HUNGARY

2020 NATIONAL REFORM PROGRAMME OF HUNGARY

April 2020
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1. Introduction

The year of 2020 has been extraordinary both in Europe and in Hungary. The epidemiological emergency provoked by the coronavirus (COVID–19) caused an unprecedented global shock with unpredictable social and economic implications. In Hungary, the Government adopted several immediate public health and security measures in March to prevent mass infections, followed in April by a considerable restructuring of the budget and the announcement of a three-stage Economy Protection Action Plan in order to prevent a sharp economic decline. The 2020 National Reform Programme starts with a detailed description of these measures.

At the same time, we reached a major milestone. The Europe 2020 Strategy came to its end; therefore, it is time to take stock of what we achieved from among our common objectives over the past 10 years. The joint objective of Hungary and the European Union was to become the most competitive region of the world, where economic growth is inclusive, sustainable and intelligent. The 2020 National Reform Programme presents the most important government and policy achievements, and it contains a brief, comprehensive evaluation of policy challenges and developments in the EU and primarily in Hungary looking back on the last 10 years. (The document also responds to the country-specific recommendations addressed to Hungary by the European Council.)

As also learned from Hungary’s experiences, successful convergence is built on macroeconomic stability. Thanks to its crisis management and subsequent restructuring measures, Hungary has stepped on a successful, sustainable growth path. Hungary’s GDP grew by an annual average of 4.1% over the past six years, which is one of the highest growth figures even in the EU. One main source of this growth was the dynamic expansion of investments: since Hungary’s democratic transition, the investment rate reached its peak of 28.6% in 2019, thereby strengthening the successful convergence of our country. From the aspect of our competitiveness, it is highly important that this rapid growth was achieved while also preserving the internal and external balance of the economy. The government debt fell from a record level of 84% of the GDP in mid-2010 to 66.3% by the end of 2019. Fiscal discipline continued to prevail in 2019, with a general government deficit of 2% of the GDP. Sound growth is also supported by the domestic labour market, since the number of employed persons reached nearly 4.5 million in early 2020, exceeding its 2010 level by almost 800 thousand.

However, in order to overcome the crises and keep up the pace of convergence, it is essential to strengthen enterprises, maintain the level of investments and continue capital accumulation both in physical infrastructure and human capital. Furthermore, we need policies which strengthen the resilience of enterprises, help improve their productivity and international competitiveness, as well as support the adoption of new technologies and develop existing ones. It is a priority for Hungary to reach full employment and to support families, which also contribute to competitiveness goals. In cooperation with the EU, we also have to develop a system of policy instruments which supports sustainable and climate neutral development.

As usual, the 2020 National Reform Programme has been drafted along with the Convergence Programme; at the end of the Programme, we present the most important institutional approval and preliminary consultation mechanisms.
2. Macroeconomic context

2.1. Development of the macroeconomic environment

The Hungarian economy was characterized by robust growth and strong fundamentals at the beginning of this year, but just like everywhere in the world, the coronavirus pandemic has had a fundamental impact on the growth prospects of the country. The first two months of the year were essentially intact from the economic slowdown which started to unfold in March. After 20 March, the increasing number of halts in production resulted in a significant loss of industry capacity in the last days of the first quarter. Besides, the tourism industry must have suffered massive losses, while cultural and recreational services were basically suspended in the second half of March. Even though in certain segments of the retail trade, buying sprees increased turnover temporarily, the overall sales figures of the first quarter showed a mild slowdown. In this time of pandemic, there is a high degree of uncertainty surrounding the prognosis for GDP growth. The baseline trajectory of the Convergence Programme was based on the assumption that the epidemiological situation in Europe will allow for the gradual normalization of economic activity beginning from the second quarter. This assumption is based on the fact that several member states were planning to or were already in the process of easing restrictions put in place to contain the pandemic and some factories in Hungary have partially resumed production in the second half of April. As a result of these processes, the baseline scenario forecasts a 3.0% drop in GDP this year, followed by a 4.8% rebound in 2021, partly due to the correction of the decline.

The fundamentals of the Hungarian economy are substantially stronger than prior to the 2008 financial crisis. In 2013, the Hungarian economy was steered back on the path of economic growth, resulting in a dynamic expansion that placed Hungary among the fastest growing member states in the EU. Unlike in previous years, this growth was achieved in a healthy and balanced structure and relied on several pillars. On the production side, growth was supported by the industry, services and the construction sector, while on the expenditure side; its sustainability was ensured primarily by the competitive business and tax environment and a remarkable investment performance boosted by the Government’s incentive measures. As a result of the favourable external balance and the efficient use of EU funds, Hungary’s net financing capacity has turned from a negative value prior the crises to an outstandingly positive one even when compared with its regional neighbours over the past 10 years. As a consequence, the net external debt-to-GDP ratio shrank from over 50% in 2008 to below 8%. The Government’s measures aimed at stimulating labour market activity helped improve labour market indicators, bringing Hungary among the best performing member states in this regard as well. It is especially favourable that the rise of employee wages was paralleled with increasing business profits, that is, the convergence of wages propelled by a record high employment rate did not erode the competitiveness of domestic enterprises. Dynamic growth was coupled with disciplined public spending, which is well evidenced by the steadily declining deficit and public debt. As a consequence of these favourable processes, Hungary’s debt-to-GDP ratio is well below the EU average, in contrast to the situation in 2008.

At the onset of 2020, the Hungarian economy was characterized by strong fundamentals both in terms of the real economy and in terms of the financial balance of individual sectors, as well as the economy as a whole. These positive circumstances, on the one hand, allowed the Government to mobilize a large-scale package to mitigate the economic impacts of the coronavirus pandemic, and
on the other hand, they underscore the assumption that the Hungarian economy will be able to rebound quickly and return to the path of dynamic growth once the risk of the pandemic abates.

2.2. Macroeconomic effects of economic policy measures

The quantified macroeconomic effects of key economic policy measures adopted by the Government are described in more detail in the Convergence Programme.

The 2020 Convergence Programme contains the detailed economic impact assessment of the most important measures taken by the Government, of which the most significant is the Economy Protection Action Plan aimed at mitigating the effects of the coronavirus pandemic. The primary objective of the Action Plan is to protect existing jobs, create new jobs and to protect Hungarian businesses and families. In terms of economic size, this is the biggest economic protection and stimulus package in Hungary’s history, which - including economy financing measures as well - represents almost 20% of the GDP in the assessment of the Central Bank of Hungary (MNB).

The planned economic policy measures support economic processes primarily by strengthening the investment activity as well as by increasing employment dynamically, and thereby boosting household consumption. Capacity extensions improve the growth potential of the economy in the long run as well, since beginning from their completion; they stimulate GDP growth through additional channels, primarily through export and labour incomes. On the whole, these government measures have a modest inflationary impact. To put it in figures, the recently adopted government measures will improve this year’s economic output by 3.7 percentage points, and next year’s growth by 4.3 percentage points. These measures will continue to support economic performance in the period after 2021 as well.

2.3. Achieving the medium-term budgetary objective

The medium-term budgetary objectives of the Government are described in more detail in the Convergence Programme.

The fiscal consolidation implemented in the past years was successful and sustainable. The general government deficit has been under 3% of the GDP in every single year since 2012, which is in large part due to the Government’s prudent approach to budgetary planning.

In 2019, the reduction of the deficit-to-GDP ratio remained the priority of the budgetary policy alongside the moderation of government debt at least at a pace meeting domestic and EU expectations, the realisation of balanced economic growth, the expansion of employment and the improvement of competitiveness. The budget deficit was 2.0% of the GDP in 2019. The gross general government debt-to-GDP ratio dropped to 66.3% by the end of 2019.

Addressing the direct and indirect economic consequences of the outbreak of the coronavirus pandemic entails increased budgetary support – even on top of the measures aimed at generating resources – , which means that the deficit-to-GDP ratio is expected to exceed the target set in the 2019 Convergence Programme for this year. Nevertheless, the economic policy remains committed to achieving a convergence process which is based on improving the competitiveness of the economy, while taking into account the long-term sustainability of public finances. Despite a high
degree of uncertainty surrounding the potential course and economic impact of the coronavirus pandemic, the processes that support long-term, real convergence are expected to be maintained and strengthened on the time horizon of the Convergence Programme.

3. Measures in response to the COVID–19 outbreak

The most important immediate measures taken by the Government in response to the coronavirus outbreak

The Government responded to the unprecedented circumstances created by the outbreak of the novel coronavirus in 2020 by a substantial restructuring of the budget and the launch of a three-stage Economy Protection Action Plan.

On 31 January, 2020, the Government set up the Operational Group Responsible for the Containment of the Coronavirus Epidemic in order to screen and localize the presence of virus in Hungary, as well as to organize health care and epidemic control measures – by coordinating the tasks of public bodies. (The first case of COVID-19 was confirmed on 4 March, 2020.)

On 11 March, the Government declared a state of danger and introduced a special legal order. Every public education and higher education institution has been closed as of 16 March, and public and higher education have switched to digital (distance) education. Measures were introduced to restrict the size of groups allowed in restaurants and shops, events were banned, cinemas and other cultural institutions were closed. The Government introduced a ban on inbound travel for foreign nationals.

The Government announced the first phase of its three-stage Economy Protection Action Plan on 18 March: reduction of social security contributions, tax cuts, and support for private entrepreneurs and moratorium on loan, credit and lease payments.

Movement restrictions were introduced on 28 March whereby leaving home was only allowed for justified reasons and visiting catering establishments was also prohibited.

On 7 April, the Government announced the second phase of the Economy Protection Action Plan. An Epidemic Containment Fund and an Economy Protection Fund were set up and five schemes were launched: job protection, job creation, financing of enterprises, protection of families and pensioners, as well as key sectors’ programmes to be implemented in the third phase of the Action Plan.

The three-stage Economy Protection Action Plan, including the programmes announced by the Central Bank, regroups 18-20% of GDP for job protection purposes. As a result of measures announced so far, the deficit-to-GDP ratio is expected to increase from 1% to 3.8%1.

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1 The deficit-to-GDP ratio differs in this English language translation of the NRP from that in the Hungarian language one due to the fact that the forecast itself changed after concluding the Hungarian version.
Payment moratorium

As part of the first stage of the Economy Protection Action Plan (mid-March), the Government declared a payment moratorium for the full year of 2020, for capital, interest and fee payment obligations arising from credit, loan and lease contracts signed and disbursed before 19 March, 2020 (and for student loans signed between 18 March and 31 December) with a ban on applying compound interest. Enterprises and private individuals may choose to continue payments according to their contractual obligations. The Government is able to support the liquidity of households and businesses with this payment moratorium. The moratorium does not provide an exemption from debt service; the delayed payment obligations will have to be fulfilled after the expiration of the moratorium in a way that the amount of the monthly payment obligations cannot change.

Economic stimulus, liquidity support

Due to the COVID–19 epidemic and pursuant to Gov. decree 108/2020 (IV.14.) in force as of 1 May, 2020, credit institutions shall pay HUF 55 billion while the retail sector shall pay HUF 36 billion as a special tax in 2020 into the Epidemic Containment Fund, according to the calculations of the Ministry of Finance.

The Government provides additional resources for traditional sectors which have suffered the most significant blow (tourism, construction industry, transport, logistics, creative industry, food industry and health industry).

Companies which keep their employees will have several billions of forints available for technology development, environment and energy efficiency investments in tenders. The Minister of Foreign Affairs and Trade issued a decree on 16 April, 2020, announcing a new, HUF 50 billion subsidy scheme to improve competitiveness in the face of the coronavirus epidemic. Medium-sized and large enterprises may apply for a subsidy from the HIPA (Hungarian Investment Promotion Agency) for investments worth over EUR 150 thousand – provided that they undertake to maintain existing jobs – if they can prove that their economic difficulties are attributed to the negative impacts of the current pandemic. The Széchenyi Card Programme designed to support the liquidity of micro, small and medium-sized enterprises is also going to be modified in order to mitigate the impacts of the coronavirus on SMEs, allocating HUF 2.9 billion for products specifically designed to alleviate the crisis.

The Central Bank of Hungary announced a new version of the Funding for Growth Scheme for micro, small and medium-sized enterprises providing a total of HUF 1,500 billion in funding, and a total of HUF 450 billion for the Bond Funding for Growth Scheme for large enterprises. In addition, through measures aimed at boosting the liquidity of the banking system and other measures, the Central Bank provides HUF 3 thousand billion in fresh funding for the protection of the financial system.

The Hungarian Development Bank (MFB) and its affiliates (MFB Group) are set to make available to Hungarian businesses a financing package in a total amount of HUF 1,490 billion via harmonised loan, capital and guarantee programmes designed to offset the economic impact of the coronavirus epidemic and help relaunch the economy. The programmes come with an 80% state guarantee. The loan programmes can be used to satisfy short-, mid- and long-term financing needs of businesses. While the MFB Crisis Loan assists primarily micro and small enterprises (maximum loan amount of
HUF 150 million at a 2.5% annual interest rate), the MFB Competitiveness Loan Programme is an effective tool primarily for large companies and mid-size companies that are planning to implement major investments. In the framework of the Garantiqa Crisis Guarantee Programme, domestic SMEs and large enterprises can get access to financing in the amount of HUF 500 billion with a 90% government guarantee. The SME Rescue Capital Programme may give a lifeline to struggling SMEs with low capital, while the Startup Rescue Capital Programme may give rapid assistance to successful start-ups that have stalled as a result of the crisis. The Crisis Capital Programme provides financing to distressed strategic companies for purchases and development projects.

The National Research, Development and Innovation Office eased rules for the disbursement of advances to alleviate the cash-flow difficulties of ongoing research and innovation projects, and it supports the beneficiaries of funded proposals with simpler administrative procedures and prolonged submission deadlines. The fulfilment criteria of binding commitments and indicators set out in the subsidy contracts are also aligned to the new situation.

The implementation criteria of EU programmes were also relaxed. Conditions for the disbursement of advances have become more favourable, increasing the ratio of advance for beneficiaries operating in struggling sectors. In addition, procedures were simplified, deadlines were extended and implementation criteria have been temporarily eased to facilitate access to EU funds. Inspections and site visits are not going be carried out during the state of danger.

**Reduction of taxes and contributions**

The very first measures announced to mitigate the consequences of the coronavirus pandemic on the Hungarian economy included the exemption of businesses engaged in certain activities (e.g. tourism, catering, entertainment, sport, culture and passenger transport) between March and June, 2020 from the payment of employer payroll taxes – in regard to employed persons –, while from among the employee payroll contributions, they are only required to pay the minimum amount of healthcare contribution in-kind. Small businesses engaged in specific activities are exempted from the payment of the small business lump-sum tax (KATA) between March and June, 2020, and in the case of small business tax (KIVA) subjects, the staff costs paid during this period shall not be included in the calculation of their tax base. The tourism development contribution will not have to be paid in the period between March and June, 2020. In the sectors most affected by the crisis, lease contracts regarding non-residential premises may not be terminated and rental fees may not be increased. Enterprises may request a reduction of their taxes if faced with difficulties because of the pandemic. The amount of such tax reduction may reach HUF 5 million per enterprise. The deadline for submitting the annual reports and related tax statements (corporate tax, local business tax) and paying the taxes was extended from 31 March, 2020 to 30 September, 2020. The social contribution tax will be cut from 17.5% to 15.5% as of 1 July, 2020, while the rate of the small business tax (KIVA) will be lowered from 12% to 11% as of 1 January, 2021.

**Retail sector**

As of 17 March, retail stores close at 3 pm with the exception of stores selling food and drug products, pharmacies and stores selling therapeutic appliances, tobacco shops and petrol stations. As of 27 March, people aged over 65 can only go to food stores, drug stores, market places and
pharmacies between 9 and 12 o’clock. People aged below 65 are not allowed to enter these places in these hours.

Public Administration

In order to facilitate the containment of the coronavirus, the Government extended the validity of expiring identification and other documents until 15 days after the termination of the emergency.

Employment

In the wake of the coronavirus pandemic, the Government focuses its employment policy on protecting the results already achieved and on preserving as many jobs as possible. Preserving jobs and avoiding redundancies belong to the key objectives of the measures introduced to mitigate the economic impact of the coronavirus pandemic: the Government undertakes to cover a part of the wage costs of employers who introduce reduced working hours. Another element of the measures is providing support in the amount of HUF 450 billion for investments that create jobs. The Government aims to create as many jobs as are destroyed by the pandemic, and to foster the fast reintegration of people who lost their jobs due to the pandemic into the labour market.

Similarly to many European countries, the Government of Hungary subsidizes employment of reduced working hours. The wage subsidy will be granted for a maximum of 3 months and its amount will correspond to maximum 70% of the lost base salary caused by a reduction of working hours by 25% to 85%. If working hours are reduced by no more than 50%, the combined amount of the wage subsidy and the employee’s salary must reach the original base salary of the employee; if working hours are reduced by more than 50%, there is no such requirement. The wage subsidy can be requested even in case of distance working, working from home and secondment as well. Enterprises may also take out job preservation loans at a 0.1% interest rate for a 2-year term to finance 9 months of employee wages.

In the framework of a reduced working hour scheme, the employer and the employee may agree on individual development time, during which time, the employee may take part in trainings. The Government wishes to support further training and retraining programs in the form of distance training by taking over a substantial part of tuition fees and by launching a student loan scheme for adult training. As of 1 May, 2020, a one-off personal loan will be accessible in the amount of HUF 1.2 million with full state subsidy for the interest payment for specified adult training programmes, called Student Loan Plus.

The Government will give a 40% wage supplement to people working in engineering as well as R+I for a period of 3 months with a maximum amount of the average gross salary in the sector. The employee’s salary cannot be reduced while receiving the wage supplement and the employer must keep the person in employment for at least the same period of time during which the wage supplement is extended.

Labour law became more flexible in order to protect existing jobs. As a consequence of legislative changes, working schedules of employees may be changed to the necessary extent; working from home and distance working may be ordered by the employer. In order to prevent layoffs caused by halts in production, cumulative working time may be established for a period of 24 months instead of 12 months.
The Ministry of Agriculture launched a website (munkaszuret.hu) posting seasonal job offers by agricultural businesses in order to provide earning opportunities for those who permanently or temporarily lost their job in other sectors.

**Public education**

As of 16 March, 2020, education switched to an off-site, digital mode. In this digital arrangement, students are prohibited to visit the institutions. As of 14 March, 2020, the mayors of local governments may order an extraordinary break in nurseries and nursery schools.

On 16 April, 2020, the Government decided to organize the secondary school leaving examinations between 4 May and 21 May in the form of written tests only, with a few exceptions. These exams, when successful, must then be regarded as full value secondary school closing exams. No more than 10 students will be allowed to sit in the same classroom at any one time, with a minimum distance of 1.5 metres being maintained between them. Every building will go through mandatory disinfecting, students and teachers will be provided with masks upon request. Exam applicants not in their final year of secondary education wanting to take an early final exam will be removed from the list of test takers and will be given the opportunity to take an early exam either in the autumn or at a later examination period. Secondary school closing exams at advanced level are only allowed for students who apply for admission into higher education this year.

**Higher education**

As of 12 March, the Government closed down higher education institutions and ordered institutions to continue education through digital channels. Students were asked to vacate dorms and stay at their own place of residence. Every student will be able to complete the semester and continue with their studies via remote learning. The spring semester may be extended until 31 August, 2020.

As part of the job creation element of the Economy Protection Action Plan, students who pass their final university exam until 31 August, 2020, will be exempt from the requirement to pass a language exam in order to receive their degree. This loosening of requirements affects 75 thousand students, giving them a better chance of finding a job on the labour market. During the state of danger, adequately equipped language exam centres may organize online language exams. The possibility of taking exams online helps students in secondary education to obtain extra points in the higher education admission procedure without increasing health risks.

The Government increases the monthly disbursement of untied student loans from HUF 70,000 to HUF 150,000 as of 31 August, 2020, and introduces a one-off untied student loan in the amount of HUF 500 thousand, specifically designed for this state of danger, which will be available from 1 May, 2020 to 31 December, 2020.

The Government allowed higher education institutions to organize their various exam processes under safe conditions, including taking final exams in front of an exam committee comprising of two, instead of three members, thereby reducing the risk of the virus spreading.
Measures for the protection of families, youth and pensioners

During the state of danger, the Government eased the eligibility criteria for granting different benefits to families raising children or planning to have more children. In the case of the prenatal baby support and the family housing scheme (CSOK), the duration of social security insurance, which is one of the assessment criteria, will not be disrupted until 60 days after the end of the current state of danger, even in the event of loss of employment. Moreover, application and claiming deadlines, the expiration of personal documents and age limits are extended until 30 days following the end of the state of danger. When signing the contract, it is sufficient to have one person of the couple present, having power of attorney. The validity of the large families’ car purchase scheme is also extended until 60 days following the end of the state of danger.

In order to ensure the income security of families raising small children, expiring childcare allowances, childcare benefit and child-raising benefit will be extended until the end of the state of danger. During the state of danger, judicial foreclosure and enforcement by the tax authority are suspended, and a moratorium is introduced for evictions and auctions of residential property.

The Government also extended the deadline of applying for the subsidized traffic code exam and language exam until 6 months following the end of the state of danger for people who pass the age limit of 20 for claiming the subsidized traffic code training course and exam, as well as the age limit of 35 for claiming the subsidized language exam during the state of danger. In order to support mothers raising small children to find employment, any person eligible for requesting benefits for children (mothers on baby care allowance childcare allowance, childcare benefit) may apply for the refund of language exam fee, traffic code training course fee and exam fee as of 1 July, 2020.
4. Response to key challenges

4.1. Economic stimulus policies

In recent years, several strategic government initiatives have been put in place to improve the competitiveness of the Hungarian economy. In 2019, the Government adopted the so-called “Programme for a More Competitive Hungary” on the recommendation of the National Competitiveness Council with a view to creating the conditions for dynamic growth in the long run. The programme recommends specific measures in the framework of 42 actions in 6 key areas including taxation, employment, public sector, health care, education and the business environment. The development and implementation of a mid-term strategy for strengthening small and medium-sized enterprises, which was announced in the autumn of 2019, is a key element of the Competitiveness Programme and forms part of the action plan aimed at increasing the added value created by domestic enterprises. Hungary submitted 7 winning applications in this past cycle of the European Commission’s Structural Reform Support Programme (SRSP) for the planning and implementation of its institutional, public administration and growth stimulus reforms.

<table>
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<th>SRSP applications to support sustainable economic growth and competitiveness</th>
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<td><strong>SRSP applications to support sustainable economic growth and competitiveness</strong></td>
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<tr>
<td>The project proposal submitted with a view to strengthen Hungarian micro, small and medium-sized enterprises in the period 2019-2030 aims to provide effective expert background support for certain measures of the Strategy, as well as for the development of a whole-scale assessment system.</td>
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<td>The project proposal submitted to provide strategic support for the digital transformation of the Hungarian higher education system aims to improve the quality and content of the already existing framework of digital transformation on one hand by reviewing and redefining current interventions and on the other hand by developing indicators that measure digital preparedness.</td>
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<tr>
<td>The two-pillar project designed to improve transfer pricing methods aims to provide training programmes for the experts of the Ministry of Finance and the National Tax and Customs Administration, as well as to identify effective transfer pricing control and management processes that can be transposed into the Hungarian system.</td>
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<td>The project aimed at reducing the employment gap between men and women seeks to promote a more intensive integration of women into the job market by strengthening atypical employment forms, by engaging stakeholders (employers/employees), surveying demand, identifying problems and by exchanging best practices.</td>
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<td>The project submitted in the topic of implementing circular economy and addressing the challenges of waste management aims to increase the re-use rate by conducting studies that identify the most promising segments of industry, agriculture and the services, and based on these results, develop the National Circular Economy Action Plan and the associated methodology.</td>
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<td>The project submitted in the policy area supporting local green and blue infrastructure aims to address problems related to the lack of a consistent legislative environment and a low level of awareness.</td>
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<tr>
<td>The project submitted by the Central Bank of Hungary to request support for the Sustainable Capital Markets Strategy and for recommendations forming the basis of the Action Plan aims to engage the private resources of local capital market stakeholders in order to implement climate, environment and energy policy objectives.</td>
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<tr>
<td>The project requesting technical support for preparing the territorial just transition plan submitted at the beginning of 2020 in the framework of an extraordinary call for proposals aims to draw up a plan for utilizing financial resources that can be accessed by the most affected regions in the transition to a climate neutral economy as set out by the European Commission’s Just Transition Mechanism.</td>
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Business development: SMEs in the focus

In a global economic context full of challenges, it is indispensable to strengthen the competitiveness of small and medium-sized enterprises, which generate 54% of the GDP, employ 69% of the labour force, and play a key role in the performance of the Hungarian economy and the standard of living. The “Strategy for strengthening Hungarian micro, small and medium-sized enterprises (2019-2030)” was developed in cooperation with the OECD following extensive consultations and taking into considerations the opinions of several professional organizations and 1,100 enterprises. The goal of the 7 pillars making up the Government’s SME strategy is to increase the added value produced by domestic SMEs, as well as to improve their productivity and export capability. The measures cover a wide range of issues and take into account the various needs of enterprises. They include the creation of a business-friendly taxation and regulatory environment, the promotion of technological transition, digitisation and innovation and provide access to adequate financing that help SMEs to enter foreign markets and facilitate generational renewal.

Some of the measures aimed at implementing the strategy already had precedents which were then aligned to meet the needs of the strategy. In the framework of the Hungarian Multinationals Programme, co-financed by the EU, some 50 enterprises received business development subsidies in 2019. Affected companies engage business development professionals in the process of drawing up development needs and plans, which are implemented using non-refundable subsidies and technological developments if need be. As a measure to encourage small and medium-sized enterprises entering foreign markets, every year 50-60 SMEs with export potential receive tailor-made professional support that prepares them for this move.

Supporting the technological development of enterprises, promoting Industry 4.0 and digitization are among the priorities of the Government. Technology shifts and organizational modernization are supported by the Modern Model Plant Programme, launched in 2017 and modified in 2019, as well as by the technology modernization scheme for micro, small and medium-sized enterprises introduced last autumn. As a unique feature, the latter is an experimental subsidy scheme, used for the first time in Hungary, in which the refundable subsidy may transform into non-refundable based on certain performance indicators. In this programme, 200 enterprises may receive subsidies for technology development.

EU funds are still available to enterprises in 2020 for certain credit and venture capital programmes which support, among other things, enterprises’ RDI activity and technology developments as well as the setting up of new start-ups which have a potential for fast growth. In the economic situation provoked by the pandemic, there is a greater emphasis on financing operational-type costs.

The 6 venture capital funds of Hiventures Venture Capital Fund Management, a member of the MFB Group, target the financing of start-ups and SMEs. HUF 8.5 billion is expected to be invested in innovative start-ups (70-80 new companies and 60-70 companies already in the portfolio) and a further HUF 4.4 billion in SMEs (7-8 companies) in 2020. In line with the adopted strategy, in 2019 MFB Invest Zrt. started to establish its own urban development capital funds with the aim of providing growth opportunities to enterprises (primarily SMEs) operating in a given county/region and to facilitate the financing of projects implemented in the county/region. As part of the economic
policy institutional system, Garantica Hitelgaranica Zrt., also member of the MFB Group; fosters enterprises’ access to loans. Garantiqa’s loan portfolio amounted to HUF 777 billion at the end of 2019, providing 41 thousand domestic enterprises access to HUF 1,045 billion in loans.

Research, Development and Innovation

Improving Hungary’s research-development and innovation (RDI) performance is a priority for the Government in order to boost competitiveness and productivity. Spending on R&D increased dynamically in the past few years: in 2018, spending on R&D grew by more than 25% as compared to the previous year and R&D investments went up by more than 150%. There was also a more than 10% increase in the number of people employed in R&D. In 2018, expenditure on R&D as a percentage of GDP grew from 1.33% to 1.53%, approaching the 1.8% national goal outlined in the Europe 2020 Strategy. Besides increased expenditure, the role of enterprises is also becoming stronger. Enterprises accounted for 52% of R&D expenditure in 2018, although 58% of business expenditures came from foreign-owned large corporations. The performance of domestic small and medium-sized enterprise sector is below the EU average; in 2018, the share of domestic SMEs introducing product or process innovations was a meagre 18% (EIS2019). In order to achieve the most efficient utilization of increasing expenditures, the Government introduced some changes into the RDI institutional system and subsidy policy as well.

Development of the RDI infrastructure system

In 2019, the fine-tuning of the Hungarian innovation system continued in order to ensure the highest possible return of increasing RDI expenditure on the Hungarian economy. In order to achieve this goal, the National Science Policy Council (NSPC) which was set up as an advisory body to the Government, held its first meeting in March 2020. The main duty of the NSPC is to formulate opinions about research, development and innovation related policy documents, legislation, measures, and about the utilization of the National Research, Development and Innovation Fund, as well as formulating opinions and giving recommendation in RDI-related strategic issues and in shaping the legal environment. 11 members of the NSPC include representatives of science, economy and the state.

Restructuring the research network of the Hungarian Academy of Sciences and the establishment of the Eötvös Loránd Research Network also serve the purpose of enhancing the efficiency of the innovation institutional structure. The new organization started to operate in the autumn of 2019 in order to foster the efficiency optimization of the Hungarian research system, innovation and research development by ensuring the distribution of available resources among different branches of science and research institutes in a uniform structure. The next step of the restructuring scheduled for 2020 is creating a uniform structure for the network of applied sciences research institutes by widening the scope of duties of the Bay Zoltán Applied Research Public Benefit Non-profit Ltd, which has been operating successfully for 25 years, and by integrating research institutes with a focus on applied research which are currently financed from the central budget. In the interest of supporting enterprise innovation, research institutes belonging to the network perform industrial R&D services for the client (industry actor or the state) or for own research.
The creation of the Territorial Innovation Platforms initiated by the ITM and the NKFIH aim to strengthen networking relations among members of the RDI institutional system (set up in 8 places, in case of a further 5 locations the process is delayed due to the new coronavirus).

The next major task related to the RDI-system is the renewal of the RDI Strategy for the period 2021-2030, as well as the formulation of the Intelligent Specialization Strategy (S3) for the period 2021-2027. The preparation of the RDI Strategy began in 2019 and its approval is expected in 2020.

**Fine-tuning of the RDI subsidy system**

Bearing in mind the development needs of the innovation system, one element of the restructuring of the RDI subsidy system is the pooling of excellence programmes financed from funds of the Ministry of Technology and Innovation (ITM) with other resources of the NRDI Fund in order to ensure better coordination of funds. This will represent a HUF 29 billion restructuring for the benefit of the NRDI Fund.

One of the focus areas of RDI subsidies is the commercialization of scientific achievements generated at universities. The new subsidy programme launched in 2019 to develop innovation ecosystems at universities serves this very purpose. Competence Centres (3 venues, subsidy of HUF 8.5 billion), which encourage the establishment of market-based research, development and innovation bases, were created to reinforce territorial relationships. The network of Higher Education and Industry Cooperation Centres, founded in 2016 with 8 members, will be further enlarged and as a result, an additional 3 to 6 consortium may receive subsidies.

Stimulating the RDI activities of enterprises represents another focus area in the RDI subsidy system. For this purpose, more than 152 applicants received more than HUF 55 billion for market-oriented research, development and innovation developments. As a significant criterion for being granted a subsidy, the proposed project must have created a new product, technology or service featuring scientific and/or technical innovation which can be commercialized.

**Digitalization**

It is a government priority to increase the degree of digitalization among Hungarian SMEs and to strengthen their participation in the digital economy, which could contribute to reinforcing their competitiveness, with special regard to the changes generated by the project ‘Industry 4.0’. In order to achieve this goal, the Government compiled and launched a complex package in 2014. As a new measure, a new targeted grant will be available in 2020 for Complex corporate digital solutions and services. At least 500 companies are expected to receive support this year through this new ITC grant.

The Superfast Internet Program (SIP) launched in 2015 in order to develop household digital infrastructure aims to provide superfast internet service of at least 30 Mbps to every Hungarian household which requests it, either by cable or wireless connection. In the first phase of the programme, 216 thousand connection points were built across the country with state subsidy, and an additional 407 thousand points were established from market financing. The programme is currently in its second phase which focuses on optical network developments to provide at least 100Mbit internet speed. In this phase, HUF 4.1 billion is available for developments to extend network coverage and increase internet speed in 72 districts affecting 62 thousand households.
In order to improve citizens’ digital competences, a complex programme named ‘Improvement of digital competences’ was launched in 2016, within the frameworks of which to the infrastructure of 1,500 community internet points were constructed and more than 200 thousand people received certificates at digital training programmes. The programme was to be completed in October 2020 originally, but now it is expected to be extended for one more year. A number of initiatives have been implemented both in education and adult training in order to develop digital competences.

The objective of the National Digital Agriculture Strategy launched in 2019 is to increase the profitability of agri-food and agricultural production by collecting and processing information, automating and robotizing technological operations while paying attention to the efficient use of natural resources. The implementation of the Strategy is expected to start in 2021 with an estimated funding need of HUF 55 billion. In addition, the Government provides targeted subsidies in various specific fields to promote the spread of digitization in agriculture.

4.2. Business environment, regulation

Tax system

In 2020, tax policy remains an important tool in the Government’s attempts to stimulate the economy. Several measures have been introduced in 2020 to simplify the tax system and to cut administrative burdens. Due to the popularity of alternative tax types designed for micro and small enterprises (KATA, KIVA), the simplified entrepreneurial tax (EVA) was abolished as of 1 January, 2020. Personal contributions (pension contribution, health contribution and labour market contribution) – following a preparation period – will be merged into a single contribution type as of 1 July 2020, and, at the same time, the fundamental provisions of social security and contribution rules will be re-regulated in a consolidated, uniform law. In June 2019, as part of the attempt to cut administrative burdens, the requirement to top up tax advances for three tax types – the corporate income tax, the income tax of energy suppliers and the innovation contribution – was abolished, and the regulation regarding the financial transaction tax was streamlined. In terms of the Magyar Posta Zrt., as of mid-2019, money transfers made via yellow checks were exempted from the transaction tax until a value threshold of HUF 20,000 and the transaction tax was capped at HUF 6,000 per transaction. Account holders at the State Treasury will be exempted from paying the financial transaction tax as of 2020.

Several measures were introduced to support employment. All forms of work conducted by retired people were exempted from the payment of contributions, and the minimum contribution base was uniformly reduced to the amount of the minimum wage for both private enterprises and partnerships. The family contribution allowance can be claimed up to 18.5 percent (i.e. up to the full amount of the social security contribution) representing a 1.5 percentage point increase in the eligible amount. A new measure was introduced as of 1 January, 2020 to encourage families to have children: women raising at least four children are fully exempted from the payment of personal income tax throughout their economically active life.

Economy whitening measures introduced in recent years to tackle black economy (online cashier machine, EKÁER – Electronic Trade and Transport Control System, online invoice data reporting) brought substantial surplus revenues to the state budget, which were subsequently used to
counterbalance tax cuts of compliant companies and individuals. As a next step of the economy whitening measures, as of 1 July 2020, the value threshold of data reporting obligation will be reduced to zero HUF, extending data reporting obligation to all invoiced transactions between VAT resident businesses. As of 1 January 2021, data reporting will become fully comprehensive, meaning that it will apply to invoices issued to non-VAT taxable persons (e.g. private individuals) as well.

Subsequent to this, the National Tax and Customs Administration will be able to prepare draft VAT return for companies – similarly to the draft personal income tax return –, bringing companies a significant relief in administrative burdens. In relation to the transposition of the ATAD Directive – (Anti-Tax Avoidance Directive), designed to combat tax avoidance – into the Hungarian corporate tax system, the act on corporate tax was amended at several points as of 1 January 2020. The transposition of the Directive harmonized the rules pertaining to the handling of hybrid instruments (tax evasion as a result of differences in the legal evaluation of the same factual circumstances) and capital withdrawals, which serves the purpose of combating aggressive tax planning.

Public Administration

Measures aimed at reducing red tape and improving the business environment serve the purpose of improving the efficiency of public administration. The service provision strategies of government offices and their internal working processes related to enterprises came under review in 2019. In the framework of rationalizing the organisational system of public administration, the register of state and local government public duties has been further developed in 2020. The development of the organizational structure of government offices was carried on by providing internal trainings and professional programmes in order to improve the efficiency and service provision nature of government office processes. Further objectives for 2020 include creating the necessary conditions for the utilization of robot software, and constructing and using robots in the government office environment in order to enhance efficiency.

As part of the measures aimed at enhancing the competitiveness of state operation, the Knowledge Pool, developed for use by public administrators only, is being replaced by the Public Administration Knowledge Pool which will also be accessible to citizens and which will encompass – in addition to public administrative issues – cases associated with the administration of justice, municipal administration, tax issues and public services. The development of the new system was completed in 2019 and it ran successfully in test mode in February 2020, and will be officially launched in May 2020. Besides the description of cases, this new Knowledge Pool will provide the opportunity for customers to complete forms in order to initiate the administration of their affairs. A direct link to the Integrated Legislation System will be established to enable the automatic update of the descriptions of cases in the event of smaller legislative changes. The existing government customer service mobile application will be further developed until the second half of 2020, adding new functions and making administrative processes more comfortable for citizens.

Regulation

The Government’s trade policy came under a strategic review in 2019 in order to create a regulatory framework that is stable and satisfactory in the estimation of stakeholders. The main goal was to lay down the new mid-term framework on the basis of regular consultations between the Government and stakeholders (trade associations, retail chains). During this review, the Ministry decided to
refrain from introducing temporary regulations in order to ensure the stability of retail trade regulations and to strengthen the trust of partners. Partly due to this step, Hungary was ranked 45th, improving its ranking by 3 positions, in the IMD Competitiveness Ranking in 2019 in regard to government efficiency, which has been the best result since 2007. Within the factor of government efficiency, Hungary improved its ranking by 5 positions, coming in 37th in the business regulation sub-factor, which is the second best achievement in the region. The new trade strategy is expected to be finalized by the end of 2020.

As far as regulated trades are concerned, in 2019, the Government cut back regulatory restrictions considerably based on competitiveness and labour market considerations in order to respect EU obligations. As a result of the review of the scope of regulated trades belonging to the industry sector, at least 50% of regulated trades will be deregulated in 2020, that is, in their case, employers may decide what kind of qualifications will be required from prospective employees.

Public procurement

In 2019, legislation pertaining to public procurement was further developed. The aim of legislative changes was to increase competition, streamline and speed up procurement processes, reduce administrative burdens, increase compliance in regard to the utilization of funds and improve the efficiency of public spending. The provisions of Act CXX of 2019 on the amendment of certain laws pertaining to public procurement will enter into force in the first half of 2020.

The functions of the Electronic Public Procurement System (EPPS) are currently being developed with the objective to make the system more user-friendly. This means an online system that is easy to navigate, with automating functions that support the one-time uploading of data instead of requiring multiple uploads in order to cut administrative burdens. As of 1 July 2019, even procurements below the threshold value can be conducted through the EPPS.

In order to facilitate compliance, several communications were release about:

- control practices aimed at preventing situations which could jeopardize the fairness of competition, are introduced to support contracting authorities in identifying behaviour that violates competition;
- related to reviewing the status of commitments made for certain evaluation criteria (i.e. employing disadvantaged employees or using environmentally friendly practices), which also offers legal guidance in regard to the adequate application of strategic considerations in public procurement; and
- the limits on changing the call for tenders and public procurement documents.

In order to facilitate investigation of competition law violations in public procurement procedures and to facilitate monitoring of actions, cooperation agreement between the Prime Minister’s Office and the Hungarian Competition Authority was amended. In line with the amendment, the Hungarian Competition Authority prepares a quarterly report about the results of investigations they launched upon the market signals sent by the Prime Minister’s Office.
Fight against corruption

The implementation of actions included in the National Anti-Corruption Programme was completed at the end of 2018. Major tasks in 2019 included assessing the programme’s results, mapping new areas of intervention, and based on the conclusions, preparing the new Corruption Prevention Strategy (2020-2022). Another important event in 2019 was a communication campaign targeting citizens, business actors and the public sector, organized as part of the project of the National Protective Service. The information campaign was organized in order to enhance the efficiency of anti-corruption efforts. The campaign drew attention to the different forms of corruption, as well as encouraged and discouraged forms of behaviours in order to cultivate a social culture that rejects corruption, and nurtures responsible behaviour. The campaign consisted of advertisements published in newspapers and information portals. Campaign elements targeting the public – e-newsletters, radio spots, newspaper advertisements, video spots, Facebook page, and Youtube channel – proved to be successful, reaching a total of more than 60 million people. The 20 newsletters written for business actors and members of the public sector (in topics such as Public Procurement Code of Ethics, anonymous handling of whistleblowing notifications, GDPR, OECD recommendations related to the integrity of the public sector, or the OECD Anti-Bribery Convention) reached 161 thousand public administration professionals and 71 thousand business actors.

Over the past year, the National Protective Service accelerated its education and training activities. In 2019, it organized 57 events discussing the topical issues of corruption prevention, which were attended by more than 3 thousand public sector professionals, and it paid visits on 21 occasions at government offices, making contact with 2,403 government officials.

The half-yearly surveys of the integrated risk management system made a significant contribution to monitoring and analysing anti-corruption risk management activities of state administration bodies. Based on these, we can observe a positive trend in the risk management activities of state administration bodies, including their anti-corruption risk management. As of January 2020, the majority of state-owned companies are subject to internal control regulations, and in certain state-owned enterprises, similarly to the integrity advisors appointed at state administration bodies, compliance officers are appointed in order to enhance the efficiency of internal control measures and corruption prevention tools.

4.3. Employment

In the past decade, Hungary has been a top performer in the EU in terms of increasing employment rate: the employment rate of people aged between 20-64 years grew by 12.9% between 2008 and 2018, which is the second best figure among member states. All seven regions of Hungary recorded a double-digit increase, with three regions (Northern Great Plain, Northern Hungary, Southern Great Plain) experiencing a higher than 15% growth in employment. The employment rate of the 20-64 age group stood at 75.3% in 2019, which means that Hungary managed to achieve the 75% employment rate target defined in the Europe 2020 Strategy.

The Government aims to further increase the number of employed persons in 2020 by mobilizing labour force reserves, that is, primarily by bringing disadvantaged groups including people in public
employment, inactive persons and jobseekers, young people, women raising small children and retired persons, back into the labour market.

Development of the employment institutional system

The Labour Market Reform Programme, which was launched in 2018 with a domestic funding of HUF 2.4 billion in order to increase the efficiency of employment offices, was extended in early 2020 to Budapest and four other counties as well, implementing the programme across the whole country. The programme was designed to strengthen the relationship between state employment offices and enterprises, provide personalized assistance, thereby making the placement of jobseekers at enterprises more effective in every employment office of Hungary. Since the Labour Market Reform Programme was launched one and a half years ago, 80,000 jobseekers registered in the employment system found a job on the primary labour market. EU programmes aimed at improving the National Employment Service also continue, including the improvement of personalized job seeking and the further development of the Job Portal, which supports the recruiting process of employers, as well as the fine-tuning of the Client Categorization System, which aims to offer active labour market tools tailored to the objective characteristics and the individual life situation of individual clients. In addition, in 2019, a new information portal was created for the National Employment Service to increase its visibility and strengthen its presence. The new portal was launched on 20 April, 2020. While adapting to the changing labour market circumstances, one of the major tasks in this state of danger caused by the coronavirus is to maintain the system and to place people who have lost their jobs in a new employment at the soonest possible.

Active labour market tools

Programmes co-financed by the EU, which provide complex instruments to operate active labour market tools, continue to play an important role among labour market measures. The Road to the Labour Market programme (since 2015) provides support to jobseekers over the age of 25, inactive persons, and people leaving public employment. Until February 2020, 180,000 people were involved in the programme, 50,000 people receiving training support and 130,000 people being placed in subsidized employment. Until the end of February 2020, across the country, 137,000 people aged below 25 participated in the Youth Guarantee programme which promotes the labour market activity of young people below 25 years of age: 97,000 young people were supported through subsidized employment and 42,000 were given the opportunity to obtain competitive vocational qualifications.

A project conducted by non-state organizations designed to provide personalized labour market services to specific disadvantaged groups, inactive persons and unregistered jobseekers who are no longer in the sight of the National Employment Service, also continues. More than 53,500 people have participated in the programme until the end of February 2020, 30% of whom found a job as a result of the services provided.

The 2020 annual budget of public employment is HUF 140 billion, which allows for the employment of approximately 99,000 public workers. Programmes helping people transition from public employment and training programmes may continue to facilitate their employment on the primary job market. As a result of the measures implemented by the “From public employment to the competitive sector” programme launched in 2017, 17,000 people in public employment have found a job on the primary job market. In 2019, more than 94,000 people participated in flagship training
programmes organised for people in public employment and for low-skilled people, and an additional 6,000 to 8,000 people are planned to be placed on this programme in 2020, given the current state of danger. Based on the production capacities built by public employment in previous years, in 2019, we launched local economic stimulus programmes in 50 disadvantaged places plagued with high unemployment rate to promote local development through supporting economic initiatives. The aim for 2020 is to involve an additional 50 places in this programme.

The centralized labour market programme entitled “Building accommodation for workers” was launched in the autumn of 2019 with a budget of HUF 5 billion. The aim of the programme is to mobilize labour force, and this time, the programme was made available for private companies as well. 10 workers’ accommodation facilities are expected to be completed in the framework of this programme in 2020, with a total accommodation capacity of 1,138 persons. In addition, the previously introduced key labour market programmes promoting mobility will be carried on (Road to the Labour Market, Youth Guarantee) as well.

Besides the many programmes targeting employees, there are also programmes targeting enterprises (New Traineeship Programme, Boosting Employment, Road to the future, On-the-Job Training Subsidy) in order to encourage them to increase their staff size, as well as to keep their qualified employees. In the framework of the programme supporting micro, small and medium-sized enterprises to create jobs and maintain existing jobs, 1,608 new jobs were created by the supporting 246 companies in 2019.

4.4. Family policy measures

Hungary’s population has been shrinking for decades. In order to stop this process, in February 2019, the Government launched the Family Protection Action Plan designed to provide greater support to families and to encourage them to have more children. The Action Plan embraces previously adopted measures (family tax allowance, newly married couple’s tax allowance) and also introduced 7 new measures between July 2019 and January 2020.

The new prenatal baby support scheme offers an interest-free, free purpose loan of up to HUF 10 million with state guarantee to married couples who undertake to have children within 5 years (from gestation). In case of the first and second child, repayment of the loan is suspended for 3 years following the 12th week of pregnancy. After the birth of the second child, the debt itself is reduced by 30%, and following the birth of the third child, the total outstanding amount is cancelled by the credit institution.

In the context of the large families’ car purchase programme, families raising 3 or more children may apply for a 50% non-refundable subsidy capped at HUF 2.5 million from the Hungarian State Treasury for new car purchases.

Eligibility criteria for the interest subsidized housing loan and the family housing scheme (CSOK) were eased in order to broaden the scope of potential applicants. As of July 2019, subsidized housing loans at a maximum 3% interest rate may also be used to buy second-hand homes as well (in the amount of HUF 10 million for 2 children and HUF 15 million for 3 children). Moreover, the previous value threshold of HUF 35 million for second-hand homes was abolished, and now social security insurance
relationship earned in any foreign country is accepted in the application. Furthermore, the subsidized family housing loan and family housing scheme can also be used in disadvantaged villages of less than 5 thousand inhabitants for buying second-hand homes that need refurbishing with the same conditions as new homes. As of 1 January 2020, in these eligible villages, the maximum HUF 5 million VAT-refund granted to those who build new homes can be used for the modernization or enlargement of second-hand homes as well.

As a further element of housing support, the scope of mortgage reduction subsidies was also extended: a HUF 1 million debt reduction can be applied at the birth of the second child, and the eligible amount was increased to HUF 4 million for the third child.

The childcare benefit can now be requested by working grandparents instead of the parents (grandparent’s childcare benefit), if the parents continue to work. The amount of the grandparent’s childcare benefit is calculated based on the income of the grandparent.

A number of measures were introduced in recent years to bring women and parents raising small children back to the labour market. Besides the gradually increasing tax and contribution allowances detailed in the Family Support chapter, the capacity building of nurseries is also carried on. The objective is to have 70,000 places in nurseries by 2022 (the number of places in nurseries was over 51,000 in early 2020). The programme has a budget of HUF 11.5 billion in 2020. The nursery development programme launched in the fall of 2019 is complemented with another programme which provides parents who return to work with a monthly regular benefit for family or workplace day care services. This benefit can be disbursed until the child turns 3 years old, and its aim is to reduce the costs of providing day care while parents are at work. In early 2020, more than 1,300 people received financial assistance through this programme. A training programme for parents raising small children was launched in 2020. This programme provides training opportunity to 2,500 people while they receive childcare benefit. The programme entitled “Reducing the employment gap between men and women”, launched in the framework of the European Commission’s Structural Reform Support Programme, provides technical support for the development of employment opportunities that make it possible to reconcile work and family life, specifically tailored to the needs of mothers raising small children.

As of 2020, mothers raising four or more children are exempted from paying personal income tax after their income earned from work. Outside the framework of the Action Plan, there is another measure which aims to encourage mothers to continue their studies, thereby improving their position on the labour market. This measure reduced the outstanding debt from student loans after the completion of studies, depending on the number of children the mother has.

By 1 April, 2020, almost 170,000 families applied for various subsidies available through the Family Protection Action Plan. This programme is financed from domestic budgetary resources. It had a budget of HUF 79 billion in 2019, and it is expected to receive a funding of HUF 169.5 billion in 2020.
4.5. Poverty

Hungary has achieved significant results in the past decade in combating poverty. The ratio of people at risk of poverty or social exclusion gradually decreased from 31.5% in 2010 to below 20%, and it has been below the EU average for a while. In 2018, 18.9% of the total population was at risk of poverty or social exclusion, which represents 74,000 people less than a year earlier. The rate of poverty is slightly higher among women than men – similarly to almost every EU member state –, but it is below 20% even among women (19.6%). The ratio of Roma people at risk of poverty or social exclusion fell between 2013 and 2018 from 89.9% to 63.2%. Moreover, there was a significant drop, between 25 and 35 percentage points in every category of poverty. Due to their return to the job market, the rate of Roma people living in very low work intensity households fell from 45.3% to 13.7%, and more than a third of the total Roma population was lifted out of extreme poverty (their ratio dropped from 78.1% to 43.4%). The risk of income poverty decreased in all household types in past years, with the greatest degree of improvement seen among large families (2 adults and 3 or more children), among whom the poverty rate dropped by two thirds over the last 6 years (11.4% in 2018). The Government’s family protection and employment boosting measures played an important role in lifting a significant number of families raising several children out of poverty.

In terms of income inequalities, Hungary belongs to member states with a medium level of inequalities in the European Union. Based on the data compiled by the Hungarian Central Statistical Office, the Gini-coefficient, which measures income distribution, fell to a seven-year low in 2018 (from 28.7 in 2017 to 28). The richest 20% earned 4.4 times as much as the poorest 20% in 2017, and this ratio went down to 4.2 a year on. Income inequalities in Hungary are slightly below the EU average based on both indicators.

Measures promoting social inclusion

Since 2019, the Directorate-General for Social Opportunities (TEF) is responsible for performing training, organizational, territorial methodology and research tasks related to social inclusion. As a result of the restructuring, maintaining relationship with stakeholders, including local governments, NGOs, churches, social, education and training institutions, government offices, employer and employee organisations and chambers has become more efficient. In the framework of cooperation with local governments, TEF supports the development of local equal opportunity programmes and the implementation of social inclusion programmes. Among other things, TEF supports the early childhood education and care of disadvantaged children; it is involved in the training and mentoring of disadvantaged adults and in expanding their employment opportunities. Last but not least, TEF provides financial and organizational support to model programmes conducted in territories populated by ethnic Hungarians outside the borders of Hungary.

The objective of the Hungarian Village Programme financed from the central budget and launched in 2019 is to reinforce the capability of places with a population of less than 5,000, representing more than 30% of the total population and more than 91% of cities and villages, to retain their population, as well as to support housing opportunities in the countryside of Hungary. Within the framework of the programme, local governments, ecclesiastical legal persons, and as of 2020, NGOs have a wide range of opportunities for implementing development programmes.
In 2019, some 5,321 project proposals were awarded support in various categories. The programme is carried on in 2020 as well:

- HUF 40 million is available for improving local quality of life, with a special focus on developing public services (medical office, medical devices, accommodation, nursery school development, sports parks, etc.). The new village bus programme aims to improve accessibility of public services. Community spaces are being created by refurbishing and enlarging church and local government buildings.
- In 2020, HUF 60 billion is available for repairing the minor road network and the low category roads leading to villages in an attempt to mitigate the disadvantages of villages in the countryside and prevent their isolation.

The Government launched a long-term programme called “Convergence/Emerging settlements” in order to reduce territorial disparities. The programme aims to improve the health condition, economic situation, housing conditions of the population of the 300 most disadvantaged villages of the country, as well as to ensure their access to public services. In the first stage of the programme, in a total of 31 villages, 2,000 people of working age were placed in public employment, and 4,500 adults and children participated in health screening programmes. In order to reinforce public security, 13 villages received subsidy for installing public security camera systems. Complex housing programmes include the construction of safe public utility infrastructure, utility fee paying schemes that help prevent people from accumulating debt (e.g. prepaid meters), use of renewable energy sources, and the promotion of cost-efficient technologies. The development of housing model programmes and the testing of one such programme in Tarnabod, a village with a majority Roma population, are currently in the pipeline.

4.6. Education

The vision set out by public and higher education strategies defining the development framework of the education system propose quality improvement as a priority for education in order to help nurture successful and competitive adults. The measures implemented based on the General Educational Development Strategy and the Mid-term Strategy against School Leaving Without Qualification aim to increase of the level of qualification and ensure that education is accessible for every student, equitable and creates equal opportunities. It is also part of the mission of the higher education strategy to promote social mobility, that is, to ensure access to public education across the country, but especially in disadvantaged regions.

Public education and higher education infrastructural developments

Having a sufficient number and quality of education institutions are important preconditions to ensuring high-quality education and compensate for disadvantages. For this purpose, the Government provides significant amounts to the infrastructural development of education institutions.

In terms of the public education infrastructure, investments worth HUF 126.3 billion were carried out with the utilization of EU funds in the period 2017-2022. In 2020, HUF 5 billion of public resources were invested in the development of higher education institutions. In the framework of the regional
development policy, significant education-related projects will be implemented in the coming period. In the framework of the Modern Cities Programme, an urban development programme launched by the Government in 2015, HUF 137 billion is spent in 2020-2021 on public education and higher education institution developments and capacity building investments, of which HUF 98 billion comes from the Programme’s own budget. The Hungarian Village Programme aimed at developing small villages spends HUF 10 billion in 2019-2020 on the construction and refurbishment of nursery schools, as well as on building gyms and exercise rooms.

**Public education**

The measures introduced to prevent early school leaving without qualification will be carried on in 2020 as well. In 2019, the number of early school leavers in the age group 18-24 fell by 0.5 percentage points to 12% as compared to the previous year, but more efforts are needed to achieve the 10% target set out in the Europe 2020 Strategy. Schools receive adequate professional support tailored to their needs, for their work related to the prevention of early school leaving from the territorial pedagogical education centres operating within the framework of the Educational Authority and through the early warning and pedagogical support system introduced to support the successful educational progress of pupils at risk of dropping out including disadvantaged students. Since its creation, the rate of early school-leaving in the age group 16-24 and the share of pupils at risk of dropping out have shown a modest decrease. Experiences suggest that schools pay greater attention than earlier to support pupils at risk of dropping out early school-leaving. The reduction of early school-leaving is also supported by EU programmes; developments are in the pipeline in institutions at risk of dropping out, and there are also projects which help equip teachers with adequate methodology. In 2019, 16,000 educators participated in further trainings organized in the topics of developing and disseminating educator methodology that fosters prevention and supports learning, and in 2020, 10,000 people are expected to take part in similar trainings. In 2019, 960 public education institutions received methodology development, and in 2020, an additional 400 institutions are expected to be involved.

The modified National Core Curriculum, which is going to be introduced in the 2020/2021 school year, aims to modernize education-teaching as well as to make it more effective and successful. The renewed National Core Curriculum contributes to handing down the values of the Hungarian national culture and ensures the development of competences which are indispensable for succeeding in higher education and on the job market. The renewed core curriculum identifies “nurturing commitment to a sustainable future” as an individual education-teaching objective.

Students can now learn about sustainability and environmental protection in history and ethics classes too besides natural sciences classes. The evaluation system related to the teacher career model was complemented as of the 2018/2019 school year with competences related to environmental education. In 2020, almost 15,000 teachers are expected to be evaluated.

Just like on every level of education, the development of students’ digital competences is a priority in public education as well. With the utilization of EU funds, development programmes were launched in less developed regions as well. In the framework of these programmes, broadband internet and wireless internet networks are constructed in public education institutions, modern IT devices are purchased, and further training programmes are organized for teachers to develop their digital (teaching) competences.
In 2020, additional 210 public education institutions in disadvantaged settlements will receive digital devices (14,000 devices) in order to improve students’ digital competences.

**Vocational training**

The development of the vocational training system is continued. The aim of this measure is to reduce the number of early school-leavers without formal qualification, strengthen the key competences development capacity of vocational institutions, widen the scope of participants in dual training, and develop the training workshops of vocational training centres. Policy making is supported by the results of the OECD PIAAC (Programme for the International Assessment of Adult Competencies) survey as well: participation in the next assessment cycle (2018-2023) helps mapping the qualifications and competences of the working age population, assessing the results of adult training and identifying the needs of the labour market.

The institutional structure of vocational training will change from the 2020/2021 school year; vocational training institutions will be split into two types: 3-year vocational schools and 5-year “technikums” (secondary schools providing technical education). In vocational schools, the first year will provide general education and sector-specific initial training, followed by 2 years of vocational training. In technikums; the first 2 years will provide initial training (the same content in general education subjects as in grammar schools), followed by 3 years of vocational education. Mobility is ensured between the two forms of education.

As a way of facilitating transition from technikum to higher education, secondary school leaving exams taken from technical subjects in technical schools will be accepted as equivalent to advanced level exams taken in grammar schools during the admission procedure. The structure of qualifications was simplified: the National Vocational Qualifications Register (NVQR), which previously consisted of more than 600 qualifications, is replaced by the Vocations Register consisting of 174 vocations taught in the school-system education. The new Vocations Register is tuned to the needs of the modern digital age, ensuring mobility among vocations and conforming to EU norms.

Following the sector-specific basic exam, students may participate in specialized block education at dual training centres (knowledge centre, sector-specific or corporate training centre). It is necessary to ensure a sufficient number of educators with adequate qualifications to operate this effective and more practice-oriented dual vocational training. In order to ensure this, as of July, 2020, vocational schools will no longer employ educators in public servant status but in an employment relationship, which comes with an average 30% wage increase.

