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Enhancing the competitiveness of SMEs after the financial crisis

Abstract

The strengthening of the SME sector is one of the priorities of the Hungarian economic policy. SMEs are responsible not only for creating jobs but also for economic growth by investing in R&D and being involved in exports. Therefore, having access to funds is a basic necessity for them. After a serious setback as a result of the financial crisis and lack of capital, the SME sector began a revival due to incentives taken by the government and the central bank. The paper aims to highlight how governmental policy may intervene into financial markets by providing subsidised credit to SMEs in order to increase their competitiveness. By demonstrating the phases and the results of the Funding for Growth Scheme (FGS) the paper seeks to provide evidence for the justification of institutional support to eliminate market imperfections and stimulate growth. The paper is based on the use and analysis of secondary sources presenting a case study on the reasons for launching the Funding for Growth Scheme, a special type of external debt financing instrument for SMEs initiated by the government and provided by the central bank. Attention is paid to its impact on the volume of corporate lending in the banking sector, as well as, its effects on SMEs' investments by investigating changes in macroeconomic growth. The paper reveals that the directed loan scheme with favourable interest and a long tenor has largely induced investments in the sector that were previously postponed and increased both firm-level and national competitiveness.

Keywords: competitiveness, SMEs, government intervention, subsidised credit, Funding for Growth Scheme

INTRODUCTION

In the aftermath of the financial crisis researchers have shown an increased interest in the state and development of the SME sector. The published papers deal with the dominant role of these companies in the corporate sector in terms of number, employment, value added and export activities. Similar to other counties in the EU, SMEs in Hungary make up 99% of the corporate sector, account for more than two-thirds of its employment and generate 40% of value added, as a result, they require considerable attention from national decision-makers.

SMEs were seriously hit by the financial crisis. On the one hand they faced a drop in demand for their goods and services, on the other hand they suffered from liquidity problems due to the lending constraints imposed by financial institutions. The report Trends in Lending (MNB, 2013, 6) notes "the contractionary behaviour of the banking system" and "the overall tightness of the credit conditions". In a

similar vein, other studies point out that there was a considerable decline in long-term investment loans, which was due to the fact that "the market for short-term SME loans became rather demand-driven, while that of development loans became supply-driven" (Szöllősi–Pogácsás, 2014, 27). Endrész et al. (2014, 74) note that the sector's indebtedness resulted in a rise in winding-up proceedings between 2009 and 2012. Analysing demand and supply in the corporate loan market, Sóvágó (2011, 12) draws attention to the price and non-price conditions of credit supply by highlighting the fact that in addition to the real lending rate (price condition), "the lending standards (maturity or amount of loans, type of collateral, the credit scoring system" and "the creditworthiness of the borrowers (probability of default)" also affect the tightening behaviour of the banks.

Several studies have pointed out that national and firm-level competitiveness are interrelated. The competitiveness of a country depends on the competitiveness of its corporate sector, which can be supported by economic policy measures. As the crisis undermined the competitiveness of most of the corporate sector, especially that of with SMEs, the government addressed the market failure in the financial market by offering subsidised credit to the SME sector. Consequently, initiated by the Hungarian government, in 2013 the central bank launched the Funding for Growth Scheme to provide favourable lending conditions for the corporate sector.

The paper is structured as follows: The first part focuses on the theoretical framework of competitiveness and the role of the government in providing economic stimulus. The second part analyses the objectives and results of the Funding for Growth Scheme (FGS) and by highlighting the development of the SME sector during the Scheme's availability it seeks to find out whether this targeted economic stimulus has resulted in any additionality and if yes, in what way.

The research is based on analysing economic policy measures taken by the Hungarian government and the central bank. The potentials of FGS as a subsidised credit scheme are illustrated by the time-series analysis of the SME sector in terms of employment, net turnover, value added and export capacities based on data by the Hungarian Central Statistical Office (KSH). Background information and figures on the government's monetary stimulus with regard to the Funding for Growth Scheme are derived from the publications of the Hungarian National Bank (MNB). The data retrieved from the secondary sources are systematically combined and critically analysed to reveal whether and to what extent governmental support contributed to the financial sustainability and the additionality of investments of the Hungarian SME sector.

1. THEORETICAL FRAMEWORK

The theoretical framework of the paper is based on the concept of competitiveness and the role of the state in influencing economic processes with a special focus on the SME sector. Regarding competitiveness, the link between national and firm-level competitiveness is demonstrated in the light of the supportive role of the government and the central bank.

1.1. COMPETITIVENESS

The term 'competitiveness' may be defined in various ways with different features in focus. For example, the IMD World Competitiveness Centre regards it as "the extent to which a country is able to foster an environment in which enterprises can generate sustainable value" (www.imd.org), whereas in the view of the World Economic Forum (WEF) it is viewed as "the set of institutions, policies and factors that determine the level of a country's productivity" (www.weforum.org).

Since 2005 national competitiveness has been measured by the Global Competitiveness Index (GCI), a benchmarking tool of the World Economic Forum, which includes 12 drivers of productivity. In compliance with the effects of the Fourth Industrial Revolution, GCI has been transformed into GCI 4.0 reflecting "the extent and complexity of the drivers of productivity" (WEF, 2018, vii). According to The Global Competitiveness Report 2018, Hungary takes 48th place preceded by the Czech Republic (29th), Poland (37th) and Slovakia (41st). At the same time, over the past five years, Hungary's ranking has improved, from 63rd place (2014, 2016) to 48th (2017, 2018).

Table 1 Global Competitiveness Index

GCI	
Basic requirements	institutions, infrastructure, macroeconomic environment, health and primary education
Efficiency enhancers	higher education and training, goods market efficiency, labour market efficiency, technological readiness, market size,
Innovation enhancers	business sophistication, innovation
GCI 4.0	
Enabling environment	institutions, infrastructure, ICT adoption, macroeconomic stability,
Human capital	health, skills
Markets	product market, labour market, financial system, market size
Innovation ecosystem	business dynamism, innovation capability

Source: Compiled by the author based on WEF (2017, 2018)

The new GCI4.0 addresses the global economic challenges countries face as a result of the Fourth Industrial Revolution (4IR) and with "human capital, innovation, resilience and agility" (WEF, 2018, v) it provides a guideline for governments to aim long-term policy measures.

Chikán (2008, 21) argues that "there is no competitive national economy without competitive companies and developments in national economies have a very strong influence on companies' competitiveness". Defining the directions of innovative industrial development in Hungary the Irinyi Plan (2016, 12) underlines that "the competitiveness of a state is determined primarily by the competitiveness of its enterprises". Centindamar and Kilitcioglu (2013, 20) state that "it is the firms, not nations, which compete". All this suggests that measures improving the competitiveness of the corporate sector should be in the focus of decision-makers' attention.

In a comprehensive assessment of the competitiveness of the Hungarian economy, the National Bank of Hungary (MNB, 2017b, 11) states that a national economy is regarded as competitive if "it utilizes its available resources optimally to attain the highest possible, but at the same time sustainable level of welfare". Macroeconomic stability, access to funds, strong institutionary and effective regulatory background serve as a basis for a predictable business environment where the availability of qualified workforce with decent wages and salaries as well as investment facilities in R&D activities may increase productivity (Figure 1).

Figure 1 Foundations and objectives of competitiveness

Source: Compiled by the author based on MNB (2017b, 12)

Firm-level competitiveness is regarded as "a capability of a firm to sustainably fulfil its double purpose, meeting customer requirements at profit" (Chikán, 2008, 24). According to findings by Centindamar and Kilitcioglu (2013, 21) a firm's competitiveness is based on three pillars, (1) "competitive performance (output)", (2) "firm resources (input)" and (3) "managerial processes and capabilities", which can be further divided into smaller units serving as a measurement model for data collection. A background document on measuring competitiveness

by WIFO and ZEW[1] (2017, 12) models a hierarchy of firm-level competitiveness indicators where competitive performance is the result of firm capabilities and competitive potential.

1.2. ECONOMIC POLICY STIMULATING THE GROWTH OF THE SME SECTOR

Growth-inducing economic policy of the government during the recession following the financial crisis is based on the phenomenon of hysteresis, which describes "a sustained, negative shift not only in the level of GDP, but also in its dynamics" (MNB, 2016a, 12). The phenomenon was widely investigated in empirical studies by Ball (2014) and Blanchard et al. (2015), indicating that recessions have a permanent effect on the level of output.

Dosi et al. (2016, 1019) point out that hysteresis is embodied by "the lower innovation rate associated with a reduction in the aggregate demand" leading to a decline in productivity, "the declining entry rate of firms in the market" as well as "workers' skills deterioration process".

The slow recovery provided evidence for the fact that for the stabilisation of the economy monetary policy alone is not enough (Corsetti et al., 2019). The negative spiral in Hungary in the post-crisis period required policy-makers to coordinate fiscal and monetary policy. The fiscal turnaround after 2010 was followed by a monetary turnaround in 2013, where "the former gave rise to fiscal balance, while the latter took the necessary steps for achieving price stability and financial stability, building on budgetary stability" (Matolcsy–Palotai, 2015, 31), an instrument of which was the launch of the central bank's Funding for Growth Scheme.

The competitiveness of a country depends structurally on the efficiency and quality of financial intermediation, which is closely related to the competitiveness of the banking sector. In terms of unconventional measures central banks may use "targeted liquidity providing instruments" (Komlóssy et al., 2014, 11) to ease the financing constraint of SMEs, which may be exemplified by subsidised credit facilities including the Funding for Growth Scheme initiated by the government and provided by the Hungarian central bank.

Meiklejohn (1999, 25) mentions market failures for the justification of state aids implying that "the scale and form of the intervention must, as far as possible, be suited to the importance and nature of the problem." Stiglitz (1994, 20) also supports the role of the government in financial markets, as it may result in improved economic performance. Based on public policies, he sets up "two alternative taxonomies, one focusing on actions, the other on objectives" (Stiglitz, 1994, 32–33), where actions refer to "regulating financial market institutions, intervening in these institutions through other than regulatory means"; while

[1] The report was completed by the WIFO: Austrian Institute of Economic Research; ZEW: Centre for European Economic Research for the European Commission.

the social objectives denote – among others – "improving macroeconomic stability, ensuring competition, stimulating growth, and providing a better allocation of resources". Combining action with the social objective he concludes that "programs of directed credit attempt to intervene in the way that banks allocate credit" in order to allocate funds for projects with high social return. However, he also admits the unpredictable nature of investments in proportion with the available subsidy and notes that "in any country the relationship between the magnitude of the subsidy provided and the level of investment that firms undertake is uncertain." (Stiglitz, 1994, 42)

Investigating the financing patterns of European SMEs by cluster analysis Masiak et al. (2017, 26) come to the conclusion that "SMEs in countries with lower GDP growth rates are more likely to use state subsidies" and point out – similar to Casey and O'Toole (2014) – that "SMEs in distressed countries seem to rely more on grants or subsidised bank loans which can be explained by financial constraints and the higher availability of subsidies" (Masiak et al., 2017, 32). While investigating the role of state subsidies, in addition to emphasising the value creating role due to the positive externalities of the projects and the elimination of financial constraints, Berlinger et al. (2015, 2) warn of the likelihood of low efficiency projects. González and Pazó (2008, 371, 372) regard state subsidies as an instrument "stimulating industrial R&D", but it is still unclear "to what extent they induce firms to increase their R&D investment". Studying the use of institutional policy in the case of credit market imperfections Antunes et al. (2014, 3) focus on the quantitative effect of credit subsidy drawing attention to the problem of misallocation and challenging the fairness of subsidising credit.

Findings in literature suggest that government intervention into the economy may relieve market imperfections and induce growth, however, it is difficult to measure its positive externalities. Evaluating the success of economic policy measures by subsidising investments in R&D, Marino et al. (2016, 1716) draw attention to the notion of "additionality as an indicator of policy effectiveness" referring to a positive relationship between investments in R&D and the economic growth generated thereby. Falk (2007) deals with several notions of additionality including resource-based and result-based concepts. The former analyses "whether and to what extent firms increase their private spending on innovation-related activities when supported", and the latter "measures the proportion of output that would not have been achieved without" the support scheme (Falk, 2007, 667). Both the resource-based and the result-concept of additionality have their shortcomings, in the first case additional resources do not necessarily increase investments in innovation; in the second case innovations do not always result from "increased investment in tangible assets".

Regarding government intervention in R&D activities of the corporate sector, Aerts and Schmidt (2008) point to the crowding-out effect of subsidies indicating that private money will be public money without generating additional R&D investments and does not generate additional R&D investments.

Synthesising the findings of literature on competitiveness and stimulating economic policy, the author comes to the conclusion that financial constraints hamper firm-level competitiveness and as a result, national competitiveness, as well. Due to the renewed framework of the GCI, based on the enabling environment and human capital, financial markets have gained considerable importance in providing resources for business dynamism and innovation capability. Access to funds is also a key pillar of firm-level competitiveness. Economic policies of decision-makers are generally affected by the type of externalities. Market imperfections require an interventional attitude by various actions and objectives. In light of the above findings, the paper presents the structure, objectives and results of the Funding for Growth Scheme as a special debt financing incentive for SMEs in a case study and analyses how the SME sector developed during the availability of this targeted support.

2. FUNDING FOR GROWTH SCHEME AS INSTITUTIONAL SUPPORT FOR SMES

2.1. BACKGROUND INFORMATION ON THE HUNGARIAN SME SECTOR

Over the past decade the economic status of SMEs has increased, which is mainly caused by corporations outsourcing tasks in order to cut costs. The majority of suppliers are smaller and more flexible enterprises. These companies can identify market opportunities quickly and are quick to react to changes. Although SMEs started out in the local economy, more precisely in the retail service sector, recently they have appeared in the field of innovative business services. These are mainly network-based enterprises entering the global market. The SME sector plays an important role in the production of the state's income, in foreign working capital, in investment, and, from a social point of view, in job creation and employment (Mester et al., 2015).

In Hungary the corporate sector is dominated by micro, small and medium-sized enterprises[2], with micro enterprises prevailing (94.95%), followed by small and medium-sized companies, 4.22% and 0.69% respectively. The number of corporations employing more than 250 workers is only 994, which does not even reach 1% (0.14 %) of the total number of active companies.[3]

Studies underline (Eurostaat, 2011; Annual report on European SMEs 2017/18; Madsen, 2015) that the SME sector's competitiveness falls behind that of large corporations, due to their overwhelming presence in low knowledge or tech-

[2] The size categories of SMEs are based on the SME definition of the European Commission. See: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/
[3] Hungarian Central Statistical Office 2017 data

nology-intensive sectors, lack of a properly qualified labour force, managerial processes and capabilities, and low level of R&D&I and export intensities.

In the corporate sector the effects of the financial crisis, first of all, hit the SME sector, especially its micro and small enterprises, as they had lower chances in obtaining external resources due to their lower profit generating abilities and information asymmetry. Recognising the economic and social significance of SMEs, several measures have been taken to improve the situation of this sector. Assistance in access to finance was one of the most important areas of intervention. Szöllősi and Pogácsás (2014, 27) note that "due to the asymmetry in the information and lower profit that financing entities have on smaller companies, small enterprises have lower chances in obtaining external sources".

2.2. THE FUNDING FOR GROWTH SCHEME

The Hungarian National Bank (MNB) announced the Funding for Growth Scheme (FGS) in April 2013 with a view to ease SME lending and to strengthen financial stability and reduce external vulnerability. Until its gradual phasing out in March 2017, the scheme offered the most favourable conditions in terms of loan costs, the wide scope of its utilisation, the highest available loan amount, and its long tenor (Szöllősi–Pogácsás, 2014).

