

How Effective the Hungarian Subsidy System in the Strengthening of Economic Development of Hungary?

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In this study I present on the one hand the Hungarian National Investment Incentive Framework System, the regulation of Subsidies under Unique Government Decision, and evaluate them in the case of automotive industry investments based on various viewpoints. I also search for the answer to the question of how effective it is to provide considerable state subsidies, benefits and advantages to foreign investors in the competition to obtain foreign investment in the case of automotive industry investments. This question has been strongly on the minds of policy makers, on the local, regional, national and global level respectively.

Keywords: automotive industry, economic development, foreign investors, Hungarian National Incentive Framework, investment incentive, regulation of state subsidy, R &D activity, state subsidy

INTRODUCTION

For decades the question of how effective it is to provide considerable state subsidies, benefits and advantages to foreign investors has been strongly on the minds of policy makers, on the local, regional, national and global level respectively. Among others see, for example: the works of Dunning 1993; Lall 1996; Narula and Dunning, 2000; Blomström and Kokko, 2003; UNCTAD 2003; as well as UNCTAD 2005; Szentes, 2006; Novoszath, 2007a as well as 2007b; Cazorra, 2012; Hennart, 2012, Kothabe and Kothari, 2016.

In the countries of Central-Eastern Europe, prior to 1990 foreign investment could exclusively appear in the form of joint ventures, as partners of local government owned companies. The nearly three decades that have passed since that time brought considerable and fast changes in this area, today these countries are competitors in the race to attract foreign investment just as any other country, including developed and developing countries. Special techniques are not required, the same methods are sufficient and offer similar profit for the host country in the field of international technology transfer, which are applied by any other country, including developed and developing countries. In fact, this was the most important aspect, which even currently is in the center of investment incentive programs initiated by Central-Eastern Europe countries that aspire to attract foreign investors. (Anderson, 2001; Daw, 2002; Hirvensalo, 2000; World Bank, 2002)

During the 1990s, simultaneously with the expansion of world trade, similarly fast growth occurred in the area of foreign investments as well. Within this, the long term investments of private corporations grew the most dynamically. In this process, almost exclusively such companies participated, which operated in industrialized, developed countries and established subsidiaries for the manufacturing of

various products and to provide services outside of their native country. One of the most significant results of this process was that numerous multinational companies were established operating with multiple production units, which globally coordinated their factories and production activities. The growth of multinational companies exerted considerable influence on the development of specific countries as well as the entirety of the world economic system (Novoszath, 2007a). As a result of this, multinational companies perform a significant portion of the trade of developed, industrialized countries, and an increasing portion of this trade occurs within multinational companies. This primarily happens in the form that the parent company ships various products and valuables to its foreign subsidiary, or the foreign subsidiary ships various products and valuables to the parent company, or the parent company's foreign subsidiary ships various products and valuables to another connected company of the parent company. This process is called intra-company trade. Approximately one third of the trade between developed, industrialized countries occurs in this form. In the case of some countries this ratio is considerably higher, for example in the case of the United States, and the general trend in industrially developed countries is the fast increase in the weight of trade conducted in this form. (Novoszath, 2007b). To explain this fast growth Dunning and Norman emphasized the role of three factors in relation to foreign investment: the opportunity to acquire and exploit property specific and locality specific advantages, as well as the advantages originating from the domestication of products and services (Dunning and Norman, 1987).

In the business considerations of large investors – primarily multinational companies – generally longer term profitability aspects dominate: the size of producible and exportable profit, acquiring the desired market share are more important than tax and trade policy advantages related to short term investment. Their presence in the Hungarian economy was principally aimed at market acquisition – meaning acquiring markets in communist countries – but even within this we could observe various attitudes. Most frequently, which is the least favorable for host countries, the unquestionable target of multinational companies is to get rid of unpleasant competitors. This is when the buyout of the market and production capacity is accompanied by the stoppage or displacement of domestic production. In the case of Central-Eastern Europe countries, thus also in the case of Hungary, we could frequently see that the multinational company purchased the production and appeared on the Hungarian and Central-Eastern European markets by further developing its own “obsolete” technology. It was significantly less common that the multinational investor purchased the market, then this was accompanied by the domestication of modern and innovative production technologies as well as business expansion (Novoszath, 2007b). At the time, when Audi settled in Hungary, in 1993, new and modern production technologies were domesticated. From the beginning Audi aspired to produce premium products at its facility in Győr, on premium quality standard, and to make the Győr facility the best even in comparison with the competition, as well as to make it Audi AG's most flexible and most cost-efficient company (Horvath, 2011).

In the case of multinational companies that settled in Hungary, it was even more rarely observed that the modernization of production and the renewal of the product spectrum were followed by a significant expansion of Hungarian suppliers. Even in the case of Audi, the significant expansion of Hungarian suppliers only commenced more than 10 years subsequently to their settlement, after 2012. Before 2010, in Hungary we could very rarely observe an example, when the investors also relocated their production development, product development as well as R & D activities to Hungary, or developed previous such capacities. In the case of Audi, the partial domestication of R & D activity occurred considerably later than their 1993 settlement, with the commencement of the engine development center in 2001.

Since international competition has become increasingly intense, multinational companies are strongly inclined to relocate even their most knowledge-intensive company functions, such as R & D activity, to developing countries. Previously, this trend was almost exclusively limited to developed countries. Nowadays, multinational companies are establishing R & D units in a number of developing countries in sectors such as automotive manufacturing, electronics, biotechnology, and the pharmaceutical industry. They do all of this to improve their efficiency, to increase the number of researchers and

engineers working for them, and to better satisfy the demands of increasingly complex markets with refined tastes.