In order to reduce early school-leaving, as of September 2020 new measures will be introduced in the context of this new system. The competence assessment of pupils studying in 8th grade will help them make the right choice in terms of where to continue their studies in secondary education. Vocational schools have the possibility to organize a so-called orientation development year before starting vocational education, and they may also operate workshop schools. The vocational training system will be monitored by a quality control system set up by vocational training institutions on a mandatory basis, as well as by a mandatory external audit conducted every 5 years.

Parallel to restructuring vocational training, adult training is also being restructured. In adult vocational training, schools will introduce shortened training periods – taking into consideration already acquired knowledge –, and will strengthen new forms of education, including the possibility of e-learning. In labour market adult training, education and examination are separated, and qualification exams can be taken in accredited exam centres.
In adult vocational training, qualifications which can be taught include sub-vocations, advance level of vocations listed in the Vocations Register (vocations which can only be taught in the school-system) and qualifications with registered training programme requirements. The system is scheduled to be launched in the autumn of 2020; the list of programme requirements is under development. It remains free of charge to learn two vocations and one qualification, which also supports the retraining of adults.

Higher education

The Government aims to create a quality higher education system that is able to respond to global challenges, is in accordance with longer-term economic and social objectives, is able to provide competitive knowledge and is also capable of strengthening the recruitment of future researchers.

In 2019, the rate of educational attainment among young people aged 30-34 years fell by 0.3 percentage points to 33.4% as compared to the previous year, staying close to the national target of 34%. Since 2010, the proportion of Hungarian young people aged 30-34 in higher education has increased at a slightly greater pace than the EU average; however, due to the significant disadvantage at the starting point, it is still considerably lower than the EU average.

In order to increase the number of students in higher education and to improve the chances of disadvantaged students in further education, conditions of financial support instruments introduced in previous years will be improved and the amount of normative subsidy per student will go up by 8-40%, depending on learning outcomes. As of August 2020, the maximum half-yearly amount of the untied Student Loan 1 will increase from HUF 350,000 to HUF 750,000, taking into account growing price level of services related to students’ needs (for example accommodation costs). On top of offering financial support, the promotion of the development of communication and other skills enabling admission to higher education and supporting programmes aimed at promoting mathematics, natural sciences, engineering and information technology courses in higher education are also being continued.

In addition to ensuring competitiveness, another important goal of higher education is to find and nurture highly talented young people to help them make the best of their talent. The National Talent Programme, which serves exactly these purposes, granted subsidies to 1,848 applicants in the total amount of HUF 3.2 billion through 45 calls for proposals in 2019. The ERASMUS+ international project which is currently being set up, will contribute to the assessment of teaching performance.

The introduction and country-wide expansion of dual training programmes in Hungarian higher education proved to be a highly significant step in terms of reinforcing the harmony between higher education and economic needs. The further expansion of dual training opportunities in coming years is of great significance for the effective cooperation between higher education and the economic sector; therefore, the Government’s target is to attain a 6% share of dual training among first-year students - in the relevant fields of education - by 2023.

The legislative change pursuant to teacher training, proposed in the spring of 2020, aims to attract more students to this career path. The legislative changes, taking into account employer needs in public education and student needs, proposes a high number of training hours in teacher training, which will prepare students for the tasks of primary and secondary school education simultaneously. The new training will provide wider breadth in terms of professional basics and a mixture of teaching content, which is expected to allow greater freedom to graduates in finding a job.
In order to increase the number of applicants to teacher training courses, teacher training will be included in the Klebersberg Training Scholarship Programme. Approximately 500-1000 students participating in teacher training will receive the Klebersberg Scholarship.

Several measures are being implemented to provide professional support for the digital transformation of higher education. The programme entitled “Strategic support to the digital transformation of the Hungarian higher education”, financed directly by the European Commission’s Structural Reform Support Programme, fostering this methodological shift, will be launched this year.

**Equal opportunity, desegregation**

In order to improve the chances of disadvantaged and multiply disadvantaged students, education district centres having the power to designate school district centres, initiated in several cases the adjustment of district boundaries so as to prevent segregation and to ensure the more equitable distribution of students. A comprehensive, public education equal opportunity action plan was adopted in 2019 for every institution involved in an ongoing EU project aimed at reducing desegregation, improving access to inclusive education and developing institutions which are at risk of dropping out. Based on the institutional comprehensive action plan for the period 2020-2023, local pedagogical programmes are adjusted in a way that they would incorporate elements of the early school-leaving prevention system. The ‘tanoda’ (Hungarian archaic word for ‘school’) network applies extracurricular tools and comprehensive development to foster the educational convergence of disadvantaged students, including Roma. At the moment, there are 185 ‘tanodas’ operating in Hungary, using domestic budgetary funds. In 2019, 5,400 students enrolled in ‘tanoda’ programmes, while in 2020 there are 5,100 participants.

The On the Road Scholarship Programme, enhancing the educational success of disadvantaged primary and secondary school students, granted scholarship to 11,000 students in the 2019/2020 school year. The aim from the 2020/2021 school year on is to award at least the same number of students with scholarship. “Supporting Roma colleges for advanced studies” is of primary importance for the Hungarian Government in order to increase the number of Roma students holding a qualification, enhance their academic success and encourage their social engagement. There are altogether 11 Roma colleges for advanced studies in Hungary, which help several hundreds of young Roma students with university or college studies. Since 2011, almost 300 students obtained a BA or MA degree with the help of Roma special colleges for advanced studies. Last year, 63 students graduated.

In order to enhance educational success, mandatory nursery school was introduced for children aged over 3 as of September 2015. As a result, 95.7% of 4-6 year old children now participate in nursery school education. The nursery participation of Roma children is also high (91%, close to the national average), and one of the highest in the region. One of the strengths of the Equal Opportunity Kindergarten programme supporting the integration of disadvantaged children in nurseries and fostering their future educational success is that it employs native (or Roma) nannies to help children and their parents. The programme reaches out to almost 40,000 children, including 20,000 disadvantaged and multiply disadvantaged children and their nursery school teachers.
4.7. Healthcare

The key health indicators of Hungary have been improving in the past decade. Infant mortality fell from 5.3 to 3.4 between 2010 and 2018 for every 1000 live birth, while life expectancy at birth showed a slight increase from 74.38 years to 75.94 years. According to Eurostat data, the number of healthy years expected at birth grew by 3.6 years to 61.1 years. Women are expected to live 4.1 years longer in good health, while the number of healthy years for men grew by 3.2 years. As a consequence of these favourable developments, Hungary has improved its ranking from 23rd to 15th place, approaching the EU average (63.6). Between 2010 and 2018, the per capita health care spending on purchasing power parity increased by 23%, while the number of practising doctors per 10,000 people went up by 20%. In 2017, public expenditure on health accounted for 69% of total expenditure on health. The Government implemented significant wage increases in the past decade in order to retain workers in the public health care sector and in order to prevent the exodus of health care professionals. As a result of multi-stage wage developments put in place in 2012-2013 and as of September 2016, average gross monthly salaries showed a 92% increase in 2018 as compared to 2010. Salaries went up in all three job categories, with the most significant rise seen among doctors. Between 2010 and 2018, the average gross monthly salary of doctors rose by 110%. The average gross monthly salary of health care professionals in 2018 was stepped up by 92%, while health workers earned 80% more than 8 years earlier. According the OECD’s Country Health Profile 2019, unmet medical needs are relatively low in Hungary. Only 1% of the population reported that they could not access care in 2017.

Infrastructure developments, investments

The Government plans to put in place considerable health care developments in coming years in order to improve health care for citizens. The Healthy Budapest Programme, financed exclusively from domestic resources, provides HUF 700 billion for health care developments in Budapest between 2017 and 2026. Four hospital centres are being established in Budapest, and further developments will be carried out in 24 associate hospitals – among them 11 national medical centres – and 32 clinics in order to create an institutional network that is able to respond to technological, diagnostic and therapeutic health care challenges. The infrastructural developments carried out in this programme will improve the state of health of about 4 million people, those living in Central Hungary and patients who will use these institutions for specialised care purposes from all over Hungary. The Government allocated HUF 42 billion for this programme in 2019 and HUF 40 billion in 2020. Additional developments are also being carried out in several hospitals outside the capital city, like in Szombathely and Kaposvár.

A vehicle fleet replacement programme for the National Ambulance Service costing HUF 13 billion and financed strictly from domestic budget is another major health project, that allows the replacement of 254 old ambulance cars and the modernization of their emergency care equipment in 2019-2020. In the framework of the Modern Cities Programme, HUF 44 billion is spent on health care institution developments and capacity building investments, of which HUF 40 billion comes from the Programme’s own budget.

One of the main goals of the Hungarian Village Programme is to improve villagers’ access to public services in order to mitigate the disadvantages of villages with a population of less than 5,000.
Health care sub-programmes announced in 2019 proved to be very successful; a large number of local governments submitted project proposals and a total of HUF 9.5 billion was granted for the development of primary health care (for building service accommodation for doctors, refurbishing and modernizing medical offices, purchasing medical devices). The programme is being continued in 2020 with a budget of HUF 7 billion.

**Measures for health preservation and prevention**

Besides infrastructural developments, the Government pays special attention to prevention and improved access to organized public health screenings as well as the dissemination of healthy living programmes. In 2018, the “Three Generations for Health” programme was launched from central budget. This programme aims to develop the network of general practitioners, and provide adequate primary health care to citizens by forming new general practice partnerships that conduct novel public health programmes in addition to their general duties. So far 149 general practice partnerships have been established which provide prevention and health promotion to 1.2 million people.

The national network of health promotion offices (EFIs), are local health offices that offer health communication services for local communities, promote healthy living and foster cooperation among stakeholders of the local health scene. These centres are to be enlarged and perform mental health promotion duties. At the moment, there are 112 health promotion offices across the country providing services to almost 10% of the population. The long-term objective is to attain national coverage. In 2019-2020, the Government spends HUF 3 billion on the operation of existing offices and on the establishment of new offices. Last year the offices implemented almost 2,500 prevention programmes at a national level, with the participation of 144,000 people.