Unlike other forms of public aid (e.g., subsidies and grants) to specific sectors or industries, the FGS may be regarded as an unconventional monetary stimulus by the central bank in the form of a targeted loan for the SME sector disbursed by commercial banks at a fixed 2.5% interest rate for a maximum of 10 years, where the participating institutions had access to the funds at 0% interest. As a result, the interest rate of the loan disbursed was much lower than that of market-based loans. The launch of the Scheme was in compliance with Act CXXXIX Article 4(7) of 2013 on the Magyar Nemzeti Bank (Hungarian National Bank) stating that "in the event of disturbances to the credit market it shall contribute to the balanced implementation of the function of the system of intermediation in financing the economy through stimulating lending".

2.2.1. THE PHASES AND OBJECTIVES OF THE SCHEME

The Scheme is divided into three phases each of which contained two pillars. Within the framework of Pillar 1 of the first phase (from June to August 2013), the MNB provided refinancing loans with 0 per cent interest to the participating credit institutions, which could lend further these loans to SMEs with an interest margin capped at 2.5 per cent. These loans could be exclusively used for investment, working capital financing, pre-financing EU funds, or for the redemptions of existing forint loans for such purposes. SME customers could use loans received under Pillar 2 for the redemption of foreign currency loans. Credit institutions involved in the Scheme were either direct partner banks of the MNB or other banks, integrated

savings co-operatives or credit unions that could participate indirectly through their umbrella banks (MNB, 2014).

During the first phase, the ratio of refinancing loans was extremely high, these loans accounted for all of Pillar 2 and 40 per cent of Pillar 1 (László, 2016). In the second phase from October 2013 to the end of 2015 the number of SMEs obtaining loans approached 27,000, amounting to a total of HUF 1,4021 billion where "new loans accounted for around 95 per cent of the loans granted, and nearly 60 per cent – HUF 815 billion – was intended to finance new investment directly." (Hegedűs, et al., 2016, 22)

In the second phase it was micro enterprises that applied for most loans both in terms of number and volume for investment purposes (Hegedűs, et al., 2016). Under Pillar 1 of the second phase new investment loans, working capital loans and EU loans were disbursed while under Pillar 2 SMEs could still take out loans for the redemption of forint and foreign currency loans. (MNB, 2016b)

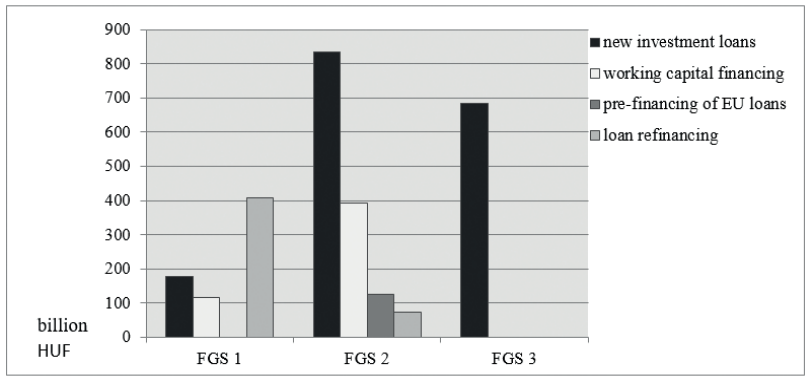
During the third phase from January 2016 to March 2017 the Scheme offered only new investment loans and leasing transactions both in forint and foreign currency while working capital financing and redemption of existing loans were not possible. Within the HUF 684.9 billion contracted loan amount, the share of new investment loans was 78%, whereas that of new leasing transactions amounted to 22 % (MNB, 2017a). (Table 2 and Figure 2)

Table 2 Overview of the FSG scheme's objectives

	Pillar 1	**Pillar 2**	**Total amount of loans**
1st phase	new investment loan	refinancing of FX loans or FX-based loans with HUF loans	HUF 701 billion
	working capital financing		
	pre-financing EU funds		
	refinancing of HUF loans		
2nd phase	new investment loans	refinancing of HUF loans	HUF 1,425 billion
	working capital loans	refinancing of FX loans	
	pre-financing EU funds		
3rd phase	new investment loans in HUF	new investment loans in FX	HUF 685 billion
	new leasing in HUF	new leasing in FX	

Source: Compiled by the author based on MNB (2017e)

Figure 2 Distribution of loan amounts according to loan objectives



Source: Compiled by the author based on MNB (2017e)

The launch of the FGS as an integrated part of the monetary policy did not only stop the decline in lending but also provided favourable credit conditions at lower interest rates encouraging companies to invest. In addition, the Scheme also increased demand for working capital loans[4].

