



HUNGARIAN BUSINESSES RECEIVE TWICE AS MUCH EU FUNDING AS THEY PAY IN CORPORATE TAX

EU FUNDING HAS RESULTED IN SLOWER GROWTH FOR HUNGARIAN BENEFICIARIES THAN FOR THEIR NON- FUNDED PEERS

MARCH 2022

***Péter Bucsky** is an Economist and holds a PhD in Geography. He has extensive experience across multiple fields of EU funding and policy including infrastructure development, public transport. He is an experienced journalist for major Hungarian business newspapers, writes for G7.hu since 2017.*

EU funds in Hungary represent a significant part of the investment of enterprises. However, as we attempt to demonstrate, over the last decade or so, these funds have been used in a wasteful and inefficient way. They have not lead to increased growth of enterprises, but have caused significant market distortions instead. Despite the highly problematic nature of the EU supported funding, monitoring the actual outcome and effects is not transparent, from the side of both the recipient country and the European Commission.

1. THE WASTEFUL AND INEFFICIENT USE OF EU FUNDS IN HUNGARY

Since joining the European Union in 2004, the Hungarian economy has received immense amounts of EU cohesion transfers. If we look at the last decade alone, according to the Hungarian National Bank's balance of payments data, between 2010 and 2020 the government received 9,200 billion forints more in subsidies



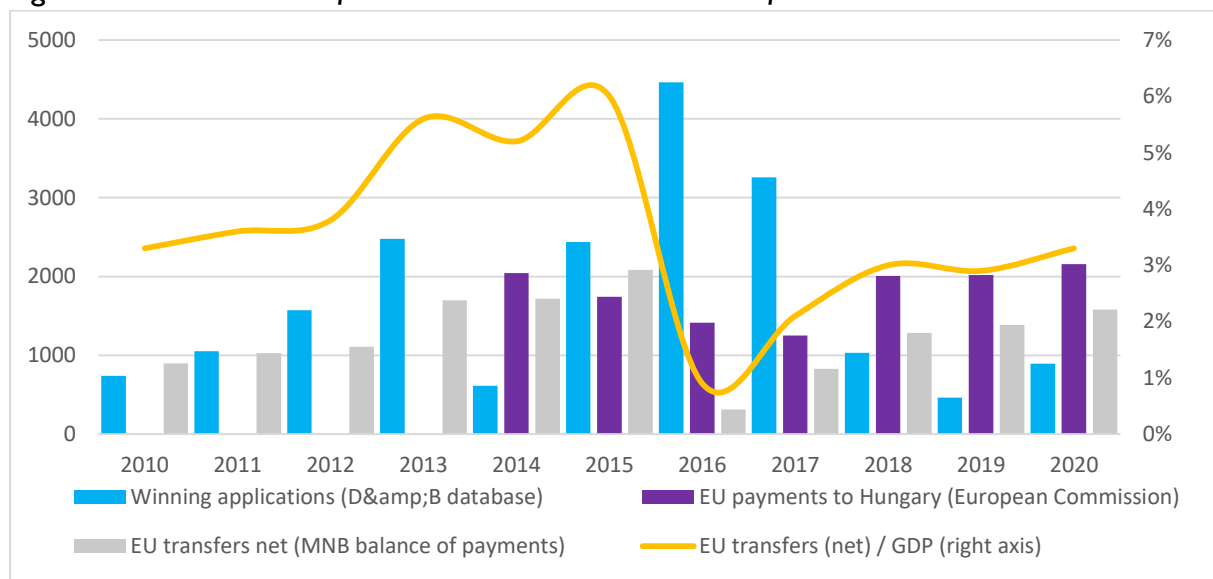
from Brussels than it paid into the common budget. Thus in these eleven years the equivalent of 3.3% of Hungary's GDP flowed into the economy each year.

This support has provided a very significant boost to the domestic economy, with nominal GDP at current prices growing by an average of 5.7% annually over the same period. EU support therefore accounts for some 58% of growth. In fact, with inflation taken into account, average annual growth was only 2.3%. This means that without EU support, economic output could easily have declined, although this would require a more complex analysis.

However, actual EU subsidies flowing into the economy have been much larger than the net position: the total volume of EU projects approved between 2010 and 2020 amounted to 13,160 billion forints. This is a staggeringly high figure. It means that between 2010 and 2020, the equivalent of 4.7% of GDP was spent on EU financed projects (*Figure 1*).

The value of the projects approved and paid for varied considerably from year to year. Payments from the domestic budget and transfers from Brussels were often implemented at different times. This alone has a very significant impact on the economic indicators in any given quarter.

Figure 1. Total volume of EU subsidies and their share of GDP



Source: Dun & Bradstreet, KSH, European Commission, Hungarian National Bank (MNB)

Lack of transparency

Unfortunately, little is known about how these resources have been used and what they have been spent on. In recent years, we have repeatedly asked public institutions, including ministries and development agencies, through press inquiries



and public interest requests, to make available exactly how much money has been spent on which projects. The relevant data is managed by Új Világ Non-Profit Ltd., which was created by renaming Welt 2000 Ltd. – a company acquired by the state under heavy pressure in 2014, and the founder of which died the [day](#) after the sale.

Less and less statistics are publicly available from the grants management system. Unique projects or programs can be searched on palyazat.gov.hu, but data can only be exported through a cumbersome registration process, which often fails. Data export is maximised at no more than 300 rows. Our request for data - to provide the main characteristics of all the projects supported – has been rejected for spurious reasons. Although we could have sued for years for the data based on a public interest claim, we have instead found an alternative solution.

We requested the assistance of Dun & Bradstreet Hungary Kft. ([D&B](#)), as its [Partner Control](#) company database also provides information on which companies and organisations have received EU funding in Hungary. We also wanted to know what impact EU funds have had on the business success of the companies affected, and accordingly they have also provided us with the main economic indicators.

We have been given access to an anonymised database of all EU funding, starting with 2010. We shall now use this data to demonstrate the impact of EU funding. Such an analysis is crucial, since, despite the thousands of billions of forints of spending involved, neither the Hungarian government nor the European Commission has felt it important enough to provide taxpayers with sufficiently transparent data.

