

DEVELOPMENT OPPORTUNITIES OF SMALL ENTERPRISES IN HUNGARY

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INTRODUCTION

Small and medium-sized enterprises are of high importance in Hungarian economy. Their competitiveness and the characteristics of their activities affect Hungarian economical performance and influence employment. In 2008, the number of registered enterprises exceeded 1.5 million. 1.184 millions of registered enterprises were present in the economy two years before and 50 000 more in 2007. The number of registered private enterprises had risen. This growth is due to changes in VAT law: as from 2008 small-scale agricultural producers should also have a tax number. There were 400 308 private entrepreneurs in December 2008.

The occurred changes at the beginning of the 1990s have made the number of small and medium-sized enterprises grow continuously: at present, 99% of Hungarian enterprises take part in this sector. Small and medium-sized enterprises produce more than the half of Hungarian GDP and employ approximately 70 % of Hungarian employees (more than 2 million people in this sector). 2/3 of these enterprises are private entrepreneurs, 1/3 are joint enterprises. In the past three years, proportion of private entrepreneurs has slowly decreased and proportion of joint enterprises with a legal personality has risen. The Ministry of National Development and Economy (NFGM) made following statements in its report in 2009 about small and medium-sized enterprises [1]:

- Basic structural characteristics of small and medium-sized enterprises – their proportion, their participation in production of income, etc. – have not significantly changed since 2000.
- They lead an activity that requires high manpower and low capital resources.
- They take part at a higher level in employment than in sales revenue or income production.
- Small and medium-sized enterprises showed improvement in several fields (financing, management, communication, etc.). However, their performance is weaker comparing to small enterprises in developed countries. A considerable improvement of their competitiveness – performance, efficiency, human capital, etc. – is required.
- In 2007, economical growth slowed down which reflected differently in indicators of the different sized enterprises. Based on tax declaration data, it can be stated that on the whole, performance of small and medium-sized enterprises had improved.
- Gaining territory of big enterprises and multinational companies stopped and turned back in some fields (e.g. participation in capital, sales revenue, export).
- Employment in both private and joint enterprises increased in 2007. The role of small and medium-sized enterprises became more important in the field of employment.
- Purchase of management services (economical, technical, financial services, etc.) is an important indicator. Enterprises without employees purchase below average of those services while such purchases are beyond average in small and medium-sized enterprises. Compared to surveys in 2005, enterprises with a headcount of 1-9 enhanced their activity on the market of management services in 2007 and 2008.
- Significant changes have continuously been occurring as regards computer and internet use in enterprises. Nearly 2/3 of the enterprises possess computers. Internet use became common: in 1999 only half of the enterprises possessed computers and only 1/3 of them had internet access.
- In 2008 credit growth of small and medium-sized enterprises slowed down, mostly at commercial banks. Banks grant credits more carefully and enterprises are more careful as well when taking out credits. According to surveys, non-creditable smaller enterprises often take out personal credits. On the whole, more than 40 % of the enterprises took out credits in order to ensure their resources.
- Hungarian small and medium-sized enterprises consider high taxes and contributions and administrative charges as the main burdens. Strong competition worries them less than incalculable economical regulation.
- As a result of the crisis, small and medium-sized enterprises estimated their situation worse in 2008 compared to the survey of the year before

(considering current situation of economy, economical perspectives and their own perspectives).

- Medium-sized enterprises consider their situation better than they used to, they are more optimistic about their perspectives in near future.

Only 20-25 % of Hungarian enterprises are creditable (EU average is 70-85%), therefore, they are non-competitive in EU markets (1).

One of the biggest problems is that performance (sales revenue), capital and wealth of small enterprises in Hungary is considerably under EU average. This is due to the dominant role played by multinational companies and the excessive commitments that the government presents towards these companies.

REVIEW ON COMPETITIVENESS

When evaluating the sector of small and medium-sized enterprises in Hungary, an analysis and international comparison of competitiveness is also important. As regards international competitiveness of Hungary, both according to the Lausanne-based “Institut für Management-Entwicklung” (IMD) and the Geneva-based World Economy Forum (WEF), we are overranked by our major competitors in the region.

The “Institut für Management-Entwicklung” has published the World Competitiveness Yearbook every year since 1989. This yearbook analyses 57 countries based on 329 criteria. The methodology of the IMD bases the analysis of national environment on four major factors: economical performance, governmental efficiency, business environment efficiency, infrastructural conditions. Hungary was at the 45th place in this rank in 2009, losing seven places compared to 2008. Among the new EU countries, only Romania is behind us, at the 54th place.

Among the four main components, performance of Hungarian economy had improved, while governmental efficiency, business environment efficiency and infrastructural conditions went worse comparing to the other countries. Major factors that inhibit the competitiveness of Hungarian economy are: one of the highest debts correlated to GDP and the fact that economical growth and employment are at a very low rate. Personal income tax charges are the highest in Hungary. Among the observed countries, Hungary is the one having the less efficient sector of small and medium-sized enterprises and the possibilities to take out a credit are unfavourable [2].