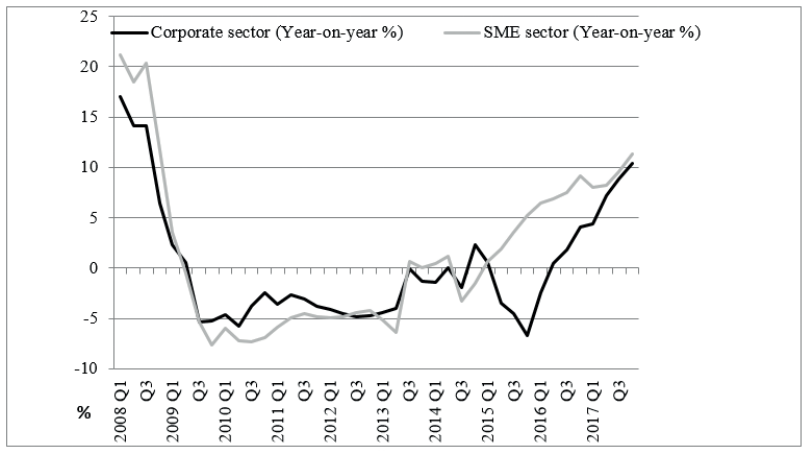
2.2.2. THE TANGIBLE RESULTS OF THE SCHEME

During the whole implementation period of the Scheme (from June 2013 until March 2017) approximately 40,000 SMEs were granted favourable loans with a total value of HUF 2,800 billion. As a result, from its decline SME lending was brought to a growth path contributing to the country's economic growth by 2 per cent from 2013 to 2016 and increasing employment by 20,000 people. Due to the favourable credit conditions, enterprises were able to implement deferred investments, reduce their exchange rate risk and improve their financial position. (Fábián–Pulai, 2018)

After the 3Q of 2013 SME lending exceeded the growth rate of outstanding loans in the corporate sector as a whole. This trend was significantly traceable from the second half of the Scheme's second phase (Q3, Q4 2015) to the end of the 3rd phase in Q1 2017. It can also be observed that there was a convergence between the growth rate of loans outstanding in the corpoate sector as a whole and that of the SME sector, which could also be explained by the fact that by 3Q 2016 – due to the consecutive base rate cuts by the central bank – the base reached an all-time low (0.9%) and has remained unchanged since then.[5] (Figure 3)

[4] See in more details: https://www.mnb.hu/letoltes/hatterelemzes-final-eng.pdf
[5] https://www.mnb.hu/en/Jegybanki_alapkamat_alakulasa [Data on base rate]

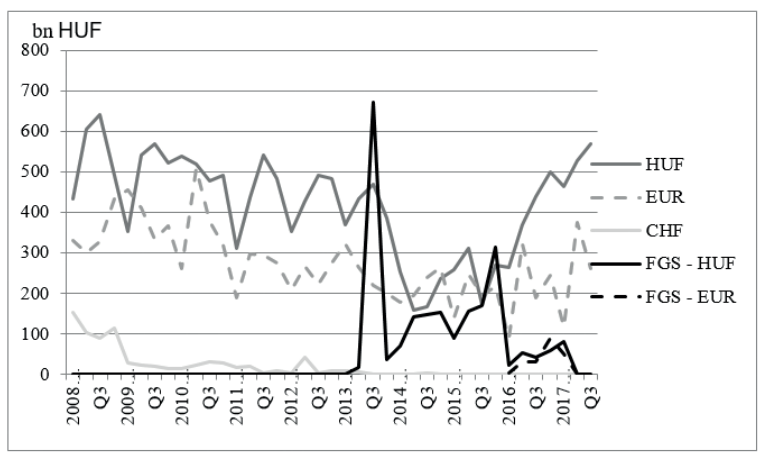
Figure 3 Growth rate of outstanding loans in the corporate sector as a whole and the SME sector, 2008–2017, %



Source: Compiled by the author based on Financial Stability Report May (MNB, 2018)

Following closure of the Funding for Growth Scheme at the end of the first quarter of 2017, there was no major decline in the volume of SME loans, although the distribution of the maturities of the loans shifted towards shorter maturities (Figure 4). This is probably attributable to the fact that SMEs tried to materialise a significant proportion of their investments requiring long-term loans in the period of the FGS. Also, the ratio of loans with maturity of over 5 years fell to below 30 per cent, but then increased to around 34 per cent by the end of 2018 Q1. This was already close to the ratios observed in the individual quarters of the FGS, although the volume of contracts in Q1 fell short of the previous quarters significantly, on account of seasonal factors.

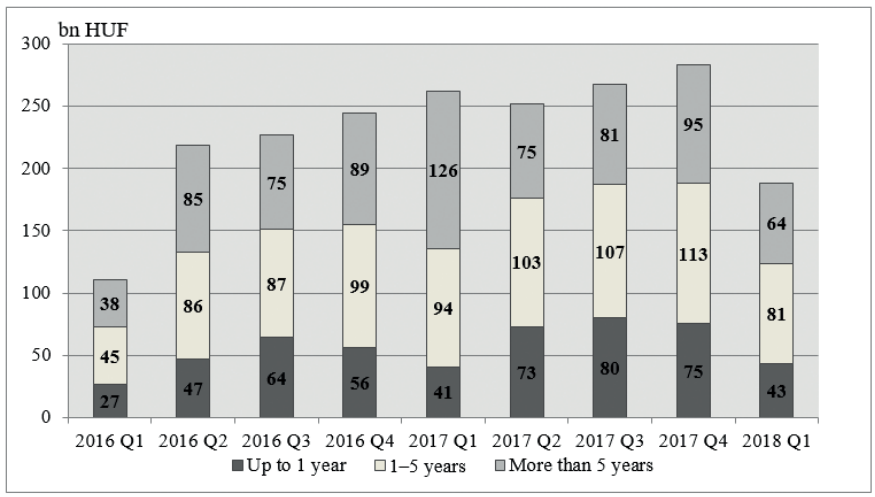
Figure 4 New corporate loans in the credit institution sector,2008–2017, bn HUF



Source: Compiled by the author based on Trends in Lending (MNB, 2017c)

It is also worth noting that the ratio of fixed-rate loans was significantly lower in the year following the end of the FGS. After the Scheme was closed, the ratio of fixed-rate SME loans dropped, especially those with longer maturities *(Figure 5)*. It may be due to the fact that after the FGS, banks were presumably less willing to provide fixed-rate financing with conditions similar to those of the FGS, or only at an interest rate level that was considered too high by corporations (MNB, 2018a).

