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# **THE ROLE OF SAFE IN THE DEFENCE DIVERSIFICATION OF HUNGARIAN AUTOMOTIVE SUPPLIERS**

*An economic security and industrial policy study supporting the PROSUM defence industry concept*



**Szilárd Szélpál**

**PRESIDENT  
PROSUM FOUNDATION**

# EXECUTIVE SUMMARY

**T**he entry of Hungarian automotive suppliers into defence and dual-use markets is a defensible industrial policy direction. SAFE, the European defence loan instrument, could have provided a substantial demand and financing base for this transition, and may still do so under the remaining Hungarian programme. The essential condition is to link company readiness measures to specific procurement projects that are militarily justified, lawful and financially viable. A general automotive industry rescue programme does not become eligible for SAFE simply by promising products that could also serve defence purposes.

PROSUM's study of 9 July 2026, *The Future of the Hungarian Defence Industry after 2026*, provides a useful strategic framework. It highlights military mobility, life-cycle support, digital logistics, sensor technologies, cybersecurity and specialised technologies. The innovation and supplier development programmes proposed on numbered pages 68–70 would build the corporate capabilities without which a substantial share of procurement demand would generate value added abroad. This study examines the relationship between these programmes and SAFE and puts forward its own policy proposals. [1]

The factual basis for the change in Hungary's loan request is verifiable. In September 2025, the Commission provisionally allocated EUR 16,216,720,524 to Hungary. According to the Commission's press briefing of 25 September 2026, the Hungarian authorities ultimately indicated a request for EUR 5.4 billion; the spokesperson was still awaiting the revised plan. The difference of approximately EUR 10.8 billion therefore represents a reduction in the loan request, rather than a lost non-repayable grant or an established amount of industrial loss. [2–3]

The potential economic significance has three dimensions. Appropriate procurement could generate orders for suitably prepared suppliers; contracts could improve the bankability of transition investments; and European cooperation could provide access to additional markets. These effects are conditional. They require defence needs, supplier competitiveness, technology rights and fiscal sustainability to be addressed together.

Under the proposed model, SAFE would finance eligible procurement, complemented by national programmes for supplier readiness, suitable EU and national research instruments for innovation, and equity and commercial or development financing for corporate investment. Hungary's smaller loan request does not exclude Hungarian companies from other countries' SAFE procurement. The industrial strategy's success should therefore be measured not only by the volume of Hungarian sovereign borrowing, but also by contracts won, domestic value added and technological capabilities acquired.

## 1. SCOPE AND METHODOLOGY

This study assesses how the diversification of Hungarian automotive suppliers can be connected to the defence industry development priorities outlined by PROSUM and to the SAFE legal framework. The economic policy question has two parts: under what conditions can defence demand generate viable new business lines, and when is the associated public borrowing justified? The study does not assume that using the entire provisional loan allocation would necessarily have been the better decision.

The methodology combines legal analysis, comparison of primary institutional sources and conditional industrial policy modelling. The main legal foundations are Council Regulation (EU) 2025/1106, the defence procurement rules, EU State aid frameworks and the related financing instruments. The PROSUM document is used as a strategic starting point; its company profiles do not replace current ownership, financial and technological due diligence for a specific transaction. [1, 4–7]

The conclusions should be understood at three levels of evidence. The content of legislation and the officially announced loan request are established facts. The proposition that certain automotive competencies can, with suitable development, be deployed in defence value chains is an analytical inference. The programme structure, timetable and evaluation system set out here are policy proposals. The numerical examples are illustrative calculations, not forecasts based on a company survey.

Establishing the actual benefits forgone would require a comparison of Hungary's original and revised investment plans, the domestic content of procurement, alternative financing and the feasibility of the projects dropped. In the absence of these documents, the study identifies the conditions and implications of a possible strategy. This provides a more robust policy assessment than the assertion that a larger loan allocation would, by itself, have meant more Hungarian jobs, without claiming an unproven causal relationship.

## 2. INTERPRETING THE CHANGE IN HUNGARY'S LOAN REQUEST

A provisional allocation, a Member State application, Council approval, a loan agreement and disbursement are distinct legal and financial stages. The EUR 16.2167 billion figure for Hungary in September 2025 was a provisional allocation. It did not

mean that the State had already received the full amount, could spend it freely or could draw it down unconditionally. Under SAFE, the Member State's plan and its implementation are also decisive. [2, 4]

According to the Commission's briefing of 25 September 2026, the Hungarian authorities indicated a final request of EUR 5.4 billion. The spokesperson expressly referred to a Hungarian decision and did not announce a Commission withdrawal of the allocation. He discussed the use of remaining European funds in a new application round; this does not imply that Hungary's unused balance had already been awarded to a particular country or company. [3]

Using the rounded figure of EUR 5.4 billion, the difference is approximately EUR 10.817 billion, or roughly two-thirds of the original allocation. An apparently precise euro figure does not, however, constitute an equally precise economic impact estimate. It is not known what proportion of the abandoned component would have consisted of imported finished products, domestic manufacturing, technology development or procurement that would have proceeded using other funding in any event.

