepreneurs are the main drivers of this process and bottoms-up forces are characteristic of the whole economy. In this perspective that in recent years the Hungarian government has considered the disappointing performance of SMEs and the new policy strategy. This conviction has but accelerated since the early Eighties (Dallago, 1989). During the Nineties there was a massive inflow of foreign investment and the number of SMEs witnessed an incredible expansion. During this decade one Hungarian out of ten was registered as a businessman. In spite of this success, the Hungarian economy lacked momentum and large parts of the enterprises were not competitive and aimed at survival or only existed on statistical paper (Szirmai, 2003). Problems continued through the 80s. Indeed, Hungary’s performance is below average among CEECs according to various competitiveness ranking. SMEs are the least efficient by international standards (MND 2009).

It is in this perspective that in recent years the Hungarian government has considered the disappointing situation with entrepreneurship and SMEs as one of the causes of the unsatisfactory performance of the economy. This conviction has but accelerated since the dramatic effects of the international crisis. This paper considers what went wrong with SMEs, which constitutes an important part of the Hungarian transformational drawdown. The next sections consider some data and information (Section 2) that depict the unsatisfactory situation of Hungarian SMEs, particularly concerning competitiveness (Section 2). Section 3 deals with the main individual factors that are behind the strategy to foster SMEs and Section 4 examines the effects of the international crisis and the new policy strategy. Section 5 concludes.

Overview of the SME sector

Although large state-owned firms dominated the economy during the socialist period, small and medium-sized enterprises (SMEs) were remarkably important particularly since the 1968 economic reform (Dallago, 1989). In the process of transformation many new SMEs were founded, through genuine greenfield investment, spin-offs, foreign-owned firms, and privatisation (Dallago, 2003; Laki, 1998). The overwhelming majority (99.9%) of enterprises in Hungary are presently small and medium-sized and they provide more than two thirds of employment (table 1) and 80% of GDP (Estrin et al., 2009). Consequently, their competitiveness fundamentally influences the performance of the whole economy. However, a clear dualism appeared between the modern foreign-owned sector and the less dynamic domestic sector. The latter includes most SMEs which do not perform substantial investments and make use of underground economic practices (such as tax evasion) (Szirmai, 2003).

SMEs have been defined in Act XXXIV of 2004, which has confirmed the Hungarian definition and practice to the European Commission recommendation 2003/361/EC of 6 May 2003. Starting from 1 January 2005, SMEs definition became more refined on financial and ownership issues. These concerned particularly the use of consolidated budget and the exclusion from the SME category of those enterprises whose capital is owned for more than 25% by the state, municipalities or large companies, separately or jointly. This criterion does not apply to institutional investors.

Table 1

Size distribution of Hungarian registered SMEs (2005, in percent of all enterprises according to workforce size categories)

<table>
<thead>
<tr>
<th>Size category</th>
<th>Number of enterprises</th>
<th>Employees</th>
<th>Sales revenues</th>
<th>Export</th>
<th>Value added</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–4</td>
<td>75.6</td>
<td>20.2</td>
<td>3.6</td>
<td>0.6</td>
<td>99.9</td>
<td></td>
</tr>
<tr>
<td>5–29</td>
<td>6.0</td>
<td>21.9</td>
<td>21.6</td>
<td>19.5</td>
<td>68.9</td>
<td></td>
</tr>
<tr>
<td>30–99</td>
<td>7.4</td>
<td>14.4</td>
<td>19.7</td>
<td>18.1</td>
<td>59.6</td>
<td></td>
</tr>
<tr>
<td>100–499</td>
<td>5.9</td>
<td>5.5</td>
<td>10.3</td>
<td>13.3</td>
<td>35.3</td>
<td></td>
</tr>
<tr>
<td>500–4999</td>
<td>6.0</td>
<td>10.9</td>
<td>16.4</td>
<td>18.7</td>
<td>52.0</td>
<td></td>
</tr>
<tr>
<td>5000+</td>
<td>8.9</td>
<td>11.9</td>
<td>14.6</td>
<td>15.8</td>
<td>51.2</td>
<td></td>
</tr>
</tbody>
</table>

