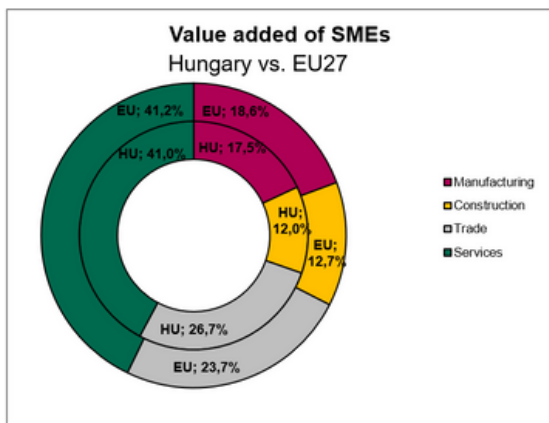


## COUNTRY FINDINGS: HUNGARY

The whole society is currently facing the negative impacts resulting from the Covid-19 pandemic, the war in Ukraine, or the rising inflation. The upcoming period is a huge challenge, especially for SMEs. SMEs in Hungary play an indispensable role in the country's economy.

According to the OECD data, more than 99% of all Hungarian enterprises are qualified as SMEs and account for more than two thirds of total employment. When we look at the sectoral distribution in Graph 1, we see that the biggest value is brought by SMEs coming from the service sector (41%), followed by the trade sector (26,7%), manufacturing (17,5%) and construction sector (12%).

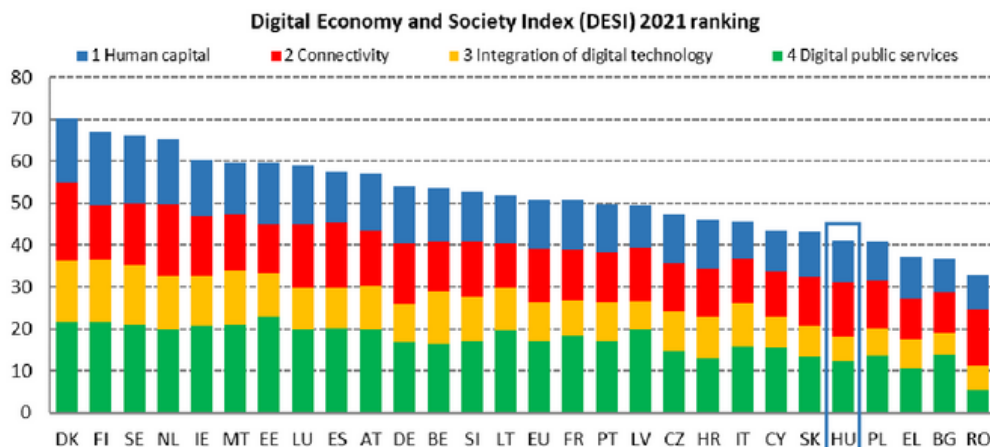


The adoption of digital technologies brings new opportunities and many benefits for the whole society, and SMEs in particular. Digitalization is closely linked to a company's growth and productivity, impacting its sustainability or profitability. As digital transformation is one of the key drivers of productivity growth, the common goal should be to enable SMEs a fast, efficient and transparent process of digitalization. The government, SMEs and big companies, academia or NGOs each have a role to play in this process.

This paper maps the SMEs in Hungary with a focus on the level of implementation of digital technologies in their businesses and connected areas. With reference to the discussions and working groups organized under the umbrella of the League for Digital Boost, we bring a summary of the main challenges of the Hungarian SMEs and the ecosystem and we also introduce key policy recommendations and success stories as an inspiration.