A smaller loan request may be fiscally justified if the original project pipeline was excessive, expensive, insufficiently mature or weakly grounded in military needs. It may, however, be detrimental to economic security if competitive domestic development opportunities were left without financing. The loan amount alone cannot distinguish between these possibilities. The appropriate comparison concerns the military performance, whole-life costs and industrial impact of the original and revised project portfolios.

### **3. THE ECONOMIC SECURITY RATIONALE FOR AUTOMOTIVE ADAPTATION**

The competitiveness challenges facing Europe's automotive industry should not be attributed solely to Chinese competition. Electrification, the spread of software-defined vehicles, energy and investment costs, the composition of demand and trade uncertainty all affect suppliers. The Commission's automotive action plan of March 2025 and its December package likewise address a multidimensional competitiveness problem. [8–9]

Hungary's supplier sector should therefore not be treated as a uniformly distressed industry. A company linked to internal combustion powertrains, a precision engineering manufacturer serving several industries and an automotive software

developer face different circumstances. For one, the realistic objective may be to redeploy existing machinery; for another, to apply engineering expertise to a new product; and for a third, to reduce dependence on its main customer. The programme must begin with an assessment of each company.

The value of defence diversification may lie in enabling a company to operate in several markets driven by different demand factors. This can reduce exposure to civilian automotive cycles, but does not eliminate business risk. Defence demand depends heavily on public budgets, political decisions and procurement timing. If the new business becomes a subcontractor to a single domestic prime contractor or a single government programme, customer concentration may persist.

The military market generally cannot absorb all the output lost from automotive mass production. Production volumes, the number of variants, documentation requirements and product life cycles may differ. The programme's main economic objective may therefore be the selective transformation of viable capacity and the development of higher-value activities. A promise to rescue the entire automotive industry would be unsupported on both demand and technological grounds.

## **4. SAFE'S LEGAL PURPOSE AND THE SCOPE FOR INDUSTRIAL RESTRUCTURING**

SAFE is an exceptional EU financial instrument based on Article 122 TFEU. Regulation (EU) 2025/1106 provides for up to EUR 150 billion in loans to Member States to strengthen defence industrial readiness. The Member State takes out the loan; companies participate through procurement or supply contracts. The national programme authority must therefore coordinate public finance and industrial decisions while keeping the respective responsibilities distinct. [4]

Article 4 of the Regulation supports activities, expenditure and measures relating to defence products or other products for defence purposes within the appropriate procurement framework. Structural adjustment and the expansion of production capacity form part of the Regulation's objectives. This provides a legal basis for considering industrial development linked to procurement, but does not confer a general authorisation to finance any factory modernisation project. [4, Articles 1 and 4]

For a company's transition, each cost item must be shown to be necessary for the military procurement concerned, capable of being accommodated within its contractual and financial framework, and consistent with the approved plan. The cost

of new manufacturing equipment may be reflected in the price of the product supplied, or covered through another expressly approved arrangement. This does not automatically establish the legality of a separate corporate investment subsidy financed through SAFE. The industrial plan must identify the respective legal bases for procurement, aid and corporate investment.

The Regulation's material scope covers several relevant areas: land capabilities and support systems, cyber defence, military mobility, drones, artificial intelligence and strategic enablers. The distinction between categories also has legal significance. Small drones and larger unmanned systems may fall into different categories; in the second category, the ability to control product design, modification and further development is a separate requirement. [4, Articles 1 and 16]

A standalone civilian fleet management application or a general IT security service is not eligible merely because it could have military customers. The defence purpose, the subject matter of the procurement and the appropriate category must be substantively established. The same applies to dual-use infrastructure: civilian benefits are an important social advantage, but do not themselves provide a legal basis for financing.