Notes: * including the financial sector.
Source: BCSO in the case of sales revenues and value added figures, MoET calculations for the rest.
The Hungarian Central Statistical Office (HCSO) adopted the new European method in 2005 thus decreasing substantially the number of operating enterprises. An enterprise is now considered to be operating in a given year if it had sales revenues or had at least one employee. In 2004 the number of operating enterprises was 871,956 and 708,307 according respectively to the old and the new methodology (MoET, 2007a: p.129-131.; Strategy, 2007; Völfinger, 2005).

While microenterprises (with less than 10 employees) employ a higher share than in other transformation countries, except Poland, and EU-15 countries, the employment share of small (20-49 employees) and medium sized enterprises (50-249 employees) is lower than in other countries. Overall, the number of SMEs compared to the inhabitants and the employment share of SMEs remains higher in Hungary and other transformation countries (with the relevant exception of Slovakia and Romania) than in EU-27 on average and is similar to the structure in the Southern EU member countries (Eurostat, 2008; OECD, 2008c).4

Both sales revenue per enterprise and value added per employee are a fraction of the EU average in both relative (Table 2) and absolute terms (Table 3), with somewhat better performance only for small enterprises in sales revenue. Therefore, it is inevitable that labour cost per value added is higher in Hungary, except in the case of microenterprises. However, the spread of the underground economy may influence the explanatory value of these data.

### Table 2

<table>
<thead>
<tr>
<th>Enterprises in Hungary (2005) compared to the EU-19 (2003)/EU-19=100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Average size</td>
</tr>
<tr>
<td>Sales revenue per enterprise</td>
</tr>
<tr>
<td>Value added per employee</td>
</tr>
<tr>
<td>Labour cost per added value</td>
</tr>
<tr>
<td>Proportion of export in sales revenues (%)</td>
</tr>
</tbody>
</table>

Note: EU-19: 15 Member States + Iceland, Liechtenstein, Norway and Switzerland
Source: SMEs in Europe, 2003, Observatory of European SMEs, No. 7, calculations based on data provided by APEH

More than looking at comparisons with richer market economies, for countries still undergoing some relevant transformation it may be important to look at developments. The data show that a substantial part of Hungarian SMEs is weak also under this heading.

### Table 3

<table>
<thead>
<tr>
<th>Hungarian enterprises compared to EU-25 (absolute values, EU-100)</th>
</tr>
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<tbody>
<tr>
<td>Micro</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Number of enterprises</td>
</tr>
<tr>
<td>Number of employees</td>
</tr>
<tr>
<td>Sales revenues</td>
</tr>
<tr>
<td>Added value</td>
</tr>
</tbody>
</table>

Source: SMEs and Entrepreneurship in the EU, Statistics in focus 24/2006 (Strategy, 2007)

A MoET (2007a) survey distinguishes three different groups of SMEs in terms of performance and this pattern has been stable since the late 1990s: a) fast-growing enterprises: this group includes some 15% of SMEs whose yearly growth exceeds 20%, are often part of groups or value chains and networks, produce intermediate goods or business services, are active in public procurement tenders and innovative and active in foreign markets, are endowed with important human and intellectual capital, make intensive use of specialized professional services, and of bank credit for their investments; b) stable enterprises: they represent 65-70% of the SME population, have low but growing enterprises and value added and low qualification of their performance and low qualification of their entrepreneurs/managers and employees, and produce mainly for the retail market without using bank credit, except microcredit and mutual guarantees; c) lagged enterprises include the 15-20% of isolated small enterprises and enterprises run by marginal businessmen (elderly, social and minority businessmen) with negative and declining performance, selling their products to the final consumers and making no use of external finance and services.