Figure 5 New SME loans by maturity, 2016–2018, bn HUF



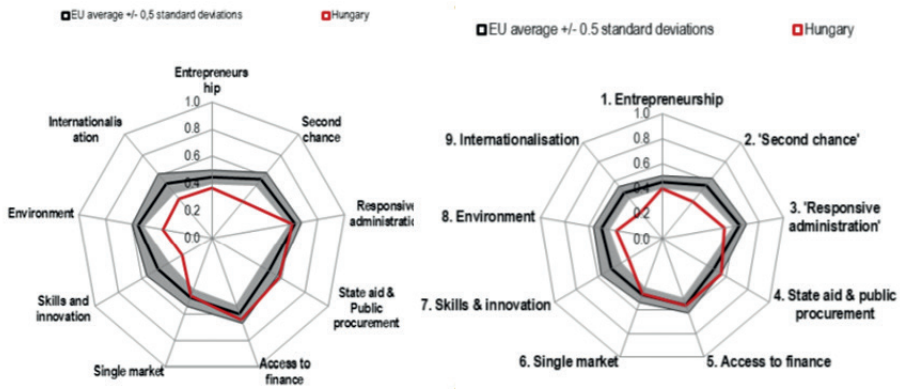
Source: Compiled by the author based on Financial Stability Report 2018 May (MNB, 2018a)

2.3. THE DEVELOPMENT OF THE SME SECTOR DURING THE FGS

The development of the Hungarian SME sector can also be illustrated by the way it implements the EU's Small Business Act (SBA)[6] principles. Although Hungary's SBA profile (European Commission, 2017) still contains several weaknesses as it performs below the EU in terms of entrepreneurship, second chance, responsive administration, skills & innovation, environment, and internationalisation, in contrast to its 2014 performance, improvements can be detected in the field of skills and innovation, entrepreneurship and second chance. Within the examined time horizon state aid and public procurement are the only pillar where Hungary exceeds the EU average. Access to finance and single market remained in line with the EU average. (Figure 6).

[6] For more information on SBA see: https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en

Figure 6 Hungary's SBA Profiles 2014 and 2017



Source: SBA Fact Sheet Hungary, 2014, 5; 2017, 4

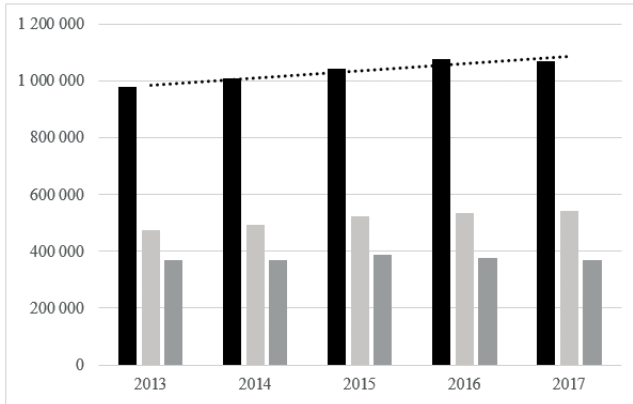
According to the EIB Investment Survey on Hungary (2017, 1) "access to finance is still a barrier for 43% of SMEs but only 20% of large firms". The percentage of finance constrained firms significantly improved from 13% in 2016 to 9% in 2017, although this figure is still slightly above the EU average of 7% (EIB, 2017).

In line with the EU industrial policy, support to small and medium-sized enterprises is a key aspect of the Hungarian industrial policy as well. "Supportive economic policy already plays a key role in the Hungarian economy: every year, 1.5–2 percent of Hungarian GDP is spent in the form of subsidies, which have been higher than the European average for years." (MNB, 2018b, 131)

The main objective of the SME Strategy is to improve the competitiveness of the sector with a simultaneous economic growth and increase in employment in line with the EU2020 objectives. Since "most of the factors hindering exports stem from the size of the enterprises and are related to the absence of human resources, financing and limited access to information" (MNB, 2017d, 27), the government's SME Strategy aimed to remove these obstacles by improving access to external financing and developing the entrepreneurial environment.

The success of the Scheme may also be measured by analysing the some of the structural features of the SME sector by time series analysis. During the 2013-2017 period the number of people employed by the sector rose by 9%, with micro companies increasing the number of staff by more than 90,000 workers (9%). The number of employed workers by medium-sized companies remained relatively stable, while that by small companies also grew significantly (15%), in spite of the fact that they only account for 36% of the overall SME sector (Figure 7).