All of these trends have a significant effect on the changes in the previous international system of roles. According to the traditional approach, exclusively developed countries were the domain of more complex production activities, while less developed countries were specializing in more simple assembly type activities, nowadays this approach is less reflective of reality. Those companies that previously viewed less developed, developing countries as the inexhaustible source of cheap labor, are today increasingly starting to consider them as the unlimited storehouse of expertise, technical knowledge and new technologies. Multinational companies play a defining role among the creators of new technologies, thus the main question is where they perform their R & D activities. Currently a number of less developed, developing countries play an increasingly significant role in the outsourcing of R & D activities and they are increasingly attractive target locations for this. At the same time, today the majority of low income countries are not part of the global R & D networks yet, consequently they don't receive a share from their benefits. Thereby, the R & D activities of multinational companies becoming international, force various local, regional and national economic strategic thinkers and national economic policy makers to face increasing challenges. It's becoming clear for a growing number of countries that without an adequate and coherent national policy, especially in the investment incentivizing fields of sciences, technologies, innovation and education, they cannot enjoy the benefits originating from this economic development. (Novoszath, 2007a). It can be considered as a marked and important achievement of this process that on the 25th anniversary of its establishment, the Hungarian subsidiary of the automotive manufacturer Audi announced that it will create a new R & D center, using HUF 6.15 billion, one fifth of the sum from government subsidies.

We can also observe considerable differences between multinational investors from the aspect of the markets where they sell the products of the companies established or controlled by them. Their majority exclusively focuses on domestic markets, this was primarily characteristic of the companies, for the products of which advertisements and commercials play a decisive role in competition. It's in their interest to get as close to the consumers as possible, so they can adjust their products and related advertisements the most favorably to local tastes and the specific features of the national market (e.g. beer manufacturers, soap and detergent producers, commercial chains, etc.). For some groups of multinational companies, closeness to the consumers was not necessarily and not exclusively the primary aspect. For them not the Hungarian market, rather the Central-Eastern European region represented the most important attractive force. While a third group of multinational investors is comprised of companies that expect the general improvement of their market position in developed countries from outsourcing their production, manufacturing, possibly their development activities to Hungary. However, to this date the latter have settled in Hungary in the lowest number. In the first part of our research we presented that Audi is among this group. During the site selection of multinational companies labor cost is just one factor, and it's far from being the most important. Particularly in industry sectors that require technically higher quality, skilled labor force, it's also essential how well the specific country is prepared for the tried-and-tested production culture. The productivity and competitiveness of foreign sites is determined not only by the technology applied in the factory, but also by the quality of the economic environment. These are various service activities, such as financial, telecommunications, data processing and logistics services, as well as the quality standard and reliability of suppliers, the quality of the infrastructure. The business friendly nature of economic policies and public administration are not insignificant either (Novoszath, 2018a).

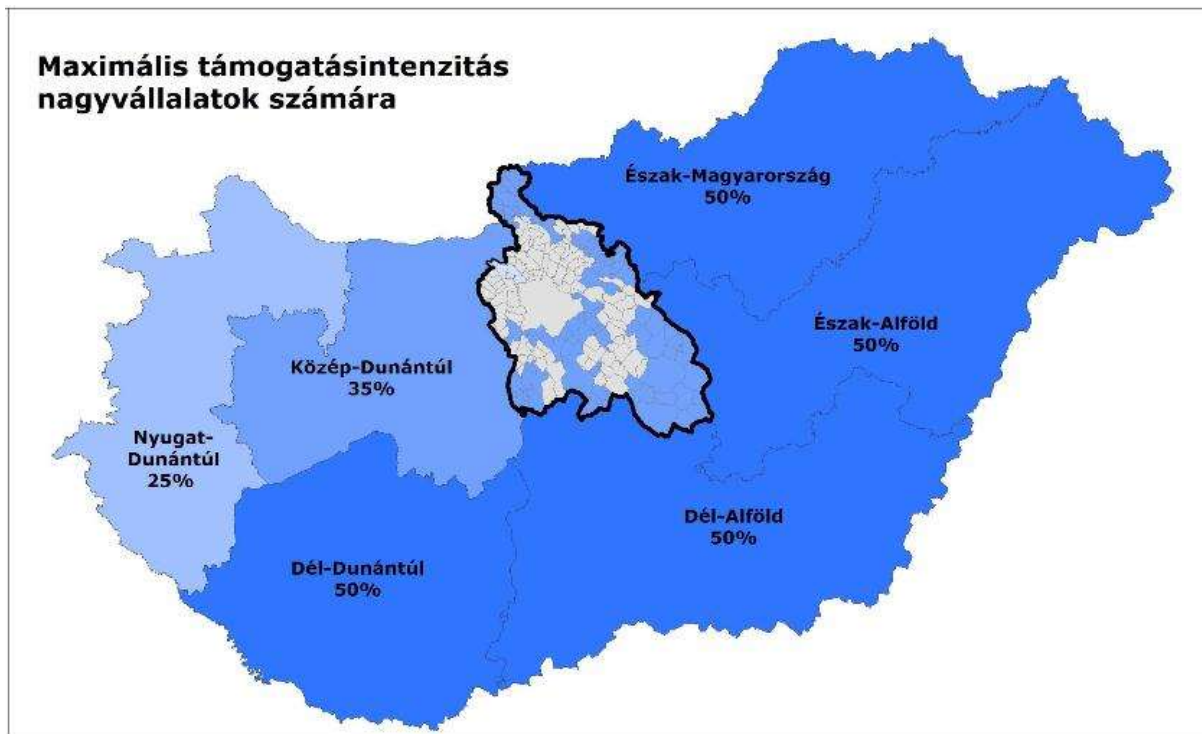
EUROPEAN UNION REGULATION OF STATE SUBSIDY

The regional aid map is a regulatory decree that determines the maximum amount of states subsidy allowed as investment incentive for companies investing in Hungary's specific regions, and in the case of developed regions smaller area units (See Figure 1).

The European Commission with its Decision N 487/2006 approved the Hungary Regional Aid Map applicable starting on 1 January 2007, based on EU guidelines for regional aid for 2007–2013. The map is applicable for regional investment subsidies available/provided from 1 January 2007 to 30 June 2014 or in the case if the pertaining EU or Hungarian regulation references this. The Regional Aid Map was announced in the form of Section 25 of Government Decree No 37/2011 (22 March) on the Procedures Relating to State Aid Measures and Regional Aid, in accordance with the European Union’s competition laws.

The European Commission approved on 11 March 2014 the SA.37718 State Aid N 487/2006 – Hungary Regional Aid Map, applicable from 1 July 2014 to the end of 2020. The map is applicable during 2014-2020 and contains the maximum subsidy intensity in specific locations based on EU guidelines for regional state aid in determined areas. The Regional Aid Map was announced in the form of Section 25 of Government Decree No 37/2011 (22 March) on the Procedures Relating to State Aid Measures and Regional Aid, in accordance with the European Union’s competition laws. In comparison with the map effective in the period of 2007-2013, the amount of intensity is reduced by 5% each in the Central-Transdanubia and the Western-Transdanubia regions. In Budapest investment subsidy may not be provided to large companies. While only a portion of Pest-County may be subsidized. In 82 municipalities of Pest-County the amount of intensity grows to 35%, in comparison with the 30% according to the map effective in the period of 2007-2013.

FIGURE 1
MAXIMUM SUBSIDY INTENSITY FOR LARGE COMPANIES, BY REGION IN HUNGARY



Source: Maximum subsidy intensity for large companies, 2017

On 11 October 2016, the European Commission Directorate General for Competition approved the amendment of the State Aid Hungary Regional Aid Map. Based on Section 5.6.2 of EU guidelines for regional state aid applicable during 2014-2020, in June 2016 there was an opportunity to conduct a halftime review of regional state subsidy maps. In the framework of this, based on the submission related to the review of Hungary’s regional state subsidy maps, discussed and approved by the Economic Cabinet

financial resources provided by the European Union, however for the purpose of achieving certain national economic goals (facilitating the inflow of foreign operating capital, regional and municipal development goals, facilitating education and training, facilitating job creation) these are supplemented by government subsidy systems financed from Hungarian state budget resources. Under the professional supervision of the Ministry for National Economy and in the management of the Ministry of National Development, the achievement of the “One million new jobs” program goal of the National Cooperation Program is served by Subsidies under Unique Government Decision in the case of significant investments, financed by the budget’s Earmarked Scheme for Investment Promotion, which is one of the most important tools available to the government to motivate investment. From the budget’s Earmarked Scheme for Investment Promotion, for investment of at least 10 million Euro accountable cost nonrefundable subsidies can be provided based on Unique Government Decisions, the goal of which is to facilitate large investment projects in Hungary by offering a subsidy structure that is competitive in comparison with the countries in our region.

In Hungary this form of subsidy is called Subsidy under Unique Government Decision (EKD), for which companies submit their subsidy applications directly to the Hungarian Government. In these cases, the Hungarian Government makes a unique decision regarding the subsidy applications directly every time. The name may be confusing, because the decision is always unique and direct, at the same time this form of subsidy is based on Hungarian legal regulations developed during the European Union’s harmonization of laws:

- Section 25 of Commission Regulation (EU) No 651/2014 in the application of Articles 107 and 108 of the Treaty on the European Union. Communication from the Commission 2014/C 198/01. Article 107 (3) b) and c) of the Treaty on the Functioning of the European Union.
- Act CCXXX of 2013. Government Decree No 2010/2014 (27 August) Government Decree No 426/2016 (15 December) Government Decree No 119/2017 (29 May) Government Decree No 346/2017 (20 September).

In the operation of this form of subsidy the prevailing Minister of Foreign Affairs and Trade proceeds on behalf of the Hungarian Government, with the participation of HIPA, the Hungarian Investment Promotion Agency that was established for this purpose. The submission of company applications, their administration and the conclusion of subsidy contracts is performed through this agency.

Obtaining a Subsidy under Unique Government Decision (EKD) is a 9 step process, the administration of which generally takes 90 days (Glósz and Co., 2017):

1. Preliminary consultations. Preparatory negotiations with HIPA, fitting and optimizing the project to eligibility conditions
2. Submitting the application. Preparing the application and its annexes, submitting it to HIPA
3. Letter of endorsement. Inspection and endorsement of the application. Sending a letter of endorsement to the applicant. Official commencement of the development project.
4. Subsidy offer. Issuance of the Government’s subsidy offer and forwarding it to the applicant (effective period 3 months).
5. Accepting the offer. Accepting the subsidy offer, forwarding an official notification to HIPA and the Government.
6. Preliminary inspection. Collecting the information required for contract conclusion based on the list of HIPA. Onsite inspection on the planned scene of implementation, with an official registry.
7. Contract conclusion. Preparing the draft contract. Commenting on the draft contract, finalizing the contract. Official signing of the contract.
8. Taking effect. Issuance of official documents (90 days). Starting the payout of the subsidy.
9. Subsidy accounting. Compiling the project dossier. Keeping the project documentation updated. Inspection of invoices. Preparing payout requests. Preparing technical reports. Arranging the onsite inspection.

The Hungarian EKD subsidy system commenced its operations in 2004. From among these, a summary list related to the concluded contracts from 1 January 2019 to be provided by Subsidy under

Unique Government Decision connected to the budget's Earmarked Scheme for Investment Promotion, is in the Appendix, in Table.

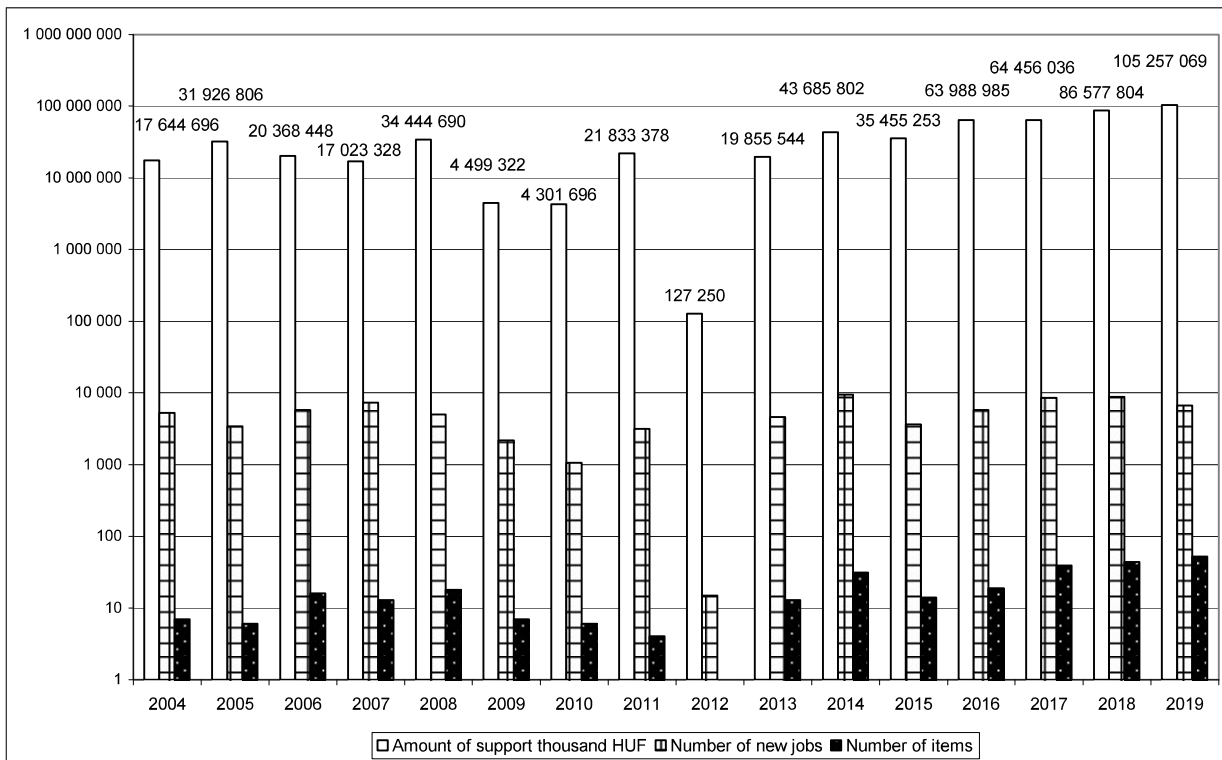
From the total of 52 subsidized investment project contracts concluded in the framework of EKD in 2019, 21 were directly connected to the automotive industry. In 2019 the grand total of all subsidies was HUF 105.3 billion, of which HUF 48.7 billion was received by the automotive industry. From this it's evident that the automotive industry was given a significant portion, 46.3%, of all approved EKD subsidies, at the same time among these there weren't Hungarian owned companies. From all of this it's obvious that the Hungarian Government is rather stingy with Hungarian owned automotive industry companies when approving subsidies.

All of this is especially troubling because according to the analysis of experts examining the position of the automotive industry, within the Hungarian national economy the automotive industry is outstandingly productive, at the same time Hungarian small and medium size companies in the industry are less productive than large companies, and in the region this difference is the largest in. On the other hand, it's widely known that multinational companies don't like to be involved in a multitude of matters: they purchase increasingly more integrated products from a diminishing number of suppliers. This means however that more companies could be engaged in the additional (lower) supplier levels. But so far in Hungary this has not facilitated Hungarian companies becoming suppliers and their strengthening, it has much rather supported the settlement of foreign suppliers of multinational companies in Hungary (HIPA, 2016).

This is unfavorable because in Hungary soon there will be less medium size businesses than large companies, and considerably less small and micro businesses. Currently Hungary's corporate structure cannot be regarded ideal at all. The primary problem is that there are few medium size businesses in Hungary. If we take as the basis the truly competitive economic models that are characteristic of developed countries, we can see that for example in Germany's Baden-Württemberg province approx. 14 thousand medium size businesses operate in an extraordinarily innovative and creative manner, and these companies represent the backbone of its economy. In contrast, in Hungary there are only approx. 4,600 well-functioning medium size businesses. If we managed to increase the number of medium size businesses in Hungary 2.5-3 fold, then Hungary's GDP could also grow 2-3 fold in the future. The question is rightfully asked, why there are significantly fewer medium size businesses in Hungary than in the regions and countries which are more developed and competitive than us. Principally because Hungarian small businesses, although today they are present in the economy in a sufficiently large number, they are widely known to cease very early. There is no doubt that this is a natural characteristic of small businesses worldwide as a result of highly intense competition, it's still conspicuous that in Hungary much fewer small businesses can strive and become medium size business compared to other countries that are more developed than us, moreover, much fewer medium size businesses become large companies. The overwhelming majority of Hungarian large companies are currently in foreign ownership, and it's hard to find one among them that developed from a small business into a large company, and there even less Hungarian multinational companies among them.

In the course of about 16 years from the total amount of EKD subsidies 85.8%, HUF 278 billion supported investment projects implemented in the Hungarian processing industry, and this is where the most jobs have been created as well. In exchange for the subsidies, Hungarian processing industry companies undertook to hire a total of almost 42 thousand new employees. Within this, companies operating in the automotive industry realized over one quarter (27%) of investments projects that won subsidies. They were followed by companies involved in the manufacturing of computers, electronic or optical products (14%), outperforming companies involved in the manufacturing of rubber and plastic products (12%), as well as pharmaceutical manufacturers (8%). 7.7% of subsidies were received by businesses engaged in the areas classified among professional, scientific or technical activities, information communication activities were granted 2.3%. At the same time, from the aspect of average subsidy amount per each job position, these two latter sectors were ranked behind (Pomogyi, 2017).

FIGURE 3
UNIQUE GOVERNMENT DECISION BASED GRANTS IN HUNGARY, 2004-2019
(THOUSAND HUF)



Source: own editing based on data of Hungarian Ministry of Foreign Affairs and Trade, 2020.

In the course of about 16 years from the total amount of EKD subsidies HUF 571,4 billion supported 290 investment projects implemented in the Hungarian processing industry, and this is where the most jobs have been created as well. In exchange for the subsidies, Hungarian processing industry companies undertook to hire a total of more than 80 thousand new employees.

In total, between 2004 and 2019, among automotive industry companies Mercedes-Benz Manufacturing Hungary Kft received the largest amount of government subsidy, the sum of which was HUF 35 billion 31 million 738 thousand. Audi was granted EKD financed subsidy a total of 6 times between 2008 and 2019, which represented a subsidy sum of over HUF 29 billion 713 million. Only the various interests of Robert Bosch received government subsidy more times than Audi, a total 36 times, which represented a grand total of almost HUF 26 billion for various Hungarian subsidiaries of the company. While so far BMW has been granted Subsidy under Unique Government Decision once, in 2018, when it received HUF 12.3 billion for automotive manufacturing (Novoszath, 2018b).

Before 2017, a further significant deficiency of Hungarian the EKD subsidy system was that it primarily supported the capacity expansion and job creating investments by large companies, while it only minimally supported R & D activities and technology intensive investments and the development of Hungarian owned micro, small and medium size companies.

Recognizing the importance of knowledge centeredness, for the purpose of the development processes and in order to improve the competitiveness, the City of Győr established a Higher Education and Industry Cooperation Center (FIEK), the concept of which was developed jointly by Széchenyi István University of Győr, Audi Hungária Motor Ltd and the local government of Győr City with County Rank (Fekete, 2017). But that was just an exception, not a general one before 2018. However before 2018 less than 5% of EKD-projects were aimed at R & D activities. Support for regional service providing and

analysis centers, call centers, or subsidy for the development of some kind of legal, business, IT or financial service were more frequent, 15 % of subsidies were granted to these. The remaining 80% was aimed at the construction of new factories, sites, production facilities as well as other capacity expansion investment projects (Pomogyi, 2017).

For this reason it was a significant and favorable change that from 1 January 2017 the application opportunities for nonrefundable subsidies were extended to R & D activities and technology-intensive investment projects, based on Government Decree No 426/2016 (15 December) on updating Government Decree No 210/2014 (27 August) on the use of the Earmarked Scheme for Investment Promotion. For the purpose of transforming the Hungarian economy from one of Europe's „production centers" increasingly into one of the Continent's defining „industrial and innovation centers ", from 1 January 2017, new, nonrefundable forms of subsidies were introduced with the goal of motivating company R & D activities and the realization of technology-intensive investment projects. This type of subsidy became accessible in the framework of the Subsidy under Unique Government Decision system („EKD") (Government Decree No 210/2014 (27 August), through the Hungarian Investment Promotion Agency (HIPA. By the use of this form of subsidy

- 25 % direct capital subsidy is available in the Subsidy Under unique Government Decision system for large and multinational companies
- 35-65 % direct capital subsidy is available in European Union co-financing for micro, small and medium size businesses
- 65-100 % direct capital subsidy is available with university consortium agreements irrespective of company size

The decision preparatory submissions prior to the conclusion of EKD subsidy contracts are restricted access, confidential documents, thus those cannot be freely reviewed. The subsidy decision preparatory submissions contain the data and cost-efficiency impact calculations required to demonstrate basis for the subsidy. The subsidies of companies in the EKD subsidy system as well as the decision regarding the amount of subsidy is circumspectly examined by the process participants, the Ministry for National Economy and the Ministry of National Development, with the involvement of the Hungarian Investment and Trade Agency (HITA), in the case of every project. They sum up the expected amount of state budget revenues based on national economic background calculations and by forecasting the company's activities, and compare these with the state budget expenditures involved in providing the state subsidy. One of the cornerstones of cost-efficiency impact background calculations is the return of investment from a national economy aspect, regarding the cash-subsidy provided to companies during the project's sustainability period (monitoring period). In the recent period the operation of the EKD subsidy system as well as the subsidies provided to specific companies have been audited several times by the Government Control Office and the State Audit Office of Hungary. See for example in: State Audit Office of Hungary report number 12102 Audit on Investment-Related Tax Allowances and Subsidies, or report number 15091 Audit on Regulation Compliance in Employment-Related Tax Allowances and Subsidies.

The sites of multinational large companies that have settled in Hungary still employ mostly the tried-and-tested companies from their range of foreign suppliers. On the other hand, Hungarian small and medium size businesses still rarely satisfy the high standard technological, quality and efficiency requirements expected from suppliers. At the same time as a result of government incentives, in recent years the ratio of increasingly large Hungarian suppliers has grown in the supply chain of large companies located in Hungary.

The highlighted goal of the Hungarian Government is to facilitate Hungarian small and medium size businesses in becoming engaged as competitively as possible in the supply chain of large companies that have manufacturing capacity in Hungary. This goal is assisted by the supplier department of the Hungarian Investment Promotion Agency, with the involvement of large companies and by contact maintenance with professional organizations. They aspire to gain a larger role for Hungarian small and medium size businesses in the supply chain of integrator companies that have settled in Hungary. In Hungary, in 2015, the number of automotive industry companies was approx. 700, the number of employees reached 145,000. Furthermore, the facts indicate the significance of the automotive industry

that in 2015 this sector represented 28.6% of all industrial production, moreover 21.6% of all Hungarian product exports, which amounted to over EUR 19.5 billion. In the past three years Mercedes-Benz Manufacturing Hungary Kft has increased its Hungarian supplies from 21% to 23%, while in 2015 Siemens Zrt increased it from 82% to 83%. The ratio of Hungarian suppliers is also high at Magyar Suzuki Zrt, depending on the model 30-40% of parts originate from Hungarian companies. At Audi Hungaria Kft, currently the ratio of Hungarian supplies is 7%, while in 2015 the Bosch Group purchased 18% of its parts from Hungarian production companies. BMW also cooperates with a considerable number of Hungarian suppliers, based on the latest data from HIPA, this represents 63 companies. The number of Hungarian suppliers to Opel Szentgotthárd Autóipari Kft also shows constant increase, it currently has 20 of them (HIPA, 2016).

There is also a great need for strong Hungarian companies, but for the time being the products and services are missing, whereby Hungarian companies could be competitive abroad as well. In the longer term it should be achieved that the profit of Hungarian companies operating abroad be at least as much as the profit of international companies operating in. there should be balance in this aspect as well. However, today it doesn't even amount to one tenths.

In the current workforce shortage, today instead of quantity deficiencies we much rather need to focus the subsidy system on the reduction of high quality workforce shortage. Particularly on the elimination of training and skill deficiencies, furthermore it would be especially important to keep highly trained and skilled young people in Hungary, as well as to adjust the training and skills of young people more to market demands than currently, to continuously ensure workforce supply in the future. At the same time, we must not disregard that in certain underdeveloped regions of Hungary, job creation may remain to be an important factor from the aspect of the specific region's or area's social and economic cohesion. Therefore, it would be favorable if in the future the EKD subsidy system would focus even more intensely on equalizing regional differences. Specifically, the current subsidy system fails to effectively manage the problem of workforce shortage, and it also fails in reducing regional differences within Hungary, it much rather increases them.

From 1 October 2019, significant changes took effect concerning the conditions of eligibility for the VIP cash subsidy granted by individual government decision. The subsidy scheme now focuses on maintaining existing jobs, rather than on job creation. Job creation no longer an eligibility requirement for asset investments According to the amended aid scheme, job creation is no longer required for asset investments to be eligible for the VIP cash subsidy, however, beneficiaries must maintain their current headcount, and increase their wage costs and sales revenue.

For regional service centre projects, the creation of at least 50 jobs will continue to be required. Reduced eligibility criteria depending on project location EKD subsidies are available for asset investments in a minimum value of EUR 5 or 10 million of eligible costs, depending on the location of the project.

TABLE 1
MINIMUM REQUIREMENTS FOR INCREASING WAGE COSTS AND REVENUE

Emerging companies	Mature companies
Emerging businesses must increase their sales revenue by EUR 3 million and their wage costs by EUR 300,000 on an annual average over the monitoring period, compared to the base values.	Mature businesses must increase their base sales revenue and/or base wage costs (at the investor's choice) by at least 30% on an annual average during the monitoring period, and neither of these indicators may be lower than the base value on average over the same period.

Source: pwc Subsidy Alert, 2019

BARANYA COUNTY In Baranya, as in Békés, Borsod-Abaúj-Zemplén, Nógrád and Szabolcs-Szatmár-Bereg counties, EKD subsidies are available for investments with an eligible cost of at least EUR 5 million, rather than EUR 10 million.

**FIGURE 4
ELIGIBILITY CRITERIA DEPENDING ON PROJECT LOCATION**



Source: pwc Subsidy Alert, 2019

FEJÉR, KOMÁROM - ESZTERGOM AND GYŐRMOSON-SOPRON COUNTIES In Fejér, Komárom-Esztergom and Győr-Ménfőcsanak counties, the VIP cash subsidy is available from EUR 10 million in eligible cost, down from the previous threshold of EUR 20 million. There are still no minimum requirements for the eligible costs of regional service centre projects.

From 1 October 2019, during the subsidy application procedure, a more detailed business plan must be submitted with new obligatory parts, such as a sensitivity analysis of the financial indicators, presenting the marketing strategy and the process for entering the market, as well as describing the available suppliers' and buyers' letters of intent and contracts (pwc, 2019).

CONCLUDING REMARKS

The regional aid map is the legal regulation that determines the maximum amount of state subsidy allowed as investment incentive for companies investing in Hungary's specific regions, and in the case of developed regions smaller area units. On 11 October 2016, the European Commission Directorate General for Competition approved the amendment of the State Aid Hungary Regional Aid Map.