### Problematic issues

Policies outcomes have been modest so far due to various reasons. First, programmes are usually episodic and uncoordinated. Second, they have failed in fostering the entrepreneurs’ interest (particularly young and educated ones) to specialise, modernise and promote the growth of their enterprise. Third, nearly all programmes show time inconsistency and they are discontinued after relatively short time. Fourth, many programmes depend upon donors and do not involve the beneficiaries’ responsibility, e.g. by means of co-financing. Fifth, the donor typically is not involved in following the outcome of the investment after the support is over, and the relation between the donor and the beneficiary is usually formal and short-lived.

A sixth general problem is the lack of evaluation culture. Evaluation of policy programmes is important in order to assess their efficacy and adjust them to goals and possibilities. Evaluation should follow a standardised approach in order to provide policy-makers, experts and the public with technically ground ed and comparable data (OECD, 2008a) and should avoid the well-known self-selection and committee selection problems. Evaluation in Hungary is only moving through the first steps, an evaluation culture is still lacking, and the insufficient continuity of the programmes prevents assessing themselves: time is not enough for seeing the impact of the programmes on enterprises and at the level of policy makers is still more formal than substantial, and only few programmes have been evaluated. Existing evaluation is more an assessment done in terms of number of interventions (typically: how many enterprises – possibly broken down by size class and received funds from individual programs), jobs created and funds spent (possibly broken down by size class of enterprises and aim of the application). Typically the results of the programmes are not analysed against what would have happened without the programme.

To address this situation the government approved, on 10 October 2007, the Strategy for the Development of Small and Medium-sized Enterprises (2007-2013) (Strategy, 2007) to pursue “the improvement of the economic performance of small and medium-sized enterprises” as part of the implementation of the National Strategic Reference Framework of Hungary for the period 2007-2013. Another important milestone in the development of a national SME strategy has been the approval by the European Commission of the Economic Development Operational Programme 2007-2013 (MoET, 2008), a programme under the Convergence Objective providing for important financial support ($2.9 billion, of which some $2.5 billion are contributed by the EU) among other things to upgrade the SMEs competitiveness.

The main objective of the Programme is to increase the value added and the jobs created by SMEs and their productivity by, among other things, facilitating SMEs access to the supply side, i.e. actions and services provided to SMEs, it devotes less effort to the demand side, where many of SME’s problems originate and subsist. For instance, emphasis is put on the various instruments to ease SMEs’ financing constraints, but much less so to the critical issue of how to increase the willingness and opportunities of entrepreneurs to ask for and use efficiently financial resources. Regional differences in SME characteristics and constraints are also a crucial component that should be considered when assessing the proper policy design. With the exception of EU funded projects, SME policy remains centralised in Hungary.

The 2007 SMEs Strategy promises to initiate a new phase of evaluation and evaluation culture. It includes monitoring and takes commitment for an interim assessment of the outcome of the Strategy (Strategy, 2007) by quantifying a set of targets and distinguishing them according to their nature and relevance (strategic targets, comprehensive objectives, horizontal targets). However, objectives are not always clearly and precisely specified. For instance, the strategic target “increasing the economic performance of small and medium-sized enterprises” is expressed as the increase of the ratio of gross value added produced by SMEs from the current 52% to 55% by 2013, without specifying the conditions, e.g. whether this will be the outcome of growing numbers of SMEs or growth of individual SMEs. This incompleteness makes it impossible to assess whether a certain outcome (or failure) may be attributed to the policy or some other unobserved event. Further, the Strategy may lack time continuity due to the implementation of new policy priorities and instruments since late 2008.

### Fostering SME Competitiveness

Many SMEs policy programmes focus on the size of enterprises, thus failing to consider whether their activity has the potential to increase the competitiveness of enterprises and consequently generate economic
Variability and unpredictability of economic regulation are perceived to be the second main obstacle to the operation of enterprises. They are particularly problematic for small enterprises, which lack internal capacities to deal with it and may have to use costly external support services. Change of regulation has been seen by entrepreneurs to be among the main burdens, and in many cases it appears to be arbitrary, in that regulation regarding the SME sector was harmonised following EU membership. However, unpredictability has been primarily the outcome of domestic changes.