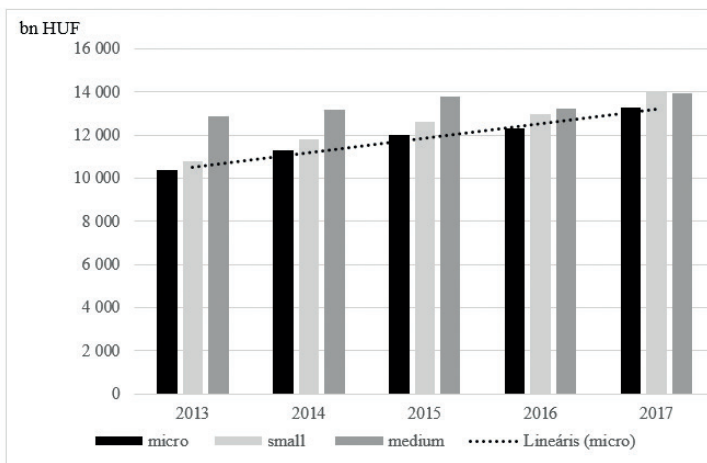
Figure 7 The number of people employed by the SME sector, 2013–2017



Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH)

In the investigated period the SMEs' net turnover also showed an overall 21% improvement, out of which the increase by the small enterprises exceeded 31%, it was followed by a 28% rise by micro enterprises, while in the case of medium-sized enterprises there was only an 8.5% growth. In spite of the fact that in 2013 there was an apparent gap between the different size categories in terms of turnover, by 2017 micro and small companies seem to have caught up with medium-sized enterprises (Figure 8).

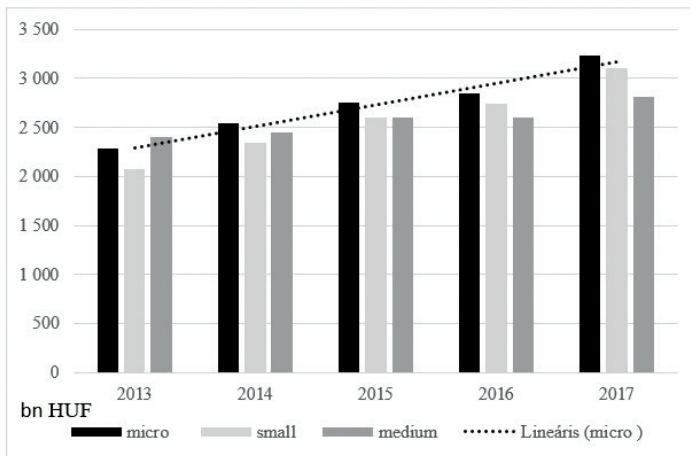
Figure 8 Net turnover by the SME sector, 2013–2017, bn HUF



Compiled by the author based on data by the Hungarian Statistical Office (KSH)

The value added at factor cost by the overall SME sector showed a 35% increase during the 2013–2017 period with small enterprises generating the highest increase with 49%, followed a 41% jump in small companies. In contrast to them, the 16% rise in medium-sized companies was rather moderate (Figure 9). It is also noteworthy to add that within the overall corporate sector SMEs distribution of value added levelled off at approximately 44% ranging between 13% and 15% depending on the different size classes[7].

Figure 9 Value added at factor cost by the SME sector, 2013–2017, bn HUF

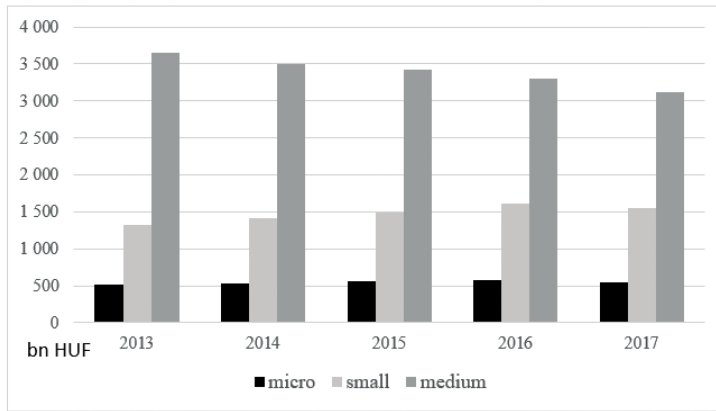


Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH)

As opposed to a noticeable improvement in employment, net turnover, value added at factor cost, SME's turnover from exports slightly declined (5%) in the given period. There was a moderate increase of 6% in the case of micro enterprises and a 17.4% rise in the case of small enterprises, while medium-sized companies suffered from a 15% setback (Figure 10). All this underpins the fact that even if the financial constraints of the sector were relieved by the FGS resulting in a positive trend of SMEs' development, the sector still would require further support to enhance export activities that cannot be implemented without R&D investments resulting in competitive products.