According to the most recent reports of member states regarding their national budgets, all the member states on the European Union level spent 0.67% of their total GDP on state subsidies. Four countries provided the most state subsidies as a percentage of their GDP, Latvia, the Czech Republic, Hungary and Germany.

Since 2004 in Hungary, for the purpose of increasing its international competitiveness and the creation of new jobs, several targeted state subsidy systems have been created. Supplementing each other, these systems provide state subsidies to companies operating and settling in Hungary, along specific

national economy interests. In the recent period the operation of the EKD subsidy system as well as the subsidies provided to specific companies have been audited several times by the Government Control Office and the State Audit Office of Hungary. The automotive industry was given a significant portion of all approved EKD subsidies, at the same time among these there weren't Hungarian owned companies in 2019. The Hungarian Government is rather stingy with Hungarian owned automotive industry companies when approving subsidies. This is unfavorable because in Hungary soon there will be less medium size businesses than large companies, and considerably less small and micro businesses. The currently system doesn't facilitate Hungarian companies becoming suppliers and their strengthening, it much rather supports the settlement of foreign suppliers of multinational companies in Hungary. Before 2017, a further serious deficiency of the Hungarian state subsidy system was that it primarily supported capacity expansion and job creating investments by large companies, while it only minimally supported R & D activities, technology intensive investments and the development of Hungarian owned micro, small and medium size companies. A significant and favorable change was that from 1 January 2017 the Hungarian EDK system was extended to R & D activities and technology-intensive investment projects. From 1 October 2019, significant changes took effect concerning the conditions subsidy granted. From this time the subsidy scheme now focuses on maintaining existing jobs, rather than on job creation. The current Hungarian subsidy system fails to effectively manage the problem of reducing regional differences within Hungary. The changes introduced in 2019 may bring a change in this regard.

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APPENDIX

UNIQUE GOVERNMENT DECISION BASED GRANTS IN 2019

Company name	Relation	Activity	Number of new jobs	Amount of support thousand HUF	Signing the contact day-month-year
1. Varian Medical Systems Hungary Korlátolt Felelősségű Társaság	USA	Development of radiation therapy technology and expansion of the Hungarian R&D center in Budapest	30	487 025	31-12-2019
2. IBM Magyarországi Korlátolt Felelősségű Társaság	USA	Development of a large enterprise video platform	33	1 083 176	31-12-2019
3. AUDI HUNGARIA Zártkörűen Működő Részvénytársaság	Germany	E-Transformation	250	6 396 157	20-12-2019
4. Robert Bosch Energy and Body Systems Gépjárműelektromossági Alkatrész Gyártó és Forgalmazó Korlátolt Felelősségű Társaság	Germany	Extension of technology-intensive manufacturing and establishment of a vehicle development center	-	2 651 738	20-12-2019
5. Formlabs Korlátolt Felelősségű Társaság	USA	Formlabs PreForm 3D printing research and development	35	171 438	20-12-2019
6. OTTO FUCHS Hungary Korlátolt Felelősségű Társaság	Germany	Expansion of aluminum wheel production capacity	-	1 846 419	20-12-2019
7. Ravaber Hungary Korlátolt Felelősségű Társaság	Turkey	Establishment of an intermediate wool production plant	90	1 241 784	20-12-2019
8. Agrosprint Mezőgazdasági és Ipari Termékforgalmazó Zártkörűen Működő Részvénytársaság	Hungary	manufacture of frozen vegetables	95	892 086	20-12-2019

9. Giant Gyártó Hungary Korlátolt Felelősségű Társaság	Taiwan	Establishment of a bicycle manufacturing plant	591	5 217 319	20-12-2019
10. BHS Trans Korlátolt Felelősségű Társaság	Hungary	Storage capacity expansion	165	3 428 086	17-12-2019
11. Robert Bosch Power Tool Elektromos Szerszámgyártó Korlátolt Felelősségű Társaság	Germany	European Battery Manufacturing Competence Center creation and machine tool assembly capacity expansion	0	3 370 899	14-10-2019
12. MIAS HUNGARY Korlátolt Felelősségű Társaság	Germany	Capacity expansion of loader crane production plant	60	775 096	14-10-2019
13. Tamási-Hús Húsipari, Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság	Austria	Fried and sliced bacon production capacity expansion	255	2 720 808	14-10-2019
14. Flex Films Europa Korlátolt Felelősségű Társaság	India	Establishment of a packaging film factory	170	2 760 240	14-10-2019
15. SRF EUROPE Korlátolt Felelősségű Társaság	India	Plastic packaging manufacturing plant creation	100	1 128 910	3-10-2019
16. evosoft Hungary Számítástechnikai Korlátolt Felelősségű Társaság	Germany	Software development center capacity expansion	50	307 744	3-10-2019
17. Diehl Aviation Hungary Korlátolt Felelősségű Társaság	Germany	Creation of a new service center	151	968 197	29-8-2019
18. VESTFROST Zártkörűen Működő Részvénytársaság	Denmark	Capacity expansion of refrigeration plant	93	1 049 905	26-8-2019
19. Bridgestone Tatabánya Termelő Korlátolt Felelősségű Társaság	Japan	Expanding the capacity of the tire factory	120	825 924	25-8-2019