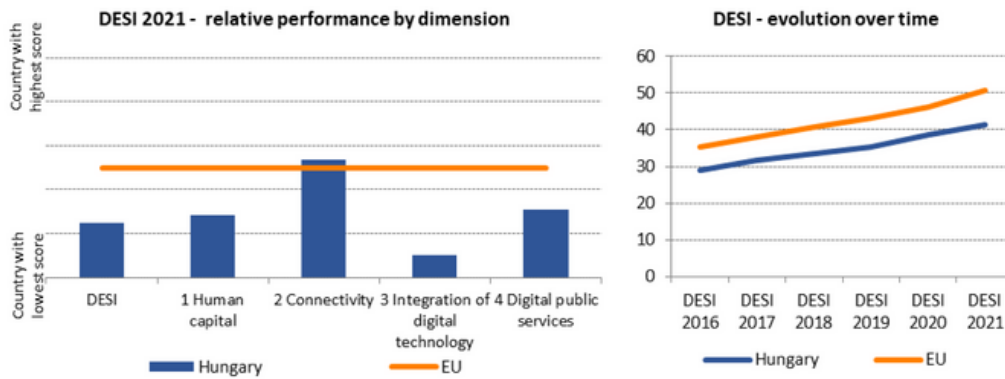
GRAPH 1. VALUE ADDED OF SMES BY SECTORS  
SOURCE: [HTTPS://WWW.STATISTA.COM/STATISTICS/937749/VALUE-ADDED-BY-SMES-IN-HUNGARY/](https://www.statista.com/statistics/937749/value-added-by-smes-in-hungary/)

As displayed in Graph 2, Hungary ranks 23rd out of 27 EU Member States in the Digital Economy and Society Index 2021 or DESI with a score of 41,2. In comparison, the score of the EU is 50,7. When we look at the evolution over time in Graph 3, Hungary doesn't reach the EU average and its score has improved in line with the EU average. On the other side, looking at the relative performance by dimensions, Hungary stands slightly above the EU average in the connectivity dimension, while others are far away from it, especially integration of digital technology.



GRAPH 2. DIGITAL ECONOMY AND SOCIETY INDEX 2021  
SOURCE: [HTTPS://DIGITAL-STRATEGY.EC.EUROPA.EU/EN/POLICIES/DESI-HUNGARY](https://digital-strategy.ec.europa.eu/en/policies/desi-hungary)

<sup>1</sup> <https://digital-strategy.ec.europa.eu/en/policies/desi-hungary>



GRAPH 3. DESI - EVOLUTION OVER TIME  
SOURCE: [HTTPS://DIGITAL-STRATEGY.EC.EUROPA.EU/EN/POLICIES/DESI-HUNGARY](https://digital-strategy.ec.europa.eu/en/policies/desi-hungary)

The Covid-19 pandemic had an impact on Hungarian SMEs. Many of them experienced a decline in sales, or faced supply disruptions, an upsurge in late payments and operating at a loss. According to the Annual Report on European SMEs 2020/2021 by the European Commission, all EU member states, except Poland, saw a decline in the value added generated by SMEs in 2020. The level of the decline varied between the countries. Hungary was one of the eight countries with a decline of over 10% in the value added of SMEs. Hungary also saw a small decline in employment of SMEs (0,7%). It remains among countries which clearly lag behind other EU member states, meaning it performed less well in terms of digitalization of their activities, such as having staff using computers with access to the World Wide Web, having a website, providing online ordering or reservation or booking when they have a website, using social media, selling online or using cloud computing<sup>2</sup>

With reference to the European Center for Digital Competitiveness and data gathered in the Digital Riser Report 2021, Hungary ranked second out of their top 3 Digital Risers in Europe and North America. The government expressed the vision to become one of the ten EU leading countries in digitalization by the end of the decade. One of the Hungarian lighthouse initiatives is the National Digitalization Strategy, a successor to the National Infocommunication Strategy. Among its objectives, there are goals to cover 95% of households by gigabit networks by 2030 or to reduce the share of the 16-74 year old population that does not use the Internet to below 2% by 2030. When we look into regulations, in 2016 the Hungarian government initiated the Digital Startup Strategy to improve the entrepreneurial ecosystem; starting from 2018, there was an obligation for all public administration bodies to provide online services. All the above mentioned regulations, plans and activities are among those which would help SMEs on their way to become more digital. Moreover, the Governmental Agency for IT Development established under the Ministry of Innovation and Technology is running about 60 projects to help particular organizations and businesses to digitalize<sup>3</sup>. The government has also already launched several measures to improve digital education such as improving teachers' digital pedagogical competencies, online training and more.