According to the European Commission, in the EU-25 administrative burdens of entrepreneurs make up on average 3.5% of GDP (Strategy, 2007). MoET estimates that direct burdens to Hungarian entrepreneurs (comprising data provision to the public administration and other burdens related to public administration procedures) may amount to 4.5–6.7% of the GDP. About 1.5% of these stem from EU obligations, while a larger part is generated by the Hungarian regulatory and public administration environment.

According to DB-DW (2009) rankings, Hungary scores 41st–out of 181 countries as concerns “ease of doing business”, and 7th in Eastern Europe & Central Asia (EECA) (Table 4). However, while starting a business is rated as 28th (Table 3), registering property has been substantially more difficult for both debtors and creditors, and does not facilitate recovery particularly for small enterprises. Comparison in trouble shows maximum 150 days to negotiate with their creditors and recover. As a consequence, only 8 enterprises restructured in 2006 out of 14 933 enterprises which went through bankruptcy procedures, and 9439 came under liquidation. This outcome can be ascribed to various factors including: increasing defaults on payments from clients and contractors, limited use of credit insurance, lack of professional management and evaluation culture in domestic SMEs. The new Bankruptcy Act should unify to one procedure the presently separate bankruptcy and liquidation procedures and shorten the time needed for liquidation (Strategy, 2007; FBD, 2007; Simon – Turóczy, 2007).

Although property rights are in general well-defined and protected, other aspects related to this issue need to be clearly set. Registering property has been substantially improving but is still problematic (WB-DW scores are 57 on 181 and 13 on 27 respectively in the overall and the EECA indexes), and even more problematic is the protection of investors (scores are respectively 113 and 23). Only 65% of Hungarian enterprises are aware of industrial property rights protection issues and 40% are involved in their protection through means such as trade marks, the rest rely on common law (mainly unregistered). In recent years the use of ICTs increased considerably among Hungarian SMEs, but remains at relatively low levels of technical sophistication (i.e. using a computer and holding an internet connection). Hungary falls behind the European average with respect to: i) the use of more sophisticated technologies (broadband access), although not behind most new EU member countries; ii) the weight of security in business decisions; iii) the share of companies using digital signatures; and iv) the use of electronic commerce by Hungarian enterprises (less than half the EU average, the last position in the EU). Even worse is the gap in the use of more sophisticated business tools, in which Hungary ranks very low in the EU, at a considerable distance from the best performers. The performance is very weak in the share of enterprises having internal company processes and external integrated company processes. SMEs which have high concentration of internal processes and external integrated company processes (i.e. processes associated with increasing employment: according to WB-DW supporting services are ranked a low 84 and 12 overall and in EECA respectively.

Further development of E-government is important because information and communication technologies (ICTs) have opened up ever increasing opportunities for SMEs, allowing the advantages of small scale to be combined with economies of scale and scope through networking among firms and with other actors such as universities and research institutions. In recent years the use of ICTs increased considerably among Hungarian SMEs, but remains at relatively low levels of technical sophistication (i.e. using a computer and holding an internet connection). Hungary falls behind the European average with respect to: i) the use of more sophisticated technologies (broadband access), although not behind most new EU member countries; ii) the weight of security in business decisions; iii) the share of companies using digital signatures; and iv) the use of electronic commerce by Hungarian enterprises (less than half the EU average, the last position in the EU). Even worse is the gap in the use of more sophisticated business tools, in which Hungary ranks very low in the EU, at a considerable distance from the best performers. The performance is very weak in the share of enterprises having internal company processes and external integrated company processes. SMEs which have high concentration of internal processes and external integrated company processes (i.e. processes associated with increasing employment: according to WB-DW supporting services are ranked a low 84 and 12 overall and in EECA respectively.

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There is also an increasing trend to networking that by now involves more than half of SMEs, (MoET, 2007a). About 57% of all enterprises participated in 2005 in e-commerce, and 50% have the form of formal or informal cooperation with other enterprises (counselling, borrowing tools, machines or money, acquiring businesses, etc.). Of these 17% are engaged in formal cooperation (joint purchase, sales, production). However, most of these are soft forms of networking and production networking is scarce. A promising although limited development is
the increase of ownership cross-holding, which is pulling cross-investment. This is leading to greater corporate concentration and may strengthen the enterprises resource base and performance.

A considerable effort was performed in the past years to set up a network of industrial parks and other infrastructural devices such as regional university knowledge centres, which by now have a fair situation. Although they may be important tools for solving the enterprises location problems and facilitate business cooperation, their effect is modest: there have been few spin-offs and the infrastructure supporting innovation has remained weak in general (Strategy, 2007).

c. Access to financing. Although Hungarian SMEs have been the only net job creators over the past 15 years, their performance has been modest in relation with the growing amount of resources, including foreign and EU resources, spent to support this sector. Moreover, less than 4% of SMEs benefited from development programmes, with the lowest rate in the smallest size classes. Before the 2008 crisis financial needs were ranked low among the impediments to the growth of enterprises (Table 5). This may be due to both credit aversion by entrepreneurs and to banks targeting more developed clients, together with the absence of significant programmes for potential entrepreneurs (JEREMIE, 2007).

The Hungarian experience – similar to that of other former transformation countries – is that lack of financing is not an important obstacle to the creation of small firms, which rely on informal sources or, for some firms, parent companies. However, the inability or unwillingness to access external finance is critical for the development of these SMEs (McIntyre – Dallago, 2003). Since 1999 financing issues have become increasingly less problematic, reflecting the fact that commercial banks and savings cooperatives increasingly served SMEs with new loan products and services. In the WB-DB ranking Hungary gets a fair 28 in the overall ranking and 10 in that referring to EECA for getting credit. The EBRD index of banking sector reform is in fact 4.0 in 2008, as it was in 2001, and that of non-bank financial institutions improved in the same period from 3.7 to 4.0. This puts Hungary on top of other central European new member countries. Domestic credit to the private sector compared to GDP improved from 30.9% to 54.6% leaving the other central European countries at distance. Also, the government took positive steps to ease the traditional SME aversion of large banks, particularly with the absence of significant programmes for potential entrepreneurs (JEREMIE, 2007; MoET, 2007b). The importance of microfinance has been rapidly decreasing, while banks have preferred to target stronger clients. There is currently no significant programme for potential entrepreneurs. Perhaps the most successful among financial instruments has been leasing, whose amount has increased threefold between 2000 and 2005 reaching 5.4% of GDP. However, 80% of transactions are related to vehicles. Factoring is still highly underdeveloped, similarly to business angels and venture capital: the latter concentrates on expanding businesses and is nearly absent in the seed stage and weak in the start-up stage. Credit guarantee for SMEs is improving but still insufficient and the majority of guarantee operations relate to loans extended to microenterprises.

d. Access to international markets. Although nearly two thirds of exports come from large enterprises (table 1), primarily from the subsidiaries of multinational companies, the propensity to international trade of Hungarian SMEs is generally high in international comparison, particularly in the case of microenterprises (Table 2). In most countries barriers involve critical SMEs aspects: capabilities, finance and access (OECD, 2007). Increasing export is prominent among the Strategic objectives, which foresees a 2% increase over 2005 of the SMEs export participation, although other forms of internationalisation do not receive attention. Increasing international activity will be possible only if Hungary is able to remove part of the barriers to foreign trade that for the time being rank the country only 68th in the WB-DB general index of trading across borders and 10th in the EECA index. Top barriers include inadequate quantity of, and untrained personnel for internationalisation, and limited or problematic access to foreign markets. The latter includes limited information to locate and analyse markets, and identifying foreign business opportunities and barriers belonging in the business environment, like unfamiliar exporting procedures and paperwork. Working capital to finance exports is apparently sufficient for high-growth SMEs, but is an important barrier for more traditional enterprises. It is interesting to note that in addition to the advantages deriving from EU integration, Hungary has an information, knowledge and relational advantage in the neighbouring countries in regions inhabited by Hungarians. This is apparently a factor easing also capabilities barriers, particularly those related to the inability to contact potential foreign customers.

Other financing instruments show a similar pattern: rapid development, inability to attract the most enterprises, and overall modest effect (JEREMIE, 2007; MoET, 2007b). The importance of microfinance has been rapidly decreasing, while banks have preferred to target stronger clients. There is currently no significant programme for potential entrepreneurs. Perhaps the most successful among financial instruments has been leasing, whose amount has increased threefold between 2000 and 2005 reaching 5.4% of GDP. However, 80% of transactions are related to vehicles. Factoring is still highly underdeveloped, similarly to business angels and venture capital: the latter concentrates on expanding businesses and is nearly absent in the seed stage and weak in the start-up stage. Credit guarantee for SMEs is improving but still insufficient and the majority of guarantee operations relate to loans extended to microenterprises.

The international financial crisis is rooted in a combination of factors common to previous financial crises and some new factors, including deficiencies in financial regulation and architecture. Of relevance is the fact that financially integrated markets, while offering many benefits, can also pose significant risks, with large real economic consequences (Claessens, 2010). The crisis, which has had important direct budgetary costs, has been particularly staggering in Hungary: the country was the first EU member country to request an urgent loan package to the IMF; the European Union and the World Bank to avoid sovereign default and currency collapse in October 2008. Reasons for this vulnerability include irresponsible and inconsistent fiscal policy stance in particular since 2001, high debt, domestic monetary policy and the nature of the country integration into the international financial system (Andor, 2009).

Poor fiscal policy quality (Staehr, 2010; Winkler, 2010), policy mistakes and the lack of structural reform in Hungary led to a record deficit, rapidly increasing debt10 and a serious drop in competitiveness by 2006. The 2006 reform programme, including the Strategy discussed herewith reached some success and avoided the immediate crisis, but could not solve most of the structural problems. Particularly problematic are the structural features and weaknesses of the economy: considerable foreign trade exposure, weak export structure and performance, particularly by the domestic sector, significant external debt. Foreign ownership of banks, that was found to contribute to financial vulnerability (Popov – Udell, 2010), represents a slight advantage for Hungary, thanks to the stronger position and higher capitalisation of domestic banks (particularly OTP). However, the tendency of foreign banks to lend in foreign currency (Stein, 2010) has been particularly great in Hungary, which increased financial instability of consumers and local SMEs in the wake of the forint rapid devaluation (by 40% against the Euro between August 2008 and March 2009).
Even more important have been the crisis indirect effects on the real economy through depressed revenues and spending, lower economic growth and increased unemployment (Staehr, 2010). Consequences for SMEs have been consequently important. The international crisis has thus been particularly severe, as reflected in the phenomenon of the “debt clock” community that continues through 2010. The crisis has put a stop to a growth process that was based on flow of external funds and internal consumption largely funded through loans. The drop of the value of real estate, by external funds and internal consumption largely funded, increased the cost (and spreads) of credit to all their wards SMEs, and in some countries have substantially decreased as a source for financing SMEs investment, including low employment rates and prolonged recession, high dependence on exports and high external debt, being a substantial part of the latter in foreign currencies. In the effort of adjusting to the crisis the government implemented a set of crisis management measures to restore the country’s credibility (CEC, 2009). These in order to decrease the overall provision of new corporate loans, financed mainly from EU sources (Új MNB, 2009). The 2009 economic strategy (MEh, 2009) is implemented in two phases: a) managing the consequences of the world economic crisis and preserving a balanced budget on the short term together with increased competence (MEh, 2010) and creating the basis for economic growth; and b) restructuring public finances, improving the supply of and access to public services and various structural measures in the longer term. The first phase comprises five aims, including the support to developing the economy and infrastructures, which is highly relevant for SMEs. An important aim is establishing a work friendly tax regime by substantially decreasing taxes and social security contributions on wages (by 7% in two years). Fiscale balance is pursued through transferring taxation to other items, including increasing value added taxes, excise taxes, property taxes and fighting tax evasion and avoidance. Other aims include developing a targeted social net encouraging work; a stable and predictable pension system, and establishing a cheaper state and a new policy making.