The World Economic Forum (WEF) prepares its Global Competitiveness Report based on statistical data and the opinion of 11 000 company leaders. This report presents an analysis of 133 countries. The Global Competitiveness Index is a combination of 121 indicators, their subgroups analyse main macroeconomic conditions and factors that make efficiency grow, innovation factors and business

environment. According to the WEF report in 2009 – 2010, Switzerland is at the top of the rank before the USA and Singapore, the Czech Republic is at the 31st place (33rd in the previous year), Slovenia at the 37th place (42nd in the previous year), Poland improved by seven rankings and is at the 46th place. Slovakia is the 47th. The competitiveness of Hungary had improved we were at the 58th place (62nd in 2008). We only outranked Bulgaria, Greece, Latvia and Romania. According to the WEF, macroeconomic conditions improved due to measures which had made efficiency rise, however, innovation and business factors went worse [3].

The Washington-based World Bank has published „Doing Business” every year since 2004. In this publication countries are ranked based on business environment. Actually, the institute observes in 183 countries of the world what business environment, business reforms are like and how they facilitate investment activities [4]. According to the World Bank, best reformers among countries with a transient economy are: Bulgaria, Georgia, Croatia, Kyrgyzstan and Macedonia. Estonia, Georgia and Latvia are among the first 25 on the world rank. According to the 2010 World Bank report, Hungary is at the 47th place when considering business environment (41st in the previous year). Hungary has got better at export but worse at initiating enterprises creation. As regards taxation we are at the 122nd place. Among the new EU countries, Estonia (24th place), Slovakia (42nd place) and Bulgaria (44th place) are better positioned than Hungary.

Hungarian citizens pay the highest rate of personal income tax among OECD countries. The central combined personal income tax rate was 54% in 2006, full rate was 68.3%, (Czech Republic: 16.6 % and 29.1 %, Poland 9.1% and 35%, Slovakia 16.5% and 19.9%) [5]. No resource had been left for economical development. The government took measures which made tax charges increase in the frame of its economic reform.

Budgetary appropriations for the development of small and medium-sized enterprises (“Kis- és Középvállalkozói Célleírányzat” (KKC) are low: 5.23 billions of forints in 2000, 12.2 billions of forints in 2001, 20 billions of forints in 2003. 13.4 billions of forints had been earmarked as a subvention in 2004 but this amount was delimited to 10.4 billions with a reason of sparing. The subvention was 3.567 billions in 2005, 3.706 billions in 2006 and only 3.26 billions in 2007. It can be stated that governmental resources destined to development of small and medium-sized enterprises are extremely low.

SUGGESTIONS OF ERENET’S HUNGARIAN DEPARTMENT

The Hungarian Department of the Central European University Network for Entrepreneur Education and Research (ERENET - EntREpreneurship NETwork) consists of the best experts from fourteen Hungarian

universities and colleges, the Hungarian Science Academy and the Hungarian Enterprise Development Consortium. ERENET has kept tabs on the situation in the sector of small and medium-sized enterprises in Hungary for years and compares it to that of EU and Central-Eastern Europe countries.

Suggestions of ERENET's Hungarian Department in order to elaborate a new development policy regarding small and medium-sized enterprises:

- Cut down administrative charges of small and medium-sized enterprises at least by 25 % until end of 2012 in line with European Commission expectations.
- Deliberate and comprehensive changes in the system of taxes and contributions in order to minimize manpower charges. Reduce tax and contribution charges, rally tax and contribution declarations. Taxation rules should be calculable.
- Elaborate a new system of subventions which is able to compensate disadvantages in competition, especially regarding innovative small enterprises that have just started their activity. The system of subventions should be stable, professional and free from superfluous administrative charges.
- The government should make entrepreneur culture more popular, provide motivation and deepen knowledge.
- Equality to all enterprises, regardless of form of property, size and other characteristics.
- Subventions of small enterprises should be enlarged to the whole life cycle. Systems of credits should be reinforced and completed with education and guidance.
- It is crucial to create a society of entrepreneurs. Enhance entrepreneur culture also in education, involve this knowledge in the syllabus on a practice-oriented basis.
- Governmental policy about small and medium-sized enterprises should be transparent, stable and calculable for a long term. In order to harmonize small and medium-sized enterprises' developmental infrastructure and make their performance more efficient, a national agency should be set up, with appropriate powers – like in Slovenia for example – while drastically reducing existing institutions.
- Regular social conversation between representatives of the sector of small and medium-sized enterprises, economical decision-makers and non-economical communities (education and non-profit organizations).

GOVERNMENTAL MEASURES IN ORDER TO IMPROVE RESOURCE SUPPLY OF SMALL AND MEDIUM-SIZED ENTERPRISES

According to the principles of the new Széchenyi Plan, the government decreed that new callings for tender should be published in order to improve resource supply of small and medium-sized enterprises. The Ministry of National Development (Nemzeti Fejlesztési Minisztérium, NFM) and the National Development Agency (Nemzeti Fejlesztési Ügynökség, NFÜ) started to modify the 2009-2010 plans of the Operational Program for Economical Development and the Operational Program for Central Hungary accordingly. NFM and NFÜ started to elaborate a framework in order to simplify the system of callings for tender. This system assures a simpler procedure for the small and medium-sized enterprises. The government took a decree on 30 June 2010 to increase the European Union resources for small and medium-sized enterprises. The preparation of conciliations with the European Commission has begun.

[1] NFGM: Situation of small and medium-sized enterprises. Report 2008.

[2] NFGM: Review on competitiveness of Hungary. 31 December 2009.

[3] World Economic Forum: The Global Competitiveness Report 2009-2010, 2009.

[4] <http://www.doingbusiness.org/exploreconomies/?economyid=87>

[5] OECD Tax database, www.oecd.org/ctp/taxdatabase