#### Strengths:

Hungary performs well in 5G readiness as displayed in Graph 4, the connection speeds in Hungary have made a significant improvement, the broadband coverage stands above the EU average as well. The share of public use of mobile broadband offers a demand for SMEs to become a member of the digital community. Among other strengths we could mention good contract enforcement enabling SMEs to rely on the legal system and invest its resources in the digital transformation, a good flow of international students creating a strong foundation in the know-how, skills and foreign experience pushing the digital trajectory, or a relatively strong base of high-tech exports in Hungary provides a good base of know-how that could spread through talent to SMEs.

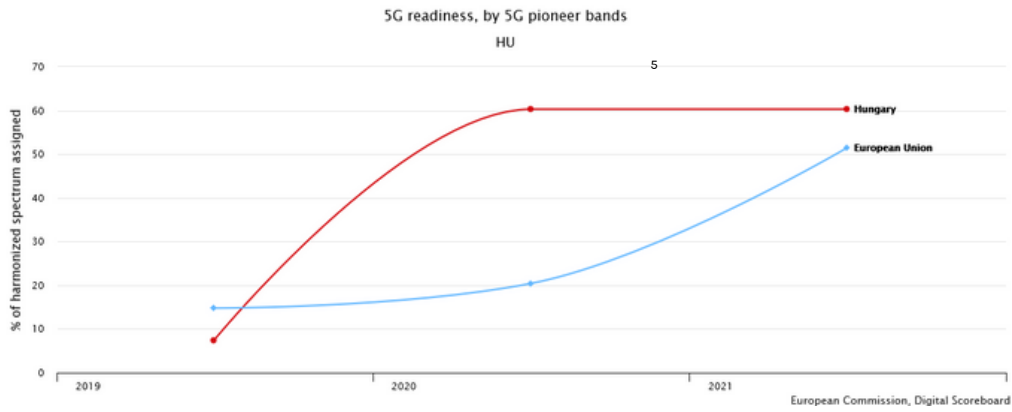
#### Weaknesses:

On the other hand, not even half of the population have at least basic digital skills and less than 50% of SMEs have at least a basic level of digital intensity. The adoption of key digital technologies reaches a low level as well (we can see the comparison to the EU average in Graph 5), and it is significantly below the EU average. When we look into more details of the dimension of integration of digital technologies, Hungarian SMEs reach very low levels in each sub-category. The country's enterprises do not have a fully integrated system of electronic information sharing, the use of e-invoices, social media engagement, the use of big data, cloud or AI remain low as well. Weak banking and financial services for SMEs with a weak stock market capitalisation resulting in few capital options for digitalization also require major improvements.

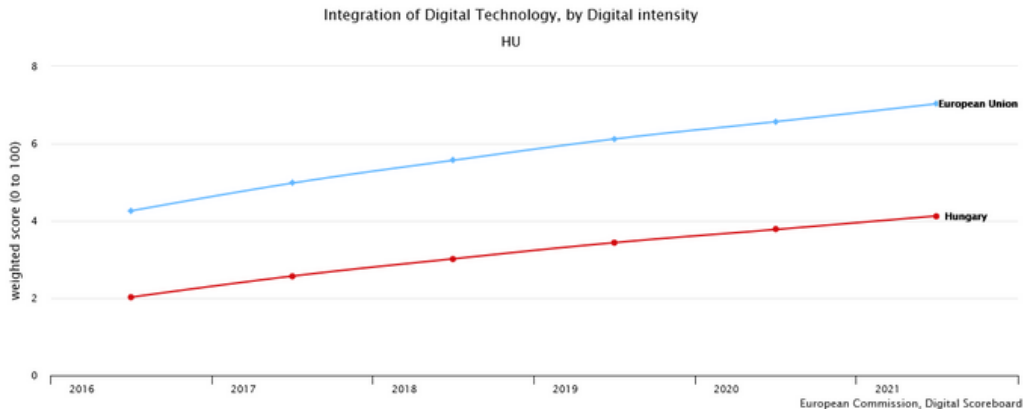
The Hungarian Recovery and Resilience Plan (RRP) is structured around the key policy areas of green transition, healthcare, research, digital, cohesion and public administration. The plan includes measures in sustainable transport, energy transition and the circular economy. The submitted Hungarian RRP contains in summary 47 reforms or investments, which are classified under 9 national strategic pillars (demography and public education, highly educated competitive workforce, catching-up municipalities, water management, sustainable green transport, energy, transition to a circular economy, health, not policy related country-specific recommendations). The general aim of the recovery plan is to support the green and digital transformation of the country.