International action, the international financial support package to Hungary, and the measures taken by EU countries at the time of the crisis have reduced the country’s vulnerability (IMF, 2009, MNB, 2009). However, the economy is in serious recession (MNDE, 2010a), and this jeopardises the financial stability and solvency of the economy (Barrell – Holland, 2010). In fact, banks liquidations and bank runs are still high. Measures supporting bank lending have therefore received attention and authorities’ and parent banks’ interventions have substantially reduced liquidity risks.

The deteriorating macroeconomic environment and the increasing risk aversion of banks are diminishing credit demand from and supply to the corporate and household sector. The reduction is more pronounced for SMEs than for large corporations and SMEs situation is particularly fragile, since they have a higher-than-average proportion of short-term loans. However, SMEs benefit the most from domestic and European refinancing programmes.

Taxation of enterprises changed and became more favourable to SMEs that invest and increase employment and less favourable to larger enterprises (APEH, 2010). Indeed, while corporate (profit) tax rate increased to 19% effective from January 2010 and foreign associations have a corporate tax rate of 30%, up from the previous reduction to 16%, most credits and allowances reducing the corporate tax base were cancelled, except investment benefits (development reserve, investment Eastern Europe on account of persistently weak domestic demand” (MNB, 2010a). The 2009 economic strategy (MEH, 2009) is implemented in two phases: a) managing the consequences of the world economic crisis and preserving a balanced budget on the short term together with increased competence (MEH, 2010) and creating the basis for economic growth; and b) restructuring public finances, improving the supply of and access to public services and various structural measures in the longer term. The first phase comprises five aims, including the support to developing the economy and infrastructures, which is highly relevant for SMEs. An important aim is establishing a work friendly tax regime by substantially decreasing taxes and social security contributions on wages (by 7% in two years). Fiscale balance is pursued through transferring taxation to other items, including increasing value added taxes, excise taxes, property taxes and fighting tax evasion and avoidance. Other aims include developing a targeted social net encouraging work; a stable and predictable pension system, and establishing a cheaper state and a new policy making.

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International action, the international financial support package to Hungary, and the measures taken by EU countries at the time of the crisis have reduced the country’s vulnerability (IMF, 2009, MNB, 2009). However, the economy is in serious recession (MNDE, 2010a), and this jeopardises the financial stability and solvency of the economy (Barrell – Holland, 2010). In fact, banks liquidations and bank runs are still high. Measures supporting bank lending have therefore received attention and authorities’ and parent banks’ interventions have substantially reduced liquidity risks.