## **5. COMMON PROCUREMENT AND EUROPEAN SUPPLY CHAINS**

As a general rule, common procurement involves at least one Member State receiving a SAFE loan and one additional Member State, EEA EFTA State or Ukraine. This is cooperation between public purchasers: a joint project between two companies operating in different countries does not, by itself, meet the condition. Other eligible partner countries may participate in accordance with the Regulation; participation as a purchaser and a company's eligibility as a supplier must be assessed separately. [4, Article 2(3), Articles 16–17]

Under the transitional exception in Article 4, certain procurement by a single Member State may also be financed if the contract was signed no later than 30 May 2026 and the other conditions are fulfilled. A new Hungarian supplier programme launched in autumn 2026 cannot generally rely on this exception. Participation in existing contracts or contract modifications must be structured in accordance with the specific applicable rules. [4]

The component-origin requirement concerns the estimated cost of the finished product's components. As a general rule, the cost of components originating outside the EU, EEA EFTA States and Ukraine must not exceed 35 per cent of total component cost. This is neither a 65 per cent Hungarian-content requirement nor a measure of domestic value added as a share of total contract value, nor is it merely a rule about the location of assembly. Applicable agreements with third countries must also be taken into account. [4, Articles 16–17]

This may create supply opportunities for Hungarian industry, as European prime contractors need compliant European supply chains. Securing these opportunities nevertheless requires competitive offers in terms of price, quality, delivery times and reliability. The programme must therefore address actual bills of materials, capacity and verifiable origin. A company's registered office or the incorporation of a new Hungarian subsidiary is not sufficient evidence of compliance.

Ownership and control are particularly important in the international cooperation arrangements discussed by PROSUM. SAFE conditions concerning third-country control, the location of infrastructure and security guarantees must be assessed for each relevant actor within the Regulation's scope. A relationship with a NATO partner country does not automatically confer eligibility as an EU supplier. Assessing a specific Rába–Gidrán–Nurol cooperation project would therefore require its current contractual, ownership and technological structure; neither compliance nor exclusion can be established from the programme's name alone.

## **6. CORPORATE OPPORTUNITIES WITHIN PROSUM'S DEVELOPMENT PRIORITIES**

A central strength of the PROSUM concept is that it identifies several entry points alongside the independent development of complete weapons systems. The automotive and mobility model discussed on pages 15–17, the specialisation presented on pages 41–51 and the programme proposals on pages 68–71 together offer manufacturing, engineering and service pathways. These must, however, be translated into specific product families and customer requirements. [1]

| Existing competency                           | Potential defence business                    | Main entry requirement                                     |
|-----------------------------------------------|-----------------------------------------------|------------------------------------------------------------|
| Precision metalworking and vehicle components | Components for mobility and logistics systems | Approved specifications and repeatable quality             |
| Vehicle electronics and wiring systems        | Onboard electronics and diagnostics           | Environmental qualification and configuration traceability |
| Embedded software and data processing         | Fleet management and predictive maintenance   | Data access and system integration                         |
| Sensors and automation                        | Autonomous monitoring and logistics functions | Military validation and human oversight                    |
| Power supply and thermal management           | Specialised onboard power units               | Safety testing and a verifiable supply chain               |
| Repair and industrial servicing               | Life-cycle support and regional MRO           | Licence rights and long-term spare-parts supply            |

The table is this study's own policy mapping of PROSUM's priorities. It does not claim that the listed groups of companies already hold military qualifications, or that every activity identified is independently eligible for SAFE financing. Technological similarities must be followed by product-level capability assessments.

### ■ **Military mobility and vehicle components**

Competencies relating to running gear, mechanical structures, vehicle electronics and industrial vehicles may provide relatively direct points of entry. Initial programmes should select products for which much of the civilian manufacturing experience is transferable and the qualification gap can be closed at a manageable cost. Military use may nevertheless impose different requirements for loading, maintainability and availability.

A realistic business model would be based on identifiable needs across several platforms or countries. Investment sized for a single domestic vehicle series may become underutilised once the initial order is completed. Before an investment decision, the programme should therefore examine whether the same competency can also be marketed for other vehicle types and civilian industries. This can reduce exclusive dependence on follow-on government orders.

## ■ Life-cycle support and regional services

MRO means maintenance, repair and overhaul. Under PROSUM's mobility and life-cycle approach, it can constitute a distinct industrial specialisation, because the sustained operation of procured systems requires diagnostics, spare-parts supply and appropriate technical support. The service model's commercial value may lie in the duration of contracts and recurring demand. [1, pp. 16–17 and 70–71]

Access rights are decisive here. A Hungarian service provider can carry out substantive repairs or upgrades only if it has access to the necessary technical documentation, software and components. The value to the national economy therefore cannot be measured solely by the cost of a facility or production line. Contracts must address rights of use and modification, data access, liability and the terms of subsequent updates.

SAFE's role can be considered for services included in the approved procurement package. This does not imply that the entire sustainment cost, potentially extending over several decades, can be charged to SAFE. Subsequent operating expenditure requires separate budgetary and contractual provision, so the life-cycle plan must be costed at the initial procurement stage.

## ■ Drone components and autonomous logistics

The industrial policy potential of drone technology depends primarily on the precise selection of competencies. Hungarian suppliers may seek niches in lightweight structures, electronic components, power supply, testing solutions or software functions. Targeted component development may carry less commercial risk than independently creating an entire product family, but the system integration partner's commitment must still be secured in advance.

Automotive expertise in autonomous driving cannot be transferred unchanged to a military environment. Operating conditions, communication options, safety requirements and liability rules may differ. The programme's first phase could therefore examine clearly defined logistics and diagnostic applications operating under human supervision. Financing development costs and financing subsequent procurement must be treated as separate decision points.

## ■ **Software and cybersecurity**

Fleet management, maintenance data analysis and secure system integration may provide valuable new opportunities for automotive software companies. High value added is not, however, an automatic consequence of a product containing software. What matters is who retains development expertise, modification rights, the customer relationship and the ability to market the product again.

Corporate business plans should therefore contain a separate intellectual property section. This should define rights to pre-existing technology and project results, the handling of military data and the elements that may subsequently be marketed in civilian markets. If all results belong exclusively to the prime contractor, a Hungarian company's revenue may increase while its independent market position improves only to a limited extent.

## ■ **Power supply and manufacturing automation**

Connections can also be identified in battery packs, thermal management systems and power electronics. Supply-chain origin, product safety and specific operating conditions all matter. A product manufactured in Hungary cannot automatically be regarded as a component of qualifying European origin; this must be demonstrated under the applicable methodology.

Automation expertise used in civilian manufacturing may also improve quality and traceability in defence production. Its place in the financing structure must, however, be clearly defined: the supply of manufacturing equipment, a factory investment and the government procurement of a finished product may be separate transactions. The programme's task is to design these relationships, rather than automatically classifying all related costs as eligible for SAFE.

# **7. LAWFUL ENCOURAGEMENT OF DOMESTIC INDUSTRIAL PARTICIPATION**

SAFE eligibility and compliance with procurement law are separate requirements. Directive 2009/81/EC provides the core EU framework for defence procurement, while Act XXX of 2016 is central in Hungary. The precise procedure must be selected according to the contract's subject matter, applicable exceptions and amendments in force. SAFE's specific procedural simplifications do not permit unrestricted contract awards. [4–6]

Article 19 of the Regulation addresses the condition of urgency arising from a crisis for procurement involving SAFE participation, in connection with a specific provision of Directive 2009/81/EC. This does not create a general exemption from defining the subject matter of procurement, providing reasons for decisions or exercising public financial oversight. Procedural speed must be accompanied by documented decisions and verifiable costs. [4, Article 19]

PROSUM's target of at least 30 per cent domestic value added can be understood as an economic policy outcome indicator. It should not automatically be converted into a mandatory quota for Hungarian suppliers. National preferences and industrial offset requirements may restrict competition within the EU; general objectives of job creation or economic stimulus will usually be insufficient to justify them. [1, p. 70; 7]

Article 346 TFEU allows derogations linked to essential security interests, but is not a general industrial policy exemption. A measure must identify the security interest being protected, demonstrate necessity and examine less restrictive alternatives. In civilian and dual-use markets, invoking military considerations to justify what is effectively general economic protectionism would be particularly problematic. [7]

Improving supplier capabilities and reducing barriers to market access offers a more legally sound programme approach. Measures may include preparation for certification, transparent partner searches, early communication of requirements and proportionate selection criteria. Dividing contracts into lots or opening subcontracting to competition may also help where justified by the procurement's structure. Their applicability must be determined under the rules governing the specific procedure. [5]

Security-of-supply requirements should be expressed as performance requirements. Repair response times, access to stocks and continuity of operations during a crisis may constitute verifiable conditions. A presence in Hungary may be justified where necessary and proportionate to a specific need; simply requiring national ownership does not replace that assessment. The objective is a set of competitive conditions under which suitably prepared Hungarian companies can deliver a real advantage.

## **8. STATE AID AND THE DIVISION OF ROLES BETWEEN FINANCING INSTRUMENTS**

Public procurement and State aid are legally distinct categories. Purchasing products on market terms does not necessarily constitute aid in itself, but preferential corporate financing, the free transfer of assets or excessive remuneration may raise State aid

issues. The EU origin of SAFE loan funding does not automatically exempt corporate measures designed by a Member State from assessment under Articles 107–108 TFEU. [10–11]

The applicable legal basis must be selected in advance for the aid elements of a national supplier development programme. Aid for research and development, training, investment or consultancy may be granted under different conditions. The applicability of block exemption rules or the appropriate notification procedure depends on the beneficiary, costs, amount and project timing. A general aid intensity applicable to all defence suppliers cannot be derived from the SAFE Regulation. [10–11]

| Instrument                  | Proposed role                                              | What it does not replace                                |
|-----------------------------|------------------------------------------------------------|---------------------------------------------------------|
| SAFE                        | Eligible public defence procurement                        | A general corporate rescue programme                    |
| National supplier programme | Readiness measures and addressing verified capability gaps | Guaranteed military orders                              |
| EDF                         | Collaborative defence research and development             | General series procurement of finished                  |
| EDIP                        | Industrial and procurement cooperation under current calls | An automatic national allocation or company entitlement |
| EIB and market financing    | Eligible and bankable corporate investments                | An aid award decision or military qualification         |
| Equity                      | Corporate risk-taking and growth                           | Compliance with public finance requirements             |

The European Defence Fund’s legal basis is Regulation (EU) 2021/697. The EDF supports collaborative defence research and development projects under its own participation and control conditions. The 2026 work programme defines specific call topics. For a Hungarian company, the first questions are therefore the partner consortium and fit with the call, rather than whether innovation funding is generally available alongside the SAFE programme. [12]

By autumn 2026, EDIP must be considered on the basis of Regulation (EU) 2025/2643 and the 2026–2027 work programme. On 30 March 2026, the Commission announced

a EUR 1.5 billion work programme. PROSUM's earlier reference to the proposal must therefore be updated in this associated analysis to reflect the adopted legal framework. Access to EDIP funding nevertheless depends on competition, call conditions and project eligibility; it is not assured revenue. [13–14]

EIB financing may provide a separate channel where the company and activity meet the current eligibility and creditworthiness requirements. The institution's security and defence financing opportunities include intermediated SME finance and instruments for innovative companies. These should not, however, be presented in a business plan as non-repayable grants or automatically available funding. [15]

For Horizon Europe or other civilian innovation instruments, the civilian purpose of the specific call and the current legal conditions must be checked. A technology's potential military application does not, by itself, make military development costs eligible under a civilian programme. Parallel financing requires separate cost records, and ineligible multiple charging of the same costs must be prevented.

## **9. CORPORATE COMPLIANCE AND TECHNOLOGICAL AUTONOMY**

Becoming a military supplier is not a matter of obtaining a single general certificate. The product and contract concerned determine the quality assurance, testing, information security and licensing requirements. PROSUM's reference to alignment with AQAP should therefore be understood as a programme objective to be specified for each contract and product group. Civilian automotive quality management may provide a useful foundation, but does not demonstrate military compliance. [1, pp. 69–70]

Preparation must also address traceability, change management, defect management and supplier documentation. A cost structure that is competitive in small-batch production may differ from that of automotive mass production. A company must not only be able to produce the first sample, but also demonstrate that it can provide the same quality and availability throughout the contract's duration.

Export control assessments should be undertaken at the outset of product design and partner selection. Regulation (EU) 2021/821 provides the core EU framework for controlling dual-use items, technologies and certain services. Military products are also subject to separate licensing and transfer rules. Intra-EU business cannot be assumed to be exempt from licensing obligations in every case. [16–17]

Transfers of software and technical know-how require particular attention. Access by a foreign developer, remote support or the transmission of documentation may also raise control issues. The programme should support the appointment of a company export control officer, transaction screening and documented end-user checks. Their costs must be recognised as part of the actual cost of market entry.

For cybersecurity requirements, civilian regulation and military contracts are not interchangeable. Development involving classified information may require specific access, personnel and organisational arrangements. A general reference to NIS2 or CER rules does not demonstrate a military system's compliance or the existence of State control rights. Each such claim must be linked to the entity, activity and legal powers concerned.

Technological autonomy should be measured through contractual rights. It matters whether a Hungarian company can modify the product, use an alternative component, supply another customer and further develop its own results. The geographical location of production is insufficient on its own. Particularly for software and complex electronic products, critical dependence may lie in the licence or in control over updates.

## **10. STRUCTURE OF THE PROPOSED NATIONAL PROGRAMME**

The national programme should begin by matching military needs with industrial capabilities. Defence authorities define the required capability and acceptable performance; industrial policy authorities identify companies that can be prepared; and financial and legal assessments examine bankability and lawful contractual routes. Conflicts of interest between decisions on corporate support and procurement awards must be addressed through organisational rules.

Company assessments should examine dependence on major customers, capacity utilisation, machinery, engineering expertise, financial position and ownership control. Companies can then be divided into three groups: those able to enter after a short preparation period, those requiring more substantial technological development, and those for which transition is not economically viable. Other adjustment measures or worker support may be appropriate for the third group. Forcing them into a defence programme would merely postpone losses.

The next step is to involve the specific procurement partner and system integrator. A company should prepare a substantial capacity expansion plan once the target product, qualification requirements, indicative quantities and delivery window are known. Early market consultation must ensure that no company receives an unjustified competitive advantage. The objective is to prepare the market, rather than to preselect the winner.

The programme's first phase should involve a small number of clearly defined demonstration projects. Mechanical component supply, digital maintenance and targeted sensor or power supply development could test different business models. Further financing tranches should be released only after documented technical and commercial results. The ability to terminate unsuccessful development is part of public financial discipline.

The supply contract must address advance payments, milestones, quality acceptance, delays and termination costs. Pre-financing may be a genuine obstacle for smaller companies, but unlimited State guarantees should not transfer every business risk to the public sector. Aligning bank financing with prime contractors' payment arrangements may often be more effective than providing further investment aid.

The programme should operate with separate military, financial and integrity oversight. Classified technical data must be protected, but aggregate costs, implementation status and the principles underlying aid decisions should be open to scrutiny. Consistent with PROSUM's institutional approach, preserving existing capabilities and investigating potential irregularities are compatible if due diligence follows a predetermined, lawful procedure. [1, pp. 54–66]

## **11. MEASURING THE PROGRAMME'S ECONOMIC IMPACT**

Total procurement value, Hungarian companies' contractual revenue, domestic value added and fiscal revenue are different quantities. A product manufactured in Hungary may contain substantial imported inputs, and part of one company's revenue may also appear as revenue of other Hungarian companies. Adding these figures together can therefore lead to double counting. The evaluation must use a consistent accounting boundary.

In a simple illustrative model, domestic supplier contract value equals programme value multiplied by the domestic share of contracts. Direct domestic value added can

then be estimated by applying the share of value added generated domestically in delivering those contracts. An actual calculation requires appropriate consolidation of domestic intermediate supplies. This model does not assume an automatic multiplier and does not equate the value of orders with GDP growth.

| Indicator                   | Scenario A        | Scenario B        | Scenario C        |
|-----------------------------|-------------------|-------------------|-------------------|
| Programme value             | EUR 1,000 million | EUR 1,000 million | EUR 1,000 million |
| Domestic share of contracts | 10%               | 20%               | 30%               |
| Domestic contract value     | EUR 100 million   | EUR 200 million   | EUR 300 million   |
| Assumed value-added share   | 30%               | 40%               | 50%               |
| Direct domestic value added | EUR 30 million    | EUR 80 million    | EUR 150 million   |

Every ratio in the table is an assumption, not a figure drawn from Hungarian sectoral data. The calculation illustrates how public procurement of the same value can produce very different domestic outcomes. A 30 per cent domestic share of contracts combined with a 50 per cent value-added share within those contracts yields direct domestic value added equal to 15 per cent of total programme value. The two percentages must not be confused.

Twenty per cent of the rounded EUR 10.8 billion difference would be EUR 2.16 billion. If 40 per cent of that hypothetical domestic contract value were direct domestic value added, it would amount to EUR 864 million over the full delivery period. This is simple arithmetic. It demonstrates neither the original plan's domestic content, nor the feasible project pipeline, nor the income lost as a result of the decision.

A smaller allocation may still generate better domestic outcomes if the project mix and supplier readiness are stronger. Conversely, a high Hungarian share of contracts may deliver limited economic benefit if the product is expensive, import-intensive or of little military necessity. Procurement quality and industrial impact must therefore be measured together, rather than treated as substitutes.

Estimating employment effects requires company-level data on working hours, labour costs and productivity. New jobs, retained jobs and workers reassigned from other production must be distinguished. Temporary employment during investment is not the same as sustained operational employment. The national net employment effect

can be estimated only by taking account of alternative employment opportunities and displacement.

## 12. PUBLIC DEBT AND FISCAL CONSIDERATIONS

SAFE loans' long maturity and grace period for principal repayment may offer favourable financing, but the debt must be repaid. The Regulation permits maturities of up to 45 years; the financing agreement determines the specific costs and conditions. The loan is not free money, and a grace period for principal repayment does not automatically mean an interest-free period. [4, Article 10; 18]

Financial comparisons should examine alternatives with the same purpose and timing. If militarily necessary procurement would take place in any event, SAFE may offer cheaper or more predictable financing. If the loan leads to a new, previously unplanned programme, its full expenditure and operating costs must also be assessed. A financing advantage does not, by itself, make a weak project economically sound.

For illustration, a one-percentage-point difference in annual interest on EUR 1 billion of outstanding principal would mean an annual interest difference of EUR 10 million. This is a sensitivity example, not an actual SAFE interest saving; the real saving also depends on the timing of disbursements and repayments. For Hungary, the forint-denominated burden of a euro liability also entails exchange-rate risk, which must be assessed within the overall debt management framework.

Corporate export revenue is not directly a source for the State's loan repayments. The public finance impact may arise through tax revenue, dividends or specific contractual repayments. It would therefore be incorrect to claim that new defence businesses will necessarily generate enough to repay the entire sovereign loan. The public benefit of military capability and corporate income are separate evaluation categories.

The timing of the general government deficit, debt and cash flows may also differ. Borrowing, supplier advances, acceptance of equipment and subsequent sustainment may be recorded differently in budgetary and statistical accounts. Decisions therefore require a financial trajectory broken down by year. Any fiscal flexibility for defence spending does not remove the repayment obligation.

## 13. ACCESS TO EUROPEAN MARKETS AND POLITICAL FEASIBILITY

The size of Hungary's loan request and Hungarian companies' European market opportunities are not the same thing. An eligible Hungarian supplier may participate in another Member State's SAFE procurement if the prime contractor relationship and compliance conditions are in place. Targeted supplier readiness measures therefore remain worthwhile even with a smaller domestic allocation. In some cases, entry through export markets may deliver industrial benefits with less exposure for the Hungarian budget.

European partners nevertheless have their own military and industrial interests. Common procurement can work sustainably only if performance requirements, timetables and the allocation of responsibilities are compatible. Hungary's negotiating offer must therefore consist of specific capacity, technological expertise or logistics services. Hungary's interest in job creation is not, by itself, sufficient to underpin a partner country's procurement decision.

NATO capability requirements and EU industrial conditions can be aligned, but they do not replace one another. NATO's 2025 Hague commitment points to a longer-term environment of defence demand, but does not guarantee orders for any particular Hungarian company. Military planning prioritises operational readiness, interoperability and sustainability; industrial policy objectives must be consistent with these. [19]

Political durability requires the programme to be justifiable independently of particular individuals or groups of companies. The selection of products and companies for support must rest on documented military and economic assessments. Conflict-of-interest rules, checks on beneficial owners and auditable contracts can reduce the risk that the supplier programme creates another concentration of businesses dependent on government orders.

Cooperation with Ukraine is a possible programme direction, not a necessary precondition for every Hungarian project. Participation under SAFE rules must be substantiated by the military, industrial and legal substance of the particular procurement. Nor does the Commission's September briefing support the claim that the reduction in Hungary's loan request itself constituted a direct Hungarian payment to Ukraine. [3–4]

## 14. TIMETABLE AND APPLICATION OF PROSUM'S TARGETS

PROSUM's innovation programme proposes an annual allocation of EUR 100–150 million between 2027 and 2035. Its supplier development programme envisages at least EUR 300 million, at least 500 qualified Hungarian suppliers by 2035, and at least 30 per cent domestic value added in strategic projects. These are the author's policy targets, not approved budgetary commitments or forecasts. [1, pp. 68–70]

The annual innovation allocation would amount to EUR 900–1,350 million over nine years. Together with the supplier allocation of at least EUR 300 million, this represents an order of magnitude of EUR 1.2–1.65 billion before deducting overlaps. This arithmetic total does not include the full price of defence procurement and does not assume that the Hungarian budget or SAFE would provide the entire amount. Overlapping expenditure between programmes must be eliminated in the detailed budget.

Under the Regulation, the availability period for approving SAFE payments ends on 31 December 2030. The 2031–2035 development phase therefore cannot automatically be based on further SAFE disbursements. The precise contractual delivery schedule and eligible milestones depend on the agreements, but the financing time limit already affects project selection. [4, Article 12]

| Planning phase | Proposed task                                          | Condition for progression                             |
|----------------|--------------------------------------------------------|-------------------------------------------------------|
| First 6 months | Capability assessment and partner search               | Identified military need and suitable company         |
| Months 6–18    | Qualification and pilot delivery                       | Technical acceptance and an economically viable offer |
| 2028–2030      | Procurement and capacity building for mature projects  | Approved financing and a feasible timetable           |
| 2031–2035      | Export expansion and further technological development | Sustained financing and demand independent of SAFE    |

The timetable is a proposal, not a guaranteed implementation deadline. Supplier approval for a simpler component and military validation of a new software system may require different periods. Given the time available until 2030, the initial SAFE portfolio should be dominated by mature projects or those that can reach maturity within a foreseeable period. Longer research pathways should be planned with separate funding and later market entry.

Using the target of 500 suppliers requires a definition of a qualified and active company. Registration, certification and revenue-generating supply are different stages. A programme's success cannot be demonstrated by large numbers of companies completing preparation if only a fraction obtain contracts. The targets should be reviewed after the initial company assessment.

## 15. EVALUATION FRAMEWORK AND RISK MANAGEMENT

The key measures of military outcomes are availability, repair times, security of spare-parts supply and usable capability. Industrial outcomes require separate measurement of external orders won, domestic value added, customer concentration and technology rights acquired. Together, these show whether public procurement has created lasting capability and a competitive business line.

| Risk                                     | Verifiable indicator                                                 | Proposed measure                       |
|------------------------------------------|----------------------------------------------------------------------|----------------------------------------|
| No sustained demand                      | No prospect of orders after the pilot project                        | Postpone capacity expansion            |
| Excessive transition costs               | Qualification and capital expenditure absorb the expected margin     | Redesign or terminate the project      |
| New customer dependence                  | A single government programme generates the new business's revenue   | Sales plan based on several customers  |
| Technological dependence                 | No modification or repair rights                                     | Settle licence terms before investment |
| Breach of procurement or State aid rules | Unjustified national preference or an unresolved legal basis for aid | Prior legal review                     |

| Risk                            | Verifiable indicator                               | Proposed measure                                  |
|---------------------------------|----------------------------------------------------|---------------------------------------------------|
| Excessive State exposure        | Unlimited guarantees or unfunded sustainment costs | Risk ceiling and annual financial review          |
| Concentration of public funding | Repeated, poorly justified awards                  | Independent audit and conflict-of-interest review |

Evaluation requires a baseline. Without one, companies' subsequent performance cannot be attributed to the programme. Where possible, a comparison group of companies should also be used, taking account of the possibility that firms entering the programme were more capable from the outset. Such an assessment can distinguish the effects of support from general market changes.

The public finance evaluation must also include the costs of failed projects and subsequent State sustainment obligations. Success is not measured solely by funds drawn down or capacity built. Terminating an unviable project in time may be a better outcome than using further funding to maintain idle production.

## 16. CONCLUSIONS AND POLICY POSITION

There is a substantive connection between SAFE and PROSUM's development proposals. Common defence procurement can generate demand for products and services in which suitably prepared Hungarian automotive companies can participate. Supplier and innovation programmes can translate that demand into lasting domestic capability. The connection becomes operational, however, only at the level of specific products, contracts, legal bases and military user requirements.

The primary direction of industrial specialisation may be component manufacturing, life-cycle support, digital logistics and targeted technology development based on existing competencies. Redirecting the entire automotive industry's capacity towards the military market is not a realistic programme objective. Retaining valuable jobs and engineering expertise is more likely to be achieved through the selective development of viable companies across several markets.

A larger SAFE allocation could potentially have provided greater scope for domestic procurement and industrial development, but the economic benefits forgone cannot be inferred from the difference in loan requests. Taking up the full allocation would have been justifiable if the additional projects were militarily necessary, lawful, feasible

and financeable throughout their life cycles. Assessing the smaller loan request requires comparing the abandoned and retained projects against the same conditions.

The substantive policy question to put to the government is therefore whether a detailed analysis comparing alternatives was prepared on the involvement of domestic suppliers and technological diversification. If not, this may indicate a deficiency in industrial policy assessment. If such an analysis was prepared, at least its aggregate findings should be made available for scrutiny, with appropriate protection of military and commercial secrets.

The current policy task is to improve the industrial quality of the remaining Hungarian programme and connect Hungarian companies to other countries' procurement. This requires company capability assessments, targeted qualification support, international partner searches and financing with a sound legal basis. Long-term success means that, after their first government order, companies can continue operating in the European market with their own technology, several customers and a sustainable business model.

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