<sup>2</sup> <https://op.europa.eu/en/publication-detail/-/publication/849659ce-dadf-11eb-895a-01aa75ed71a1>

<sup>3</sup> <https://digital-competitiveness.eu/digitalriser/>



GRAPH 4. DESI 2021 COMPARE COUNTRIES PROGRESS: 5G READINESS  
SOURCE: [HTTPS://DIGITAL-AGENDA-DATA.EU/DATASETS/DESI/VISUALIZATIONS](https://digital-agenda-data.eu/datasets/desi/visualizations)



GRAPH 5. DESI 2021 COMPARE COUNTRIES PROGRESS: INTEGRATION OF DIGITAL TECHNOLOGY  
SOURCE: [HTTPS://DIGITAL-AGENDA-DATA.EU/DATASETS/DESI/VISUALIZATIONS](https://digital-agenda-data.eu/datasets/desi/visualizations)



The mindset of the CEOs is not enough, though. Bearing in mind the existence of some funding possibilities, structures and schemes, the lack of digitally skilled employers and employees becomes one of the key challenges for SMEs. A world-known online platform for online learning, courses and certificates, Coursera, publishes a Global Skills Index and the Global Skills Report<sup>4</sup> each year, based on the platform data and research.

When we look into Graph 6, we see that Hungary operates with competitive Business skills in total, ranked as 49th in this category. When looking at the details, the country operates with exceptional financial skills, followed by several competitive skills such as Communications, HR, Marketing and Sales. On the other side of the spectrum, Strategy & Operations, Leadership & Management, Entrepreneurship are among emerging skills and Accounting is being categorized as a lacking skillset.

Global Rank	Accounting	Communications	Entrepreneurship	Finance	Human Resources	Leadership & Management	Marketing	Sales	Strategy & Operations
37	47%	31%	29%	94%	94%	41%	54%	46%	31%
39	18%	63%	45%	67%	87%	58%	81%	63%	46%
42	31%	29%	22%	81%	46%	39%	82%	94%	83%
43	24%	48%	34%	89%	73%	44%	70%	55%	41%
44	33%	33%	88%	87%	3%	82%	46%	40%	74%
49	13%	75%	31%	91%	53%	43%	79%	58%	34%
50	8%	96%	25%	50%	99%	22%	31%	23%	52%
51	27%	47%	41%	98%	25%	49%	59%	36%	37%
53	20%	80%	26%	64%	59%	45%	71%	77%	33%
59	4%	34%	14%	86%	41%	29%	39%	38%	19%
61	15%	52%	16%	75%	79%	42%	62%	51%	36%
62	74%	36%	71%	71%	58%	28%	37%	29%	27%
63	19%	66%	19%	55%	62%	37%	55%	33%	26%
69	26%	26%	24%	83%	20%	36%	57%	49%	48%
70	4%	86%	21%	32%	97%	25%	28%	15%	24%
76	16%	39%	20%	54%	28%	32%	47%	48%	23%
77	23%	21%	13%	85%	13%	33%	58%	50%	21%

COURSERA

Global Skills Report 2021: Regional Results

GRAPH 6. GLOBAL SKILLS REPORT 2021:EUROPE BUSINESS SKILLS

<sup>4</sup> To develop the Report, Coursera uses the data collected on their platform, including more than 77 million learners, 4000 campuses, 2000 businesses, more than 100 governments, workers, graduates and individuals.  
[https://pages.coursera-for-business.org/rs/748-MIV-116/images/coursera-global-skills-report-2021.pdf?mkt\\_tok=NzQ4LU1JVi0xMTYAAAGDB-NfKn\\_gxICDnsuCef2zv5cIn-FlNxEqCH-KicjlvVONw3Ob7gMzO-7tqXiwU-uvPYOj9l5wQxqF7gb3NMFGRI7WB27CtMtYzh\\_lskJgSrUmlhQ](https://pages.coursera-for-business.org/rs/748-MIV-116/images/coursera-global-skills-report-2021.pdf?mkt_tok=NzQ4LU1JVi0xMTYAAAGDB-NfKn_gxICDnsuCef2zv5cIn-FlNxEqCH-KicjlvVONw3Ob7gMzO-7tqXiwU-uvPYOj9l5wQxqF7gb3NMFGRI7WB27CtMtYzh_lskJgSrUmlhQ)