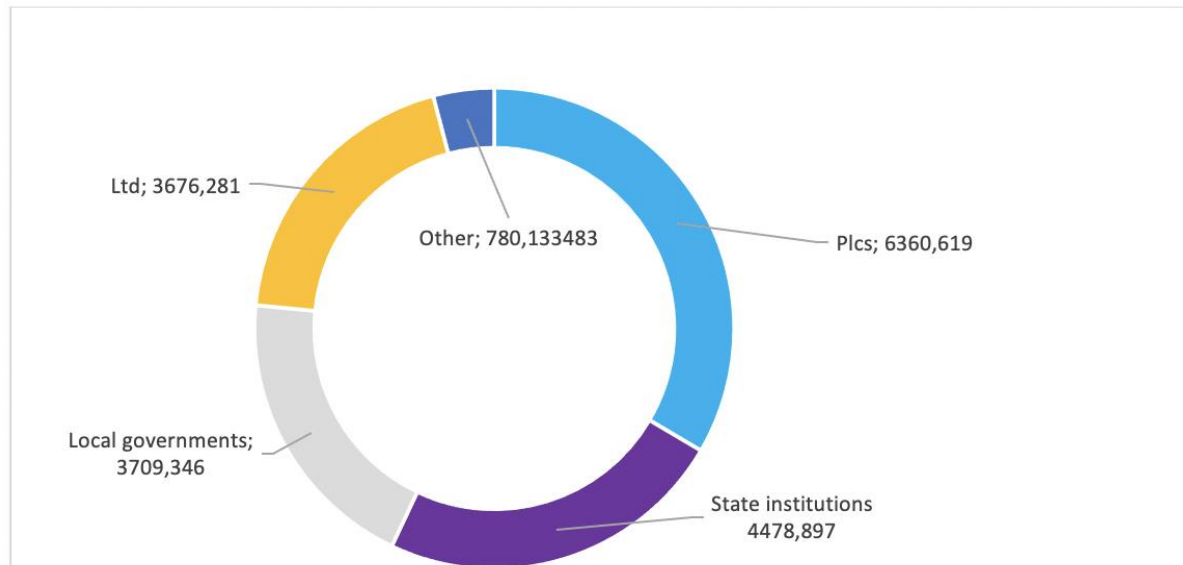
Whom does the EU support?

Data on EU grants is available from the D&B database, including when they were awarded and what amount. It is important to stress that this does not tell us precisely how much was eventually paid out and when – the Hungarian government does not disclose this. Typically, EU grants are paid out one or two years after the decision is taken, but there are some projects that are not implemented at all in the end.

The data shows that in the period under investigation businesses received the majority of EU support, 53.3% of the total (*Figure 2*). This is close to the level that György Matolcsy, in his previous capacity as Minister of Economic Affairs, had set as his target after 2010: 60 per cent. State institutions have received only 24% of the total, while municipalities have received even less, at 20% of the total.



Figure 2. Breakdown of EU funding approved between 2010 and 2020 by status (billion HUF)



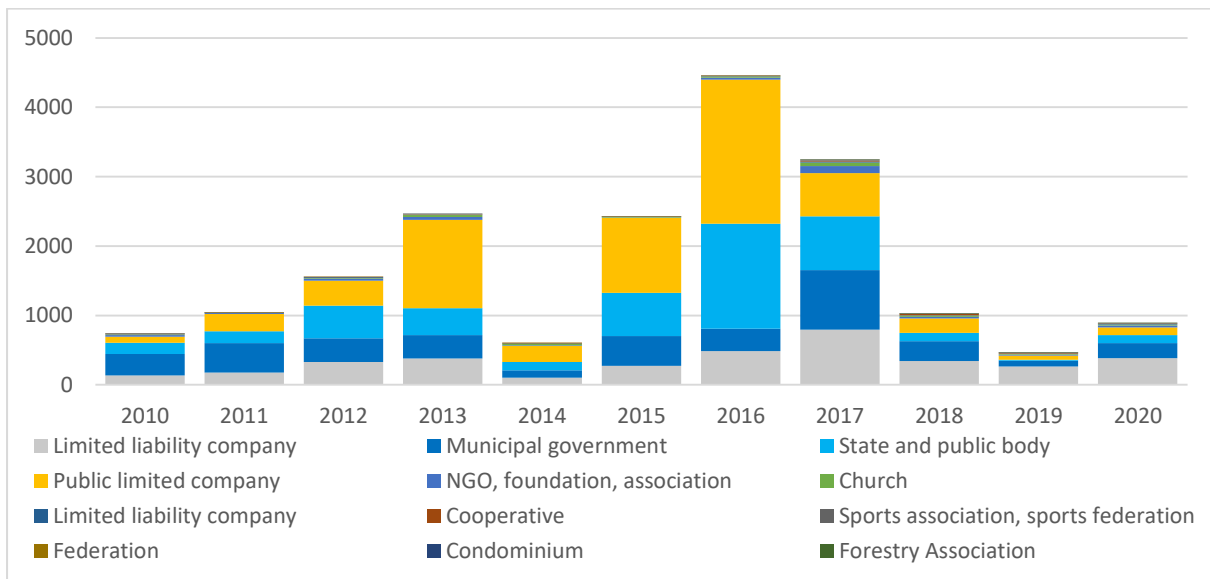
Source: Dun & Bradstreet / Bisnode Partner Control

Among the companies, however, there are several state-owned enterprises: the National Infrastructure Development Ltd. alone (NIF, the state-owned company that builds roads and railways) has been awarded HUF 3,500 billion in funding. Several state-owned companies were set up to 'bid' for EU funds and then redistribute them. In many cases, these funds were in turn redistributed to suppliers. The example of NIF also demonstrates how significant these secondary redistributions can be: NIF has allocated these funds through public procurement to construction companies – as it is well known from the Hungarian press, initially mostly to the firms of PM Viktor Orbán's crony, Lajos Simicska, then after his fall from grace to companies linked to Orbán's childhood friend, oligarch Lőrinc Mészáros, as well as fellow crony László Szíjj. Mészáros was a bankrupt gas repairman only a decade or so ago, today he is Hungary's richest citizen.

Excluding these state firms, which have redistributed funds above HUF 20 billion, we are left with the funds that have been awarded to the corporate sector (Figure 3).



Figure 3. Breakdown of EU funding approved for 2010-2020 by year and by status of winner



Source: Dun & Bradstreet / Bisnode Partner Control

Corporate subsidies

In the following, we will focus on the HUF 10 thousand billion (out of the HUF 21 thousand billion of total EU support) that has been awarded in the 2010-2020 time period to business projects. Of these, 99.7 percent were projects awarded to partnerships, limited liability companies and joint stock companies. As detailed financial reports are available for these projects, they will be in our focus.

The size of EU subsidies is most often compared to the share of GDP. Based on data from the Hungarian Central Statistical Office (KSH), it is also worth comparing subsidies to business indicators: in this ten-year period, subsidies directly to companies amounted to 1.1% of their total turnover.