[7] For more information see: KSH http:www.ksh.hu/docs/eng/xstadat/xstadat_annual/i_qta005.html

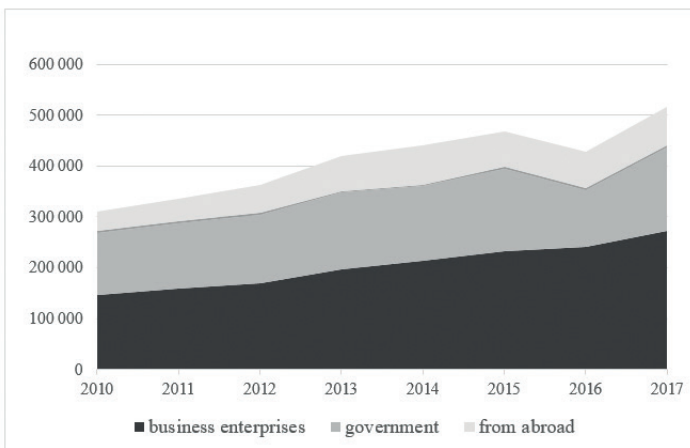
Figure 10 SMEs' turnover from exports, 2013–2017, bn HUF



Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH)

The annual R&D expenditure of business enterprises well exceeded that of the government. From 2010 to 2017 spending on R&D continuously rose. On an annual basis the distribution of business enterprises expenditure varied between 47% and 56% of the total amount while that of the government fluctuated between 26% and 39%. The gap became significant after 2013 when in 2016 it reached 30% (Figure 11).

Figure 11 R&D expenditure by financial source, 2010–2017



Source: Compiled by the author based on data by the Hungarian Statistical Office (KSH)

2.4. KEY TAKEAWAYS

The secondary sources published by the MNB have enabled us to trace the reasons for the launch, the phases, and the effects of the Funding for Growth Scheme as an unconventional monetary stimulus, which managed to boost SME lending.

In the course of the Scheme, the loan objectives and the disbursed amount have undergone a change in compliance with the macroeconomic growth and the sector's needs. As a result, the third phase has only provided new investment loans and new leasing while refinancing loans, working capital loans and pre-financing of EU funds have been phased out. Due to the favourable loan conditions of 2.5% fixed interest rate and long tenor, after the 3Q of 2013 SME lending exceeded the growth rate of outstanding loans in the corporate sector as a whole.

The time series analysis of SMEs' structural indicators has shown a considerable improvement in the sector's performance: from 2013 to 2017 a 9% rise in employment, a 21% increase in the net turnover, a 35% growth in the value added at factor cost. In contrast, exports indicated a slight decline, which may be further investigated whether it is still related to the long-term effect of the crisis or has some other reasons.

Also the country's SBA profile has indicated some progress, out of which skills and innovation as well as entrepreneurship are worth mentioning, which is positive sign, as SMEs' competitiveness highly depends on investments in R&D. From the launch of the Scheme there has been a steady increase in R&D expenditure by business enterprises, which considerably exceeded the amount of money spent by the government for this purpose. Even if data were available only for the business sector as a whole, we could assume an active contribution of the SME sector to it.

Access to funds is a prerequisite for the financial sustainability of enterprises. In spite of the fact that SMEs lag behind large corporations in terms of competitiveness, their economic and social significance is inevitable. Therefore, providing state aid in the form of a favourable loan scheme to relieve market imperfections is justified, since it has largely induced the sector's postponed investments. For the provision of favourable long-term corporate loans, the Scheme (Funding for Growth Scheme Fix) was relaunched in 2019 with similar conditions.

3. CONCLUSIONS

By analysing secondary sources, the paper has presented the Funding for Growth Scheme as a directed monetary instrument to boost SME lending and enhance the sector's growth. The study has aimed to investigate how this targeted liquidity providing scheme (2013–2017) relieved the lending constraints of SMEs, returned corporate lending to a growth path that enhanced competitiveness.

Investigating the role of government intervention in the case of market failures, as well as, dealing with the phenomenon of hysteresis as a sustained negative shift in economic growth following the 2008 crisis, the paper has come to

the conclusion that the launch of the Scheme was a necessary growth-inducing measure within the unconventional monetary policy instruments by the central bank to achieve macroeconomic stability. However, this was the inevitable result of coordinating the fiscal and monetary policy instruments.

Studying the concept of competitiveness in literature the paper shares the opinion that firm-level and national competitiveness are interrelated, as the competitiveness of a state is primarily affected by the competitiveness of its enterprises, which can be boosted by the government extending the drivers of productivity including enabling environment, human capital, markets and innovation capabilities. The FGS seems to have contributed to macroeconomic stability, improving financial intermediation, employment and business dynamism. All this has been embodied by improving GDP growth, encouraging commercial banks to target SMEs with favourable conditions, increasing the number of workers by SMEs, and directing investments to R&D&I activities.

The paper has revealed that in the post-crisis period the sector's development could be largely attributed to the concerted efforts of the government and the central bank, which provided favourable conditions for access to funds. It has been pointed out that an adequate supply of funds is not only a prerequisite for the financial sustainability of SMEs but it should also serve as an engine for research and innovation improving the sector's competitiveness and enabling international presence.

However, due to the relatively short time horizon since the end of the FGS (2017), it cannot be estimated at present how efficiently this targeted support has been used, since measuring the success of R&D requires a longer time frame. This may be subject to further research with a wider source of data.

In spite of these limitations, concerning the overall improvement of the SME sector in the 2013–2017 period and advancement in national competitiveness, an indirect additionality generated by the Scheme may seem to be well-established. Due to a change in the Scheme's loan objectives, with a shift from refinancing loans and working capital loans, investments came to the forefront encouraging the financing of fixed assets and R&D. Unlike other forms of institutional support (subsidies and grants) this directed loan scheme with favourable interest and a long tenor has largely induced investments previously postponed in the sector.

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