## Among our key recommendations, we bring the following:

One of the biggest challenges of SMEs in CEE countries is to provide a digital infrastructure in the countryside. The rural Very High Capacity Network (VHNC) coverage in Hungary stands below the EU average which is at the level of 59%, however, the rural VHCN coverage grew by 7% in the recent year. It is important to keep this positive trend and to maintain the pace of development of digital infrastructure outside big cities and to pay special attention to SMEs operating in underdeveloped regions.



In order to increase the skills for SMEs, it is necessary to continue supporting the development of digital skills throughout all levels of education. SMEs would also benefit from mentoring programs which could help them identify the benefits that digitalizations could bring to them. The collaboration of government, private sector and third sector is crucial to increase the awareness about current platforms and opportunities. Mentorship provided by digital companies could have a crucial impact on the SMEs as such as it could help SMEs to navigate throughout the process of digitalization, help to set up their strategies, including focusing on online marketing and sales, considering the appropriate level of digital technologies and tools, looking to improve security systems, planning the use of their social media, or how to improve internal skills.

## When it comes to the financing of digital transformation, we suggest:

- the creation of financial schemes supporting the incentivization of digitalization of SMEs (e.g. tax breaks) or the promotion of innovation and R&D among SMEs by fostering collaboration with academia (e.g. innovation/digital vouchers).
- increase access to capital by simplifying procedures for obtaining and reporting public and EU funds.

An active cooperation of the government with those who drive the digitalization and implementation of their know-how to the policy making processes would also be beneficial.



The government in cooperation with big companies and the third sector could improve and create a motivational environment for startups that come up with quick solutions for an effective digital transformation of SMEs. This motivational environment could be used to raise awareness of the benefits of digitalization among the stakeholders. Moreover, we recommend strengthening the position of major cities as innovation/digital hubs, tailored to local needs by positioning hubs as a priority in municipal governments' policies, supporting the creation of testing grounds for new models, enabling SMEs to try out their business models in real market conditions.

As other European countries, Hungary has a good momentum to use this opportunity and to speed up the development of its digital economy by replicating successful strategies which have already been implemented in other countries.



We believe that all actors of the ecosystem have their key role to play in order to boost the level of digital transformation of SMEs and that we will succeed only when we work together. The government provides education and regulation; big companies, start ups and scale ups bring new solutions to the market; NGOs connect various stakeholders and create knowledge sharing platforms; universities contribute to generating innovative mindsets. After all, that is what the success stories of countries with a highly digitalized economy teach us. We have to realize that by helping SMEs to digitalize, we will help not only the businesses, but the society, organizations, or individuals. All the investments into digitalization will produce returns across the economy.

Hungary already has a number of case studies and best practices, such as the CodeBerry, an online platform for learning programming which offers courses in 20 languages.<sup>5</sup> Among other companies which revolutionized their industries, we could list Prezi, a presentation software company with the community of over 100 million users or LogMeIn, a provider of software as a service and cloud-based remote connectivity services or Starschema, the data and warehousing, which helps businesses to optimize operations, track progress, design solutions and build the technology needed to compete and profit on the market.<sup>6</sup>

<sup>5</sup> <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/digital-challengers-in-the-next-normal-in-central-and-eastern-europe>

<sup>6</sup> [https://digitalchallengers.mckinsey.com/files/Rise\\_of\\_Digital\\_Challengers\\_Perspective%20on%20Hungary.pdf](https://digitalchallengers.mckinsey.com/files/Rise_of_Digital_Challengers_Perspective%20on%20Hungary.pdf)

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The vision of the League is to create a broad coalition of the key actors in the field of digital economy and to launch and drive a sustainable format of a long-term cooperation in the implementation of digital transformation in SMEs.



**Lucia Colníková**  
The League for Digital Boost Lead

## Next steps:



Addressing specific policy recommendations to governments



Preparation of a digital handbook for SMEs



Connecting key stakeholders



Raising awareness through different set of activities

Under the Auspices of:      Founded & Led by:      Partners:

