

LAKATOS, KÖVES ÉS TÁRSAI
ÜGYVÉDI IRODA

LKT NEWS

CORPORATE
20 APRIL 2020

UPDATE: LAW ON TEMPORARY GOVERNMENT SUPPORT TO BUSINESSES DURING THE COVID19 CRISIS

As part of its response to the economic effects of the COVID19, the Hungarian government passed, on 10 April, a new law which paves the way for providing direct financial aid (the “**Temporary Government Support**”) to Hungarian businesses that are in or face cash flow problems due to the current economic circumstances caused by the COVID19 pandemic. The measures announced by the Hungarian government follow the framework previously accepted by the European Commission (section 3.1. of Communication C/2020/1863 on the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak) and provide that limited temporary amounts of aid may be provided to businesses that find themselves facing a sudden shortage or unavailability of cash, if this is an appropriate, necessary and targeted response in the current circumstances.

HOW CAN BUSINESSES APPLY FOR TEMPORARY GOVERNMENT SUPPORT?

The new measures permit the government to provide financial aid to undertakings under the conditions set out in the law if the government wishes to do so. The new measures do not establish a direct right for businesses to be granted financial aid.

HOW WAS TEMPORARY GOVERNMENT SUPPORT INTRODUCED?

Temporary Government Support was introduced by a government decree (107/2020. (IV. 10.) Korm. rendelet; the “**decree**”), which was published on the morning of 10 April 2020, coming into effect the following day. The decree introduces a new subchapter on Temporary Government Support into the existing government decree on state aid (Government Decree 255/2014 (X. 10)) (the “**Existing State Aid Decree**”).

WHICH UNDERTAKINGS ARE ELIGIBLE FOR TEMPORARY GOVERNMENT SUPPORT?

The Prime Minister announced on 6 April that financial aid would be granted to Hungarian businesses. Based on the Existing State Aid Decree, other types of aid similar to Temporary Government Support may be granted to legal persons, sole traders or other individuals who are registered for tax as a business, so long as their registered seat is in Hungary or their registered seat is in the EEA and they operate through a branch office in Hungary. We anticipate that further details will be published in the programme descriptions, once they are released.

The decree does, however, specify that Temporary Government Support can be provided to businesses that were not in financial difficulty (within the meaning of the General Block Exemption Regulation) on 31 December 2019.

WHAT FORM DOES TEMPORARY GOVERNMENT SUPPORT TAKE?

Based on the Prime Minister’s announcement on 6 April, Temporary Government Support would be granted in the form of interest-rate subsidies and loans guaranteed by the government, with funds in a total amount of HUF 2,000,000,000,000 allocated for this purpose. The decree specifies that the financial support is not to be repaid, with the upper limit of Temporary Government Support being EUR 800 000 per business.

ARE THERE ANY RESTRICTIONS ON THE USE OF TEMPORARY GOVERNMENT SUPPORT?

The decree restricts the use of the aid to the specific purposes set out in the Existing State Aid Decree. There are 114 such purposes and they are quite wide ranging: for example, support may be used to develop local economic infrastructure, to enhance the IT capability of a business or to launch and maintain training programmes. The programme descriptions and calls for tenders, when published, are likely to contain the specific purposes that the particular Temporary Government Support may be used for. Temporary Government Support may be granted to businesses on or before 31 December 2020.



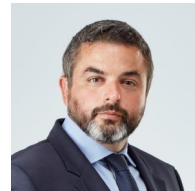
John Fenemore
Partner

john.fenemore@lakatoskoves.hu



Eszter Ritter
Partner

eszter.ritter@lakatoskoves.hu



Iván Solyom
Partner

ivan.solyom@lakatoskoves.hu



Gergely Kántor
Lawyer

gergely.kantor@lakatoskoves.hu

Lakatos, Köves and Partners

1075 Budapest
Madách Imre út 14.
Tel: +36 (1) 429 1300
Fax: +36 (1) 429 1390
www.lakatoskoves.hu

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HAVE SPECIFIC GOVERNMENT SUPPORT PROGRAMME DESCRIPTIONS BEEN MADE AVAILABLE?

The Minister for Foreign Affairs has issued a decree (Ministerial Decree KKM 7/2020. (IV. 16.)) that regulates the framework of a specific government incentive programme, yet to be launched. The government agency responsible for this programme is the Hungarian Investment Promotion Agency (HIPA), and the provision of this government support will follow the primary guidelines defined in Government Decree 107/2020 and section 3.1. of the European Commission's Communication C/2020/1863 (20 March 2020), mentioned above. The objective of this measure is to enhance competitiveness. The subsidy will be linked to the amount investment made by the applicants; consequently, businesses will need to make their own contribution in order to receive this type of government support.

Most businesses may apply for this government support; however, the Ministerial Decree explicitly lists the activities that are exceptions. For example, the Ministerial Decree excludes the provision of government support to enhance competitiveness in – for example – trading activities, steel manufacturing, shipbuilding, the coal industry, manufacturing of synthetic fibres, tourism projects and export activities.

The information leaflet available on the homepage of HIPA on this incentive programme provides that the scheme will support businesses facing difficulties due to loss of income and liquidity resulting from the economic impact of the pandemic in an amount of HUF 50 billion (approximately EUR 140 million).

Besides the conditions of Temporary Aid mentioned above, further specifics and conditions of this government support include the following:

- in connection with the pandemic the company experienced a decline of at least 25% in sales revenue or orders;
- the company is not responsible for the difficulties and took reasonable care to avoid the losses;
- there is no insurance in place or losses cannot be fully compensated by insurance;
- the company maintains already existing jobs until the completion of the investment but at least until December 31, 2020;
- the company undertakes to invest at least EUR 150,000 by 30 June 2021 in Hungary;
- the investment has not commenced before the application;
- the amount of subsidy is equal to 30% of the investment for investments of EUR 150,000 to EUR 300,000; 40% of the investment for investments of EUR 300,001 to EUR 500,000, and 50% of the investment (but no more than EUR 800,000) for investments of over EUR 500,000.

It has not been announced when the programme would be launched, and the Ministerial Decree does not establish a right to government support at the moment.

It has also been announced that the Hungarian government will introduce a new export support and investment programme through Eximbank (a fully state-owned bank, whose primary objective is to enhance the export of Hungarian products). The scheme will contain three new products for enterprises including preferential loans for investments, working capital loans with an interest rate of 0,1% for small enterprises in case of an application within 1 year, as well as guarantee and insurance schemes. The goal of the guarantee and insurance scheme is to enable the maintenance of commercial bank loans and the protection from the negative effects of late payments on the export market.

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 Fax: +36 (1) 429 1390
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HAS THE FUNDING FOR THE GOVERNMENT SUPPORT PROGRAMME DESCRIBED ABOVE BEEN MADE AVAILABLE?

On 17 April 2020, the European Commission approved a HUF 350 billion (approximately €1 billion) scheme to support the Hungarian economy in the context of the coronavirus outbreak. The support measures available under the scheme will be financed by the EU structural funds. The scheme was approved under the State aid Temporary Framework adopted by the Commission on 19 March 2020 (*Communication C/2020/1863 on the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak*).

WHO TO CONTACT?

If you would like further information about Temporary Government Support in Hungary, please do not hesitate to contact any member of our team:

John Fenemore	john.fenemore@lakatoskoves.hu
Ritter Eszter	eszter.ritter@lakatoskoves.hu
Sólyom Iván	ivan.solyom@lakatoskoves.hu
Kántor Gergely	gergely.kantor@lakatoskoves.hu

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