20. Becton Dickinson Hungary Kereskedelmi Korlátolt Felelősségű Társaság	USA	Expanding the capacity of a syringe manufacturing plant	219	2 703 636	1-8-2019
21. Continental Powertrain Hungary Korlátolt Felelősségű Társaság	Germany	Construction of an automotive electronics production line for transmission, sensor and operating segments	450	10 620 724	25-7-2019
22. Robert Bosch Elektronika Gyártó Korlátolt Felelősségű Társaság	Germany	Automotive electronics component manufacturing plant technology-intensive capacity building	0	1 204 913	25-7-2019
23. NT Élelmiszertermelő és Kereskedelmi Korlátolt Felelősségű Társaság	Czech	Seed processing plant capacity expansion	55	1 667 072	16-7-2019
24. TBZ Táp Korlátolt Felelősségű Társaság	Hungary	Feed production	50	1 237 867	24-6-2019
25. VARDA MEAT Termelő és Kereskedelmi Korlátolt Felelősségű Társaság	Hungary	Animal by-products processing plant creation	50	1 584 101	14-6-2019
26. OPEL Szentgotthárd Autóipari Korlátolt Felelősségű Társaság	France	Manufacturing technology flexibility and automation significant development	25	375 000	3-6-2019
27. COOP Logisztika Korlátolt Felelősségű Társaság	Hungary	Warehousing, storage	80	690 170	30-5-2019
28. GÜNTNER-TATA Hűtőtechnikai Korlátolt Felelősségű Társaság; JH 100 Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság.	Germany	Non-domestic refrigerators, air conditioners production, warehousing, storage	150	1 628 235	8-5-2019

29. GMD CAST Hungary Korlátolt Felelősségű Társaság; GMD Electronics Korlátolt Felelősségű Társaság	France	Alloy casting	240	2 908 371	25-4-2019
30. Thomas Duvenbeck Immobilien Invest Korlátolt Felelősségű Társaság	Germany	Establishment of a sequencing plant	250	1 000 000	8-4-2019
31. Continental Automotive Hungary Korlátolt Felelősségű Társaság	Germany	Braking and stability control systems and sensor development	28	420 000	29-3-2019
32. Eissmann Automotive Hungaria Autóipari Beltérirészegység-gyártó Korlátolt Felelősségű Társaság	Germany	Manufacture of leather car parts	140	555 660	29-3-2019
33. HAMBURGER Hungaria Korlátolt Felelősségű Társaság	Hungary	Development of papermaking technology	0	1 637 066	29-3-2019
34. REHAU-Automotive Korlátolt Felelősségű Társaság	Germany	Expanding the capacity of an auto parts manufacturing plant	727	7 104 010	29-3-2019
35. Erbslöh Hungaria Alumíniumfeldolgozó Korlátolt Felelősségű Társaság	Germany	Manufacture of car window decoration elements	190	3 048 200	29-3-2019
36. DUOCOR Ipari Betéti Társaság	Germany	Manufacture of hospital, school and office furniture capacity building and technological development	65	634 742	23-3-2019
37. Intretech Hungary Gyártó, Szolgáltató Korlátolt Felelősségű Társaság	China	Establishment of an electronic components manufacturing plant (printed circuits, smart home devices)	200	1 268 125	5-3-2019

38. F.Segura Hungária Ipari és Kereskedelmi Korlátolt Felelősségű Társaság	Spain	Capacity expansion of automotive metal parts lpar Using 4.0 technology	80	1 009 392	5-3-2019
39. GS Yuasa Magyarország Korlátolt Felelősségű Társaság	Japan	Development and production of lithium-ion batteries	51	465 333	25-2-2019
40. NIDEC GPM HUNGARY Korlátolt Felelősségű Társaság	Japan	Manufacture of oil pumps	120	1 543 257	19-2-2019
41. Continental Automotive Hungary Korlátolt Felelősségű Társaság	Germany	Braking and stability control systems and sensor development	100	1 376 872	12-2-2019
42. SHINHEUNG SEC EU Korlátolt Felelősségű Társaság	South Korea	New battery parts factory	135	769 275	12-2-2019
43. Soft Flow Hungary Kutató Fejlesztő Korlátolt Felelősségű Társaság	Denmark	Creation of software and R&D center	88	772 942	12-2-2019
44. NHK Spring Hungary Korlátolt Felelősségű Társaság	Japan	Capacity expansion in the automotive industry	100	886 730	12-2-2019
45. AVL AUTÓKUT Mérnöki Korlátolt Felelősségű Társaság	Austria	Automotive R&D center	100	1 492 896	12-2-2019
46. MOL Petrolkémia Zártkörűen Működő Részvénytársaság	Hungary	Establishment of a chemical plant	172	11 683 125	12-2-2019
47. KOVÁCS Vegyesipari, Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság	Hungary	Expanding forging capacity	60	1 093 752	24-1-2019

48. PICK SZEGED Szalámigyár és Húsüzem Zártkörűen Működő Részvénytársaság	Hungary	Capacity expansion of fermented dry goods plant	53	1 754 512	22-1-2019
49. HAUNI Hungária Gépgyártó Korlátolt Felelősségű Társaság	Hungary	Tobacco machinery and parts production capacity expansion	100	976 769	22-1-2019
50. MSSL Manufacturing Hungary Korlátolt Felelősségű Társaság	India	Manufacture of car bumpers and door components	100	1 482 576	21-1-2019
51. Egis Gyógyszergyár Zártkörűen Működő Részvénytársaság	Hungary	Pharmaceutical production techn. intensive	0	1 096 384	21-1-2019
52. Sanmina-SCI Magyarország Elektronikai Gyártó Korlátolt Felelősségű Társaság	USA	Expansion of automotive production capacity	220	1 242 411	16-1-2019
		Altogether	6 686	105 257 069	

Source: Hungarian Ministry of Foreign Affairs and Trade. 2020. EKD effective contracts. Retrieved 2020-05-20
https://www.kormany.hu/download/5/51/c1000/EKD_tamogatas_2014-2019_20200121.pdf