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The major effect of the crisis is a drop in demand (lower 2009; Correa – Iootty, 2010). The survey found that the SMEs have great potential in Hungary and have reached 2008; Correa – Iootty, 2010). The survey found that the industry has started in February 2008 with EU funds. programmes aimed at fostering both vertical and horizontal integration of SMEs. A competitiveness pole programme encouraging networking and cluster formation and development has also been launched. Firms in general and SMEs in particular have responded fairly to these measures. Indeed, according to a World Bank cross-country business survey in Eastern Europe released at the end of 2009 Hungarian firms appear to be among the least affected by the financial crisis (Colbran – Gide, 2009; Majare – Walsh, 2009; WI, 2009; Corea – Iootty, 2010). The survey found that SMEs have neither been cost-effective nor sufficiently stable in time or appropriate to foster Hungarian SMEs’ competitiveness in the globalised economy. Policies have been so far more targeted to existing SMEs and are lacking the full entrepreneurial dimension necessary to foster innovative and internationally competitive SMEs. Important issues such as awareness and capacity building, opportunity recognition and utilisation have been overlooked. As a consequence, most SMEs have created jobs but hardly innovated and become competitive. This is the challenge for the years to come. The pre-crisis Strategy denotes a serious effort in overcoming the main problems affecting the sector. It affords a detailed and realistic situation analysis and proposes a strategy of 15 measures designed to revitalize the economy for the development of small and medium-sized enterprises. Yet it fails to tackle the critical issue of entrepreneurship satisfactorily. Through the Strategy the government placed SMEs policies in a perspective that is broader, more detailed, horizontal and better coordinated both internally and with other policy areas. It also avoided in its design the danger of interfering with the market by pursuing healthier cooperation between the public and private sectors. However, problems remain open and questions remain unanswered or the answer is short to the reality. The new post-crisis development strategy is apparently wise in that it does not concentrate exclusively on crisis management and advances further in a balanced manner. Indeed, it aims at making the establishment and management of new enterprises easier and cheaper, thus hopefully reviving Hungarian entrepreneurial attitudes and making existing SMEs stronger and more competitive. However, two caveats are worth stressing. First, although the strategy includes several wise and sound aspects, it still requires more precise priorities. It includes too many goals, although these are desirable in themselves. Second, the danger is still up that the new strategy can be a new chapter in the old problem of policy instability and unpredictability: although motivated by sharable and desirable aims, it also included components (e.g. in taxation policy) that invert previous goals. Whether it will actually result in an important step forward will depend upon the long-run consistency of its implementation, the careful definition of priorities and the effective cooperation between government and the business sector. The policy goal of making the issue of SMEs competitiveness a priority has been relatively successful. SMEs have created jobs but hardly innovated and become competitive. This is the challenge for the years to come. The pre-crisis Strategy denotes a serious effort in overcoming the main problems affecting the sector. 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decade beginning. A significant part of the adjustment has come in the form of a shorter workweek, short-term contracts and increased regional labor mobility: employment has consequently contracted less than aggregate economic activity but underemployment has risen. Higher labour mobility and greater willingness to accept offered positions can also be observed. (Svejnar – Semerek, 2009).

References


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50. KÖZGAZDÁSZ-VÁNDORGYŰLÉS
Cím címek
Címlap 50. Közgazdász-vándorgyűlés
Fontos és kerek évfordulóhoz érkezett 2012-ben a Magyar Közgazdasági Társaság:

Átalakulás és konszolidáció a magyar gazdaságban és gazdaságirányításban

A közgazdász-vándorgyűlések a hazai közgazdász szakma legnagyobb és legnagyobb éves összejövetelei: a háromnapos tanácskozások plenáris és szekcióiélesein vezető gazdaságpolitikusok – jelenlegi és volt kormánytagok, szakpolitikusok –, a pénzügyi és üzleti élet kulcsszereplői, gazdaságkutatók, akadémikusok és egyetemi tanárok tartanak előadásokat a mintegy 400–700 fős, hazai és határainkon túli magyar közgazdászokból álló hallgatógá második napját. Pénteken délután gazdaságpolitikai plenáris üléssel folytatódik a program. A zárónapon, szombaton délelőtt pedig a Költéségvetési Tanács tart majd „rendkívüli nyílt ülést” a plenáris ülés hallgatója előtt.

Meggyőződésünk, hogy a jubileumi, 50. Közgazdász-vándorgyűlés méltó helyszínen, az egri Park Hotelben, a Magyar Közgazdasági Társaság hagyományainhoz híven tartalmas vitákkal járul majd hozzá ahhoz, hogy minél szélesebb körű szakmai párbeszéd övezze a magyar gazdaságpolitika alakítását.