But perhaps even more interesting is that affected firms have received twice as much EU support as the corporate tax they have paid in the same decade.

This amounts to a massive redistribution: the state is transferring vast sums of money between market players. After all, for the companies receiving EU support, the effect is the same as if they had not paid any taxes at all. Even if we exclude subsidies above HUF 20 billion – which presumably went to state-owned



companies – the result is that in the years 2010-2020, firms subsidised by EU funds have received HUF 3 390 billion in subsidies, while paying only HUF 2086 billion in corporate taxes.

As Table I shows, EU subsidies paid directly to companies have had a staggering impact on company performance. From the tax authority's database, we have access to the operating profits and dividends paid by firms for the period 2016-2020. During this period

EU subsidies have amounted to almost half of the total dividends paid by the corporate sector, a very significant proportion.

Table I. EU subsidies compared to company performance in billion forints

	2010-2019	2016-2020	2010-2019 - Proportion of EU funding to firms	2016-2020 - Share of EU funding
Total EU funding	18 111	10 111	53.00%	53.40%
Aid to companies	9602	5398		
Turnover of enterprises	892 529		1.10%	
Corporate tax payments	4240		226.50%	
Operating profit of companies (NAV)		27 336		19.70%
Dividends paid by companies (NAV)		12 174		44.30%

Source: Dun & Bradstreet / Bisnode Partner Control, Hungarian Tax Authority (NAV) and Hungarian Central Statistics Office (KSH) - Only limited liability companies, partnerships and limited liability companies.

We have also looked at how the relationship between EU subsidies, profitability and dividends has evolved for the firms that have received subsidies. Between 2010 and 2020, businesses receiving direct EU support were awarded HUF 10.1 billion of EU support. If we exclude firms that are presumably redistributing state aid – with aid levels above HUF 20 billion – the HUF 3,391 billion of support corresponds to an operating result of HUF 25,560 billion.



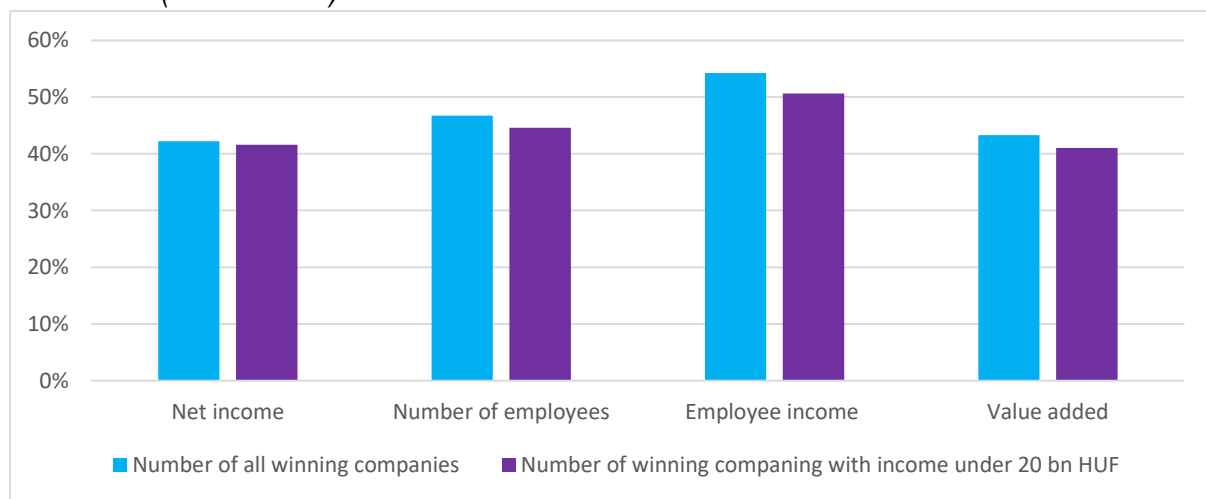
For private companies that have received EU support, the subsidies have represented 13% of profits.

This highlights the extent to which the domestic corporate sector is exposed to subsidies: without them, their 6.3% average profit margin would fall to just 5.5% over the period as a whole (under the simplifying assumption that investments would be made using own resources rather than subsidies).

Firms that have received subsidies make up a staggeringly large part of the economy: the graph below shows that between 2010 and 2019, half of all private sector employees worked for a firm that had received direct EU subsidies (

Figure 4). In terms of wages, value added and net turnover indicators, the share of firms which have received subsidies is at least 40 percent. However, in terms of numbers, affected firms account for just 7 percent of the total enterprises! This suggests that larger companies are more likely to be in applying for EU grants in the first place.

Figure 4. Proportion of businesses that have received EU support compared to all businesses (2010-2019)



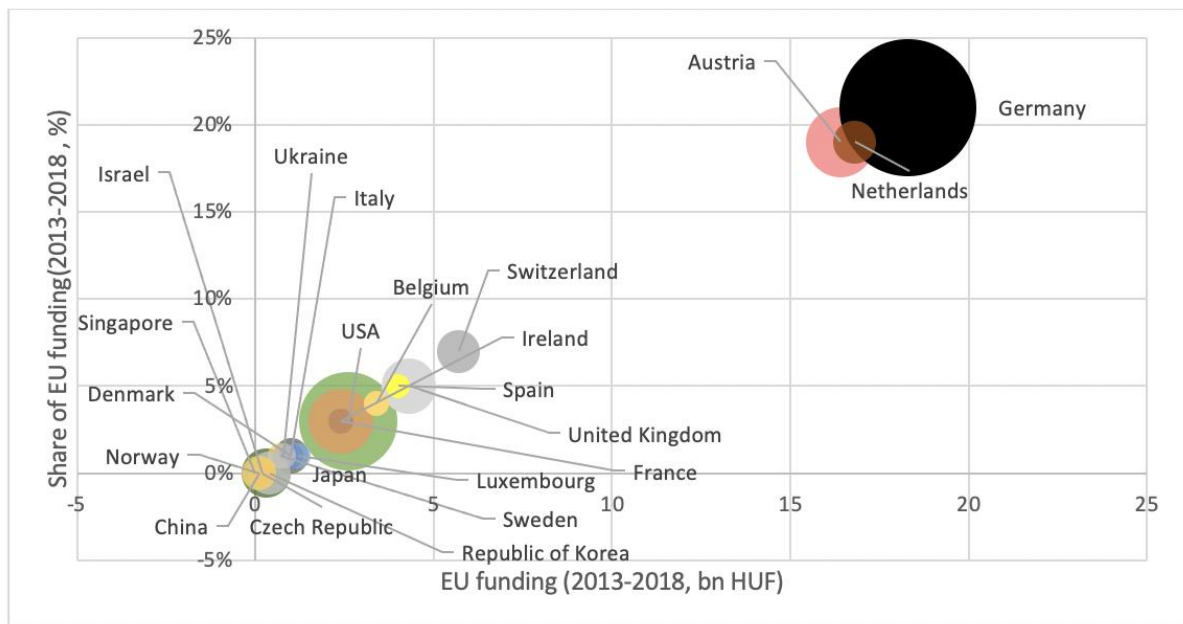
Source: Dun & Bradstreet / Bisnode Partner Control and KSH

We also wanted to know what proportion of the total is made up of foreign companies. We were only able to identify direct owners. In case the ultimate owner of a firm is indirectly foreign through a Hungarian middleman, this cannot be determined. Only 5 percent of all EU support went to companies that are directly owned by foreigners (Figure 5). Most direct owners have received EU subsidies at a rate that corresponds to their market share. However, Dutch and



Austrian owned firms have received a much higher share of EU subsidies. This is interesting because these member states are amongst the most restrictive in the negotiations about EU transfers (the “frugal four”).

Figure 5. Share of foreign-owned enterprises in all EU subsidies, and turnover by country of ownership EU funding 2013-2018 (HUF billion)



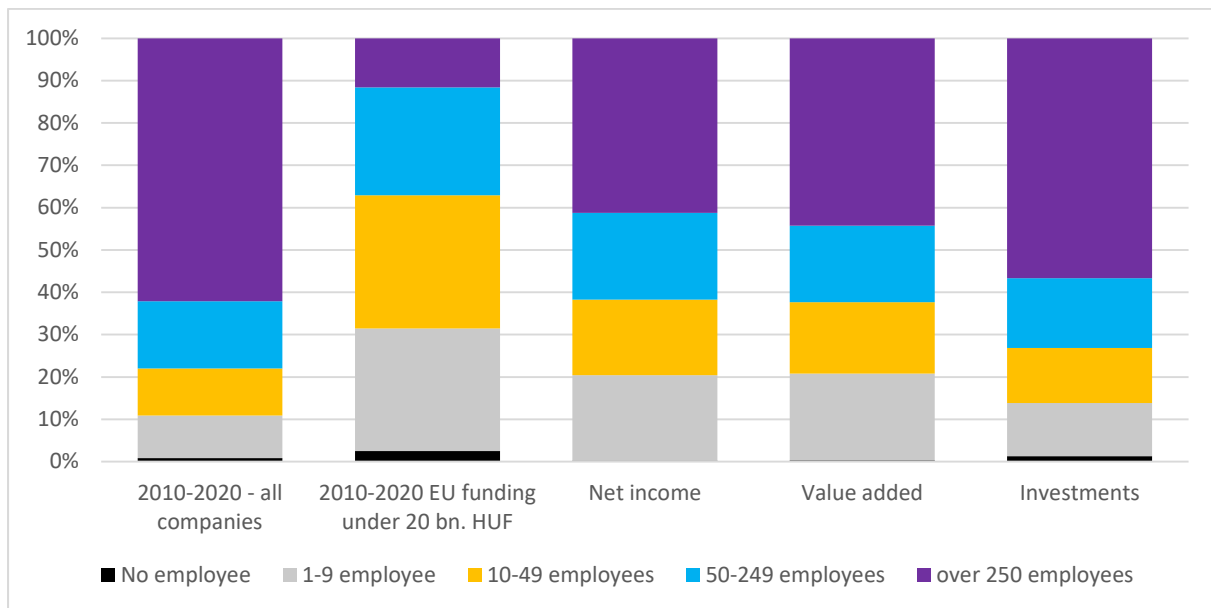
Source: Dun & Bradstreet / Biscnode Partner Control and KSH

All in all, the Hungarian governments' commitment to empower domestic companies with EU support seems to be materialising, and the same is true for their other recurring promise to allocate resources to SMEs. To be more precise, as more than half of all EU subsidies have gone to large state-owned enterprises, we do not know to what suppliers they have passed these funds on to. Of the remainder, only 12 per cent of remaining support went to firms with more than 250 employees, which is much lower than the share of these firms in the total number of firms (Figure 6). Thus, it can be demonstrated that the SME sector has indeed been the most affected.

In particular, firms with 10-49 employees are over-represented in the grants. This is fundamentally good news, as this support can potentially put these firms on a growth path. However, it is less welcome that 3 per cent of all aid has gone to firms with no employees at all.



Figure 6. EU funding approved for 2010-2020 by size of business and proportions



Source: Dun & Bradstreet / Bisnode Partner Control and KSH - Only limited liability companies, limited liability companies and limited liability companies, limited liability companies, under 20 bn. HUF subsidy

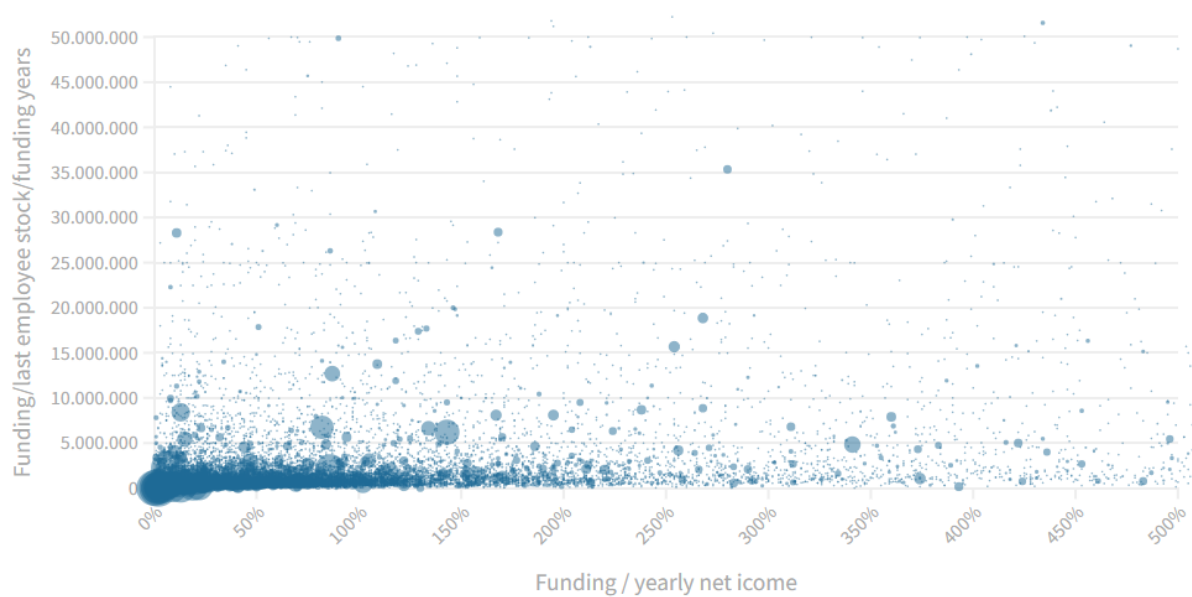
2. TOO MANY HUNGARIAN FIRMS GOT USED TO EU MONEY INSTEAD OF WANTING TO DO BETTER

We shall now look at how effective the subsidies have been, and whether the companies that have received them have actually been able to grow. We only look at companies that are limited partnerships, limited liability companies or joint stock companies and have not received more than HUF 20 billion in subsidies (as this excludes state-owned companies). One important question is the amount of aid firms have received in relation to their size. If they have received too little, it is difficult to expect any meaningful change, but too much aid can also become "easy pocket money". Figure 7 shows on the x axis the ratio of the total subsidies to the total turnover of all the firms affected, over the 2010-2020 period. There are firms that have received many times more in subsidies than they earned from the market. Even at a first glance it is striking how many companies have been able to obtain far more aid than their market turnover.

The size of the bubble indicates the total amount of aid received – this shows that it is not only very small start-ups that can be over-subsidised, but also some very large firms.



Figure 7. Share of EU aid as a percentage of the firm's turnover from 2010 to 2020 (x axis) and aid per employee (y axis), and size of aid (bubble size)



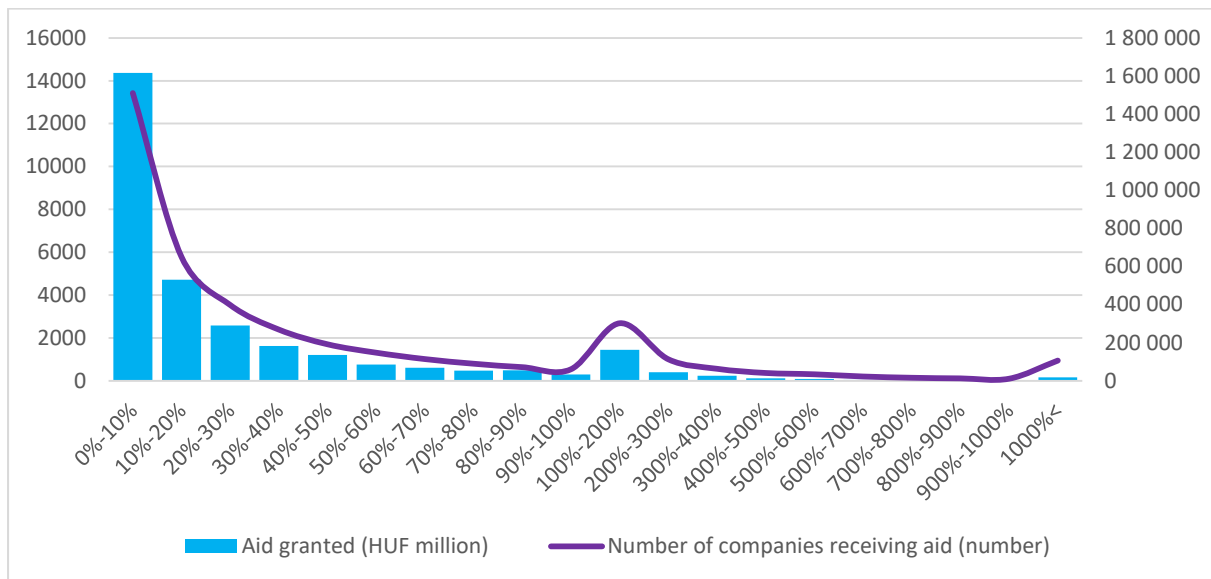
Remark: Only the years for which the company has submitted a report are included. Notes: the total amount of aid per employee is taken for 0 employees. Subsidies of HUF 20 billion are not included.

It is not only the turnover of the companies that makes a significant number of projects seem excessive: there are also a number of cases of subsidies per employee exceeding HUF 10 million. In such cases several years of payroll contributions and taxes are not enough to repay the subsidies received. These distributions demonstrate that the system is malfunctioning. It is clearly not effective when 9 percent of all subsidies are paid to firms with a subsidy amount higher than their annual turnover (Figure 8).

It is important to stress that we are not talking about a loan, or a subsidised loan, but a non-refundable grant. Strictly speaking, such aid is only worthwhile for the state if the subsidised firms start to grow rapidly and the resulting tax contribution will, over time, generate more state revenue than the initial subsidy itself.



Figure 8. Distribution of EU subsidies as a share of average annual turnover between 2010 and 2020



Source: Dun & Bradstreet / Bisnode Partner Control and KSH - Note: Subsidies below HUF 20 billion for Kft., Bt. and Rt.

Subsidies help boost the firms that receive them, of course, but at the same time also render their competitors at a disadvantage. About half of the subsidies are so large that they distort the market. Only 48% of all subsidies went to firms with an aid intensity of less than one-tenth of their average annual turnover.

Competition squeezed out

Two important phenomena can be observed here: the deadweight effect and the substitution effect. The former suggests that some of the investments would be carried out even without aid, i.e., in these cases EU money replaces bank financing or equity. The substitution effect refers to the fact that some of the investments do not increase overall economic output. Due to demand constraints, the enterprise supported only grows at the expense of non-supported businesses, typical examples being hairdressers, restaurants, or bakeries. The principal problem with subsidies is that they can drive efficient firms out of the market. If there are two bakers in a village and one is doing badly, instead of improving, it may benefit from EU funds, in which case it can easily squeeze out the better one. Although its income will increase, the overall market for bakery products will not increase – meaning that the subsidy is largely a waste of money and will keep an inferior business alive instead of a better one. Not only is the subsidy not beneficial for the economy as a whole, but it is also actually harmful. The only way support could be truly effective is if the recipients had increased their combined



export capacity on top of their domestic sales. Less efficient firms can easily grow used to subsidies. We call them rent-seekers.

Support in absence of a track record

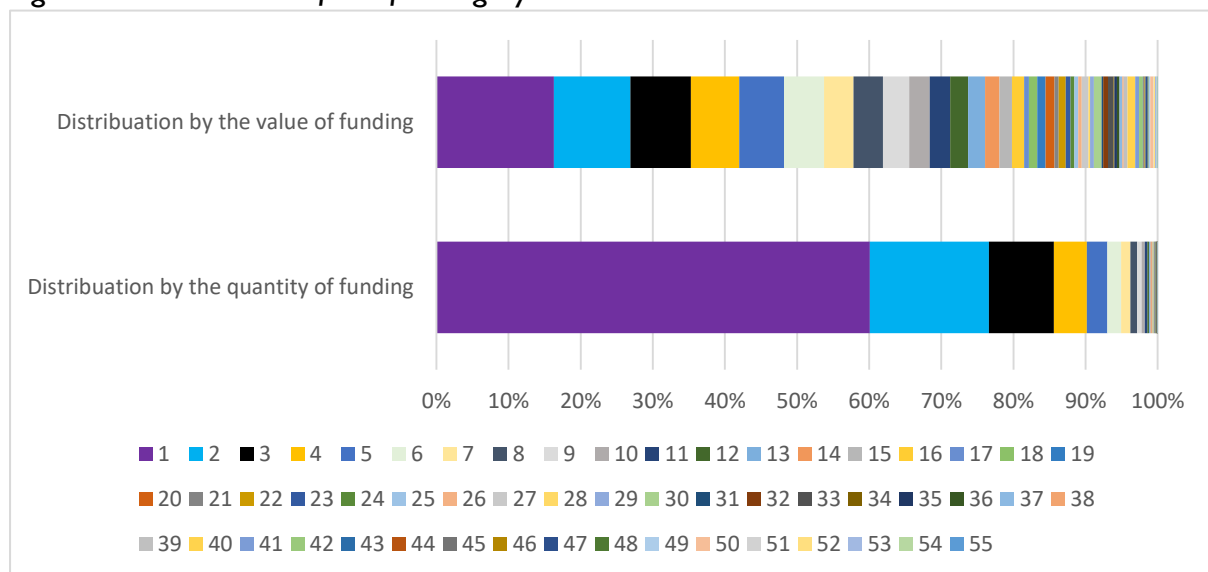
We have found 1,085 cases of subsidies received by firms that have never had any employees in the time period analysed. This even included 320 companies (who have received a total of HUF 26.6 billion in aid) that have not only had no employees, but also no turnover either! It makes one wonder why companies are receiving subsidies in droves without any visible trace of real operations. It is hard to imagine what meaningful activity these companies can undertake without employees.

Addicted to petty cash

It's also worth looking at the concentration of grants, as it is not uncommon to come across companies whose websites or offices are full of announcements of EU grants received.

Of all EU support awarded to companies operating in the free market, 60 percent have been granted to firms on one occasion only. However, they have received no more than 16 percent of the total amount of aid. 52% of the total amount of aid awarded went to recurring applicants, who have had at least five projects in the period under review (Figure 9).

Figure 9. Distribution of EU funding by sum and number



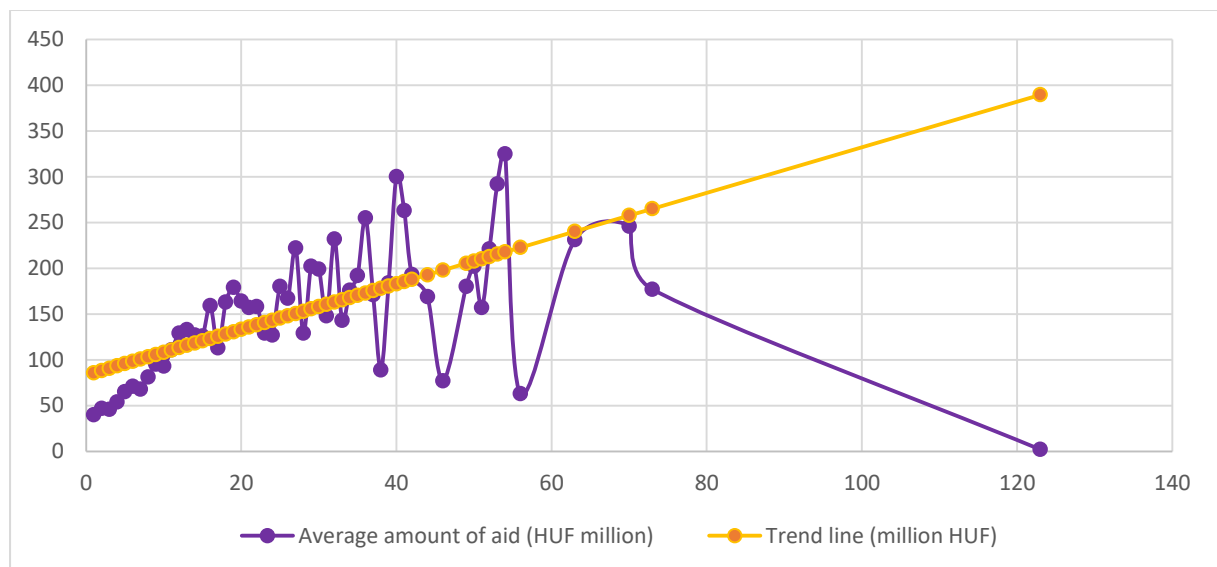
Remark: Distribution of EU-supported enterprises by number of projects per enterprise (total project amount and number of projects)



Subsidy hunters, who won more than ten projects, have walked away with 34% of the total EU funding for enterprises.

Firms that have received EU funding for only one project in the last decade have received an average of €40 million (Figure 10). Those that won 5-9 projects have received an average of €76 million.

Figure 10. Average size of projects supported by the EU by size of projects awarded to enterprises (in millions of HUF)



Remark: The horizontal axis shows the number of projects awarded to a firm, the vertical axis the average value of such projects. The more grants a firm wins, the higher the average value of the grant.

This level of dependency on EU funding could pose systemic risks, as a future closing of the money taps would sway this part of the economy. We have identified 1,200 firms involved in at least ten EU-funded projects – it is doubtful whether they would be sustainable on a purely market basis. They could in many cases be replaced by more efficient competitors, which would ultimately be more conducive to economic growth.



3. HOW EU SUBSIDIES RESULTED IN SLOWER GROWTH OF HUNGARIAN COMPANIES

We now look at the extent to which the subsidies have helped the companies* that have received them to grow. After all, the main rationale behind EU grants to the private sector is to help them grow faster. Therefore, the main indicators available in our database were compared with the data of the firms that have received EU aid, classified by firm size.

A decade has not been enough to prove themselves

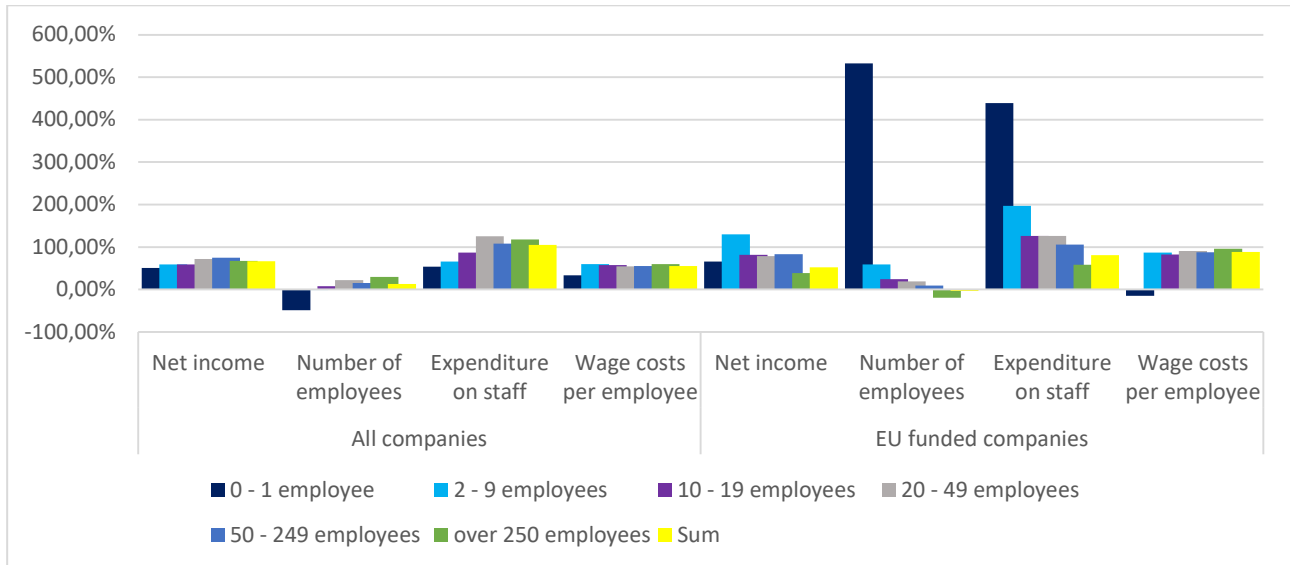
First, we looked at the extent to which the firms that received support in 2010 have been able to demonstrate over the past decade that they were worth supporting. In that year, Hungarian companies received a total of 185 billion forints. One of the effects has been that their overall workforce has fallen by 4% by 2019. If the aim of the aid was to create new jobs, this is a terrible result. If it was to modernise and replace human labour with technology, it is not necessarily negative. In any case, public communication of development policy over the last decade has almost always linked state aid to job creation.

More interestingly, our calculations show that the turnover of firms receiving EU funds has grown at a fifth of the rate of all other firms.

Figure 11 also shows how this growth has varied by category according to size.

There is a marked difference in the turnover growth of the subsidised firms and the rest. Large firms that have received support have grown at a rate below average, while smaller firms have done slightly above average. Support for large companies from EU funds seems to be much less effective. In 2010, companies with more than 250 employees received 17% of the total amount of funding. While it may seem like a good result at first glance that there was a growth surge amongst very small companies with no employees or a single person, it is worth noting that this also means that they have not broken out of the micro-enterprise category in an entire decade. A total of 411 single person firms received EU support in 2010, and 354 of them remained in this category by 2019.

Figure 11. Growth in the main economic indicators for EU aid received in 2010 and for all companies between 2010 and 2019



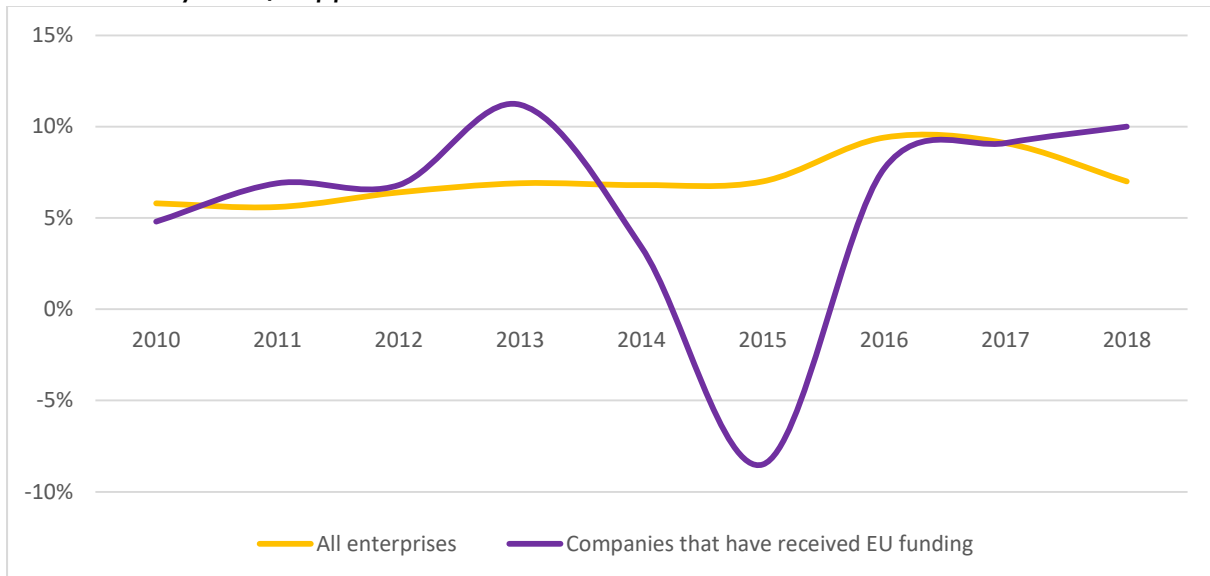
Source: Dun & Bradstreet / Partner Control and KSH - Note: Subsidies below HUF 20 billion for Kft., Bt. and Rt.

Stable low growth based on subsidies

2010 does not seem to be an exceptional starting point: as shown in our graph below, between 2010 and 2019 the growth of the supported companies has been below the overall average. Overall, the growth rate of assisted firms was on average 20 percent lower: all firms grew by 7.1 percent on average, while assisted firms grew by only 5.7 percent (Figure 12). All this points to the phenomenon we have already highlighted: far too many companies base their business model on subsidy hunting, i.e., on the collection of subsidies, rather than on real, commercially sound activity.



Figure 12. Average annual turnover growth of EU-supported firms and all other firms between the year of support and 2019



Source: Dun & Bradstreet / Bisnode Partner Control and KSH - Only Ltd., Bt. and Zrt., Nyrt.

In the face of such poor results, one common argument in favour of direct support for companies is that without it they might not only have lost workers but might even have gone out of business or suffered a greater decline. This is possible, of course, but the closure of poorly performing firms would not be a problem in and of itself. It would be a cleansing of the market, and a motivation to start new, better performing firms.

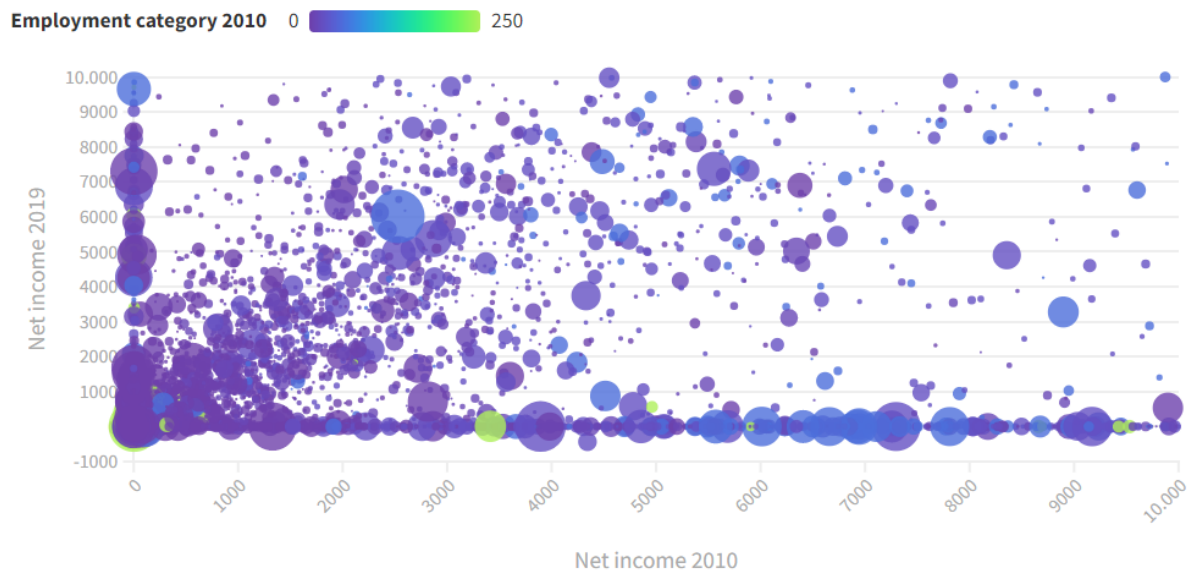
Systemic issues

It is also worth looking at the results of individual companies. This proves that it is not just a few very poor results that are dragging down the averages. Rather, it shows the inadequacy of the grants system, at least in providing funding to the kind of sustainable, high-growth firms it aims to target. The graph below follows how the turnover of the 4024 companies receiving less than HUF 20 billion in aid has changed between 2010 and 2019.

Those companies that remain along the horizontal axis will no longer be in business by 2019, or will have negligible revenues (Figure 13). Those companies that are along the vertical axis have grown from very small revenues to very large ones. Firms that continue to grow at a good pace are above an imaginary line starting from the origin at a 45-degree angle.



Figure 13. Turnover of enterprises receiving EU aid in 2010 and 2019 - the size of the bubble shows the amount of aid received



Source: Dun & Bradstreet / Partner Control

EU support would seem to be effective if the majority of firms were located above the 45-degree line. Unfortunately, it is clear that many firms are close to the horizontal line – they have virtually lost their previous revenue. There are also many firms with declining revenues. It is also significant that the level of subsidies – as indicated by the size of the bubbles – has little to do with whether a firm has been successful or not.

EU subsidies have no impact on growth

We have also looked at the relationship between firm-level indicators, growth and the amount of EU aid. To do this, we have looked at the correlation coefficient between the indicators. These show that the amount of aid received depended mainly on the size of the firm in terms of its number of employees (0.99), turnover (0.96) and pre-tax profit (0.95). If we look at the correlation of EU aid as a percentage of turnover with firm growth, we do get disappointing results. Between 2010 and 2019, the growth in turnover showed a statistically miniscule correlation of 0.11 with the size of subsidies. The number of employees and pre-tax profit over the same period showed zero correlation.



SME investment depends on EU support

The poor growth performance of EU-backed firms is also a serious problem because the role of EU funds is very significant as a percentage of total business investment. In the period 2013-2019, the amount of EU support received was equivalent to 6.7% of total business investment (*Table 2*). Since we have not taken into account public companies, which have redistributed thousands of billions more to other companies, the real figure is certain to be higher.

Table 2. EU support as a share of business investment

Year	No employee	1-9 employees	10-49 employees	50-249 employees	Over 250 employees	Total
2013	13.01%	30.19%	22.33%	18.49%	4.14%	12.29%
2014	135.40%	6.52%	5.46%	3.79%	0.59%	2.89%
2015	12.19%	4.22%	6.04%	8.76%	0.48%	3.06%
2016	2.62%	9.98%	12.50%	11.08%	2.90%	6.62%
2017	45.66%	32.42%	40.38%	21.50%	2.58%	14.27%
2018	9.26%	15.58%	17.44%	10.22%	0.58%	6.18%
2019	7.40%	14.48%	8.88%	3.54%	0.05%	3.72%
2013-2019	14.70%	15.91%	15.41%	10.52%	1.38%	6.71%

Source: Dun & Bradstreet / Bisnode Partner Control and KSH - Only Ltd., Bt. and Zrt., Nyrt.

There are significant differences according to the size of firms: for those with fewer than 50 employees, EU subsidies have accounted for almost 15% of total investments, while for large firms the share was negligible at 1.4%. With thousands of billions of euros worth of public enterprise funding going to smaller firms rather than larger ones, including venture capital fund investments and other SME programmes, EU support is now a crucial part of the SME sector's operations. Their removal from the system would further undermine the already very low competitiveness of the domestic SME sector.

On the other hand, the amount and proportion of subsidies are already of such a magnitude that the efficiency of market processes is severely undermined. If one in every six or seven forints in the SME sector is invested from EU funds, it is increasingly difficult to talk about market-based competition.