The so-called “Healthcare at your doorstep” programme is extremely popular among the population. The programme is designed to provide medical screening close to people’s place of residence. Equal access to medical screening is facilitated by 10 modern health promotion vans, and by an additional 9 screening vans equipped with modern mammograms as of 2020. The programme receives an annual HUF 1 billion from domestic resources, and its goal is to reinforce awareness by providing screening free of charge. The villages included in the long-term “Convergence villages” programme are also designated as mandatory priority in the roadmap of this programme.

The nationwide expansion of the lung cancer screening model programme introduced in 2014 – for the risk group of people aged between 55 and 75 – began in 2019 with the involvement of 9 additional institutions. The programme is to be implemented in 10 additional centres in 2020 and in another 20 centres in 2021.

The Government’s sports investments promote healthy living and encourage physical activity for the young and adult population. The Government appropriated HUF 83.5 billion for sports investments, from which large investments account for HUF 68.4 billion. Several residential sports facilities help youth living in the countryside to stay healthy and improve their health: 5 school sports halls, 5 swimming pools and a handball hall are being built in 2020. For interested young people defence sports centres are being constructed in several locations across the country in the amount of HUF 4.4 billion.
4.8. Sustainable economy – climate and energy policy, transport

The Government of Hungary is committed to environmentally conscious economic development and supports the EU’s efforts aimed at achieving a sustainable economy and climate neutrality by 2050. Hungary is one of the few countries in the world which manages to cut back on greenhouse gas (GHG) emissions and improve its economic output at the same time. Hungary will probably outperform its national greenhouse gas emissions targets defined in the Europe 2020 Strategy. Greenhouse gas emission in 2018 were 33% lower than in 1990, and 16% lower than in 2005, which is 20 percentage points below the set strategic target, i.e. at most 10% higher than the level in 2005. With this achievement, Hungary is among the best performing member states of the EU.

Greenhouse gas emission in 2018 were 33% lower than in 1990, and 16% lower than in 2005, which is 20 percentage points below the set strategic target, i.e. at most 10% higher than the level in 2005. With this achievement, Hungary is among the best performing member states of the EU.

The share of renewable energy sources in gross energy use was 12.5% in 2018, which is somewhat below the 13% target defined in the Europe 2020 Strategy. As a result of energy and climate policy measures aimed at enhancing energy efficiency, Hungary’s consumption of primary energy decreased by 0.5% in 2018 compared to 2010, even though GDP in 2018 was 24% higher than in 2010. In 2018, primary energy consumption amounted to 24.49 million tonnes of oil equivalent (Mtoe) and final energy consumption was 18.54 Mtoe, both values exceeding the Europe 2020 target levels. At the same time, in 2013, Hungary submitted an indicative national energy efficiency target to the European Commission, which was higher than the Europe 2020 target level: annual primary energy consumption of 26.6 Mtoe and annual final energy consumption of 18.2 Mtoe. In 2020, primary energy consumption is expected to be significantly lower than the target value, while final energy consumption is expected to be close to the target.

Energy policy

At the beginning of 2020, the Government adopted Hungary’s new National Energy Strategy as well as the National Energy and Climate Plan which defines national energy and climate policy priorities until 2030 with an outlook until 2040.

Hungary’s new National Energy Strategy has the following objectives:

- The GHG intensity or specific energy consumption of individual industry segments cannot exceed the EU average.
- The country’s final energy consumption in 2030 cannot exceed the 2005 level of 785 PJ (18.74 Mtoe) – while maintaining dynamic economic growth. After 2030, increase in final energy consumption must be covered from carbon neutral energy sources. Cumulative final energy consumption savings for the period 2021-2030 are expected to reach 331.23 PJ, assuming an even savings distribution of 0.8% per year.

Hungary considers that its EU commitments included in the Paris Agreement are attainable. In that regard, Hungary’s goal is to reduce greenhouse gas emissions by at least 40% by 2030 as compared to the 1990 level. In January 2020, the Government adopted a national climate neutrality target for 2050, which is defined in the National Clean Development Strategy.

The Climate and Nature Protection Action Plan announced by the Prime Minister in early February, envisages an increase in the share of carbon emissions free electricity production of 90% by 2030, an increase that Hungary wishes to achieve by promoting the introduction of environmentally friendly
technologies. The programme supports the renewable energy production of small and medium-sized enterprises with HUF 32 billion. Multinational companies are expected to apply environmentally friendly technologies, for which they receive subsidies through programmes financed by the EU. The currently lignite-fired Mátra Power Plant’s conversion to environmentally friendly technologies is implemented as a multi-purpose project, serving significant climate protection, regional development and job preserving purposes. Another objective of the action plan is to step up solar power plant capacities by six-fold until 2030. The target is to install 3,000 MW solar power generation capacities until 2022 and more than 6 thousand MW until 2030. Household solar power generation is supported through subsidized loans and the system of net metering.

In order to encourage renewable energy production, the first pilot tender has been announced in the framework of METÁR, a subsidy system launched at the end of last year based on competition and tendering. With the implementation of 72 winning project proposals, an annual total of 193 GWh carbon neutral electricity generation becomes possible. As a result of the winning projects, the amount of electricity generated by solar power will grow by 10% as compared to 2019. Besides the solar power plants, a landfill gas recovery plant is going to be built as well.

There are favourable loan schemes for household investments in energy efficiency. In 2019, 8,069 loan contracts were signed within the framework of household energy efficiency investment loan schemes offered by the Hungarian Development Bank (MFB). The Blue Planet Climate Protection Venture Capital Fund planned to be set up in 2020 with a budget of HUF 10.5 billion aims to create a new financing model, which takes into account in its decision making not only the financial return on investments but also the expected climate, environment and health protection effects of the project.

The National Energy and Climate Plan stipulates that an energy efficiency obligation scheme must be introduced by 2021, based on which and in line with the respective EU Directive, the energy saving obligation imposed must be achieved at end-users through a specific scheme. Under the obligation scheme, energy suppliers and/or energy distributors are given the freedom to choose in which customer group they wish to carry out the investments (industry, households, public institutions, services sector).

Requirements for buildings to have close to zero energy need came under review in 2019, and as a result, a new element was added to the regulation: a rating system was set up based on the individual energetic assessment of district heating systems, which helps enlarge the system of efficient district heating systems.

As of 1 January, 2020, public duties of the National Energetics Network are performed by the Hungarian Energy and Public Utility Regulatory Authority (by operating an energetics advisory system), while the Hungarian Chamber of Engineers is responsible for setting up an advisory system for households and the business sector.

**Environmental protection**

Increasingly extreme weather events triggered by climate change have a negative impact on water supply and Hungary’s exposure to draughts restricts the country’s competitiveness. The river basin management plan and the flood risk management plan are currently under review, and their public debate is scheduled for the end of the 2020. With the financing of the Public Water Works
Reconstruction Fund, several-decade awaited reconstruction works are finally going to be carried out by the end of 2020 through almost 40 investments. In 2019-2020, investments realized on state and local government public water works assets in order to modernize the drinking water infrastructure, improve energy efficiency and develop the waste water system, represent a significant amount, a total of HUF 10 billion. These developments contribute to reducing transmission loss, increasing operational safety and improving water quality as well. The Water Impact Private Equity Fund established in 2020 for a term of 10 years with a private capital of HUF 5 billion aims to finance water and waste water management as well as clean technologies through supporting enterprises which develop or apply state-of-the-art innovative technologies.

In 2020, measures have been initiated in the field of waste management as well, in order to protect the environment. Based on the Climate and Nature Protection Action Plan announced early this year, the eradication of illegal landfills is going to begin as of 1 July, and a Waste Management Authority is going to be set up.

The tree planting programmes aimed at enlarging the forested surface area serve the purpose of improving the environmental status of Hungary and mitigate the negative impacts of climate change. The National Afforestation Programme announced by the Government aims to achieve a 27% forest cover by planting 250,000 hectares of forest in 10 years. The programme contributes to meeting Hungary’s decarbonisation commitments by increasing carbon absorption, while it can also contribute to creating jobs in the country. The Climate and Nature Protection Action Plan also announced an afforestation project called “One tree planted for every newborn child”.

Transportation

The ratio of people using public transport is very high at a European level, both in terms of transport by train and by bus. In order to achieve climate neutrality, it is indispensable to further develop and modernize the transportation infrastructure. The public consultation preceding the finalization of the National Clean Development Strategy for the period until 2050 concluded that in respondents’ (approximately 200 thousand people) opinion along with the energy sector, the transportation sector should make significant contributions to cutting greenhouse gas emissions. Development of the transport infrastructure is included in the 2019 country specific recommendations of the European Council as well.

In order to promote public transport over individual car use – in line with EU objectives – the Government supports the renewal of railway vehicles used for passenger transport from the central budgetary and EU funds. Improvements in transport conditions as a result of the purchase of 70 new IC+ and passenger rail cars by MÁV-START Zrt. (HUF 31 billion) and the procurement of 40 large capacity, double-decker trains (HUF 206 billion) for suburban railway transport can mitigate the environmental impact caused by individual car use and public transport. In order to renew the vehicle fleet, MÁV group plans further purchases in its vehicle strategy for the period until 2030. It launched a public procurement process for the purchase of 115 electric locomotives and 50 dual-mode multiple unit trainsets. Additionally, the group plans to manufacture 250 IC+ and passenger rail cars in order to renew their fleet and they also plan to procure electric multiple unit trainsets. As a
consequence of the planned vehicle procurements and production, the average age of vehicles will drop to 26.6 years by 2030, and the fleet will be more modern and homogenous.

Annually approximately 450 million people travel by intercity coaches, and buses play an important role in urban public transport as well. In order to renew its vehicle fleet and to achieve sustainable public transport, Volánbusz plans to purchase 3,930 coaches between 2019 and 2022. As a result, 60% of the company’s total vehicle fleet would be replaced, reducing the average age of vehicles to 8.99 years by the end of 2022, and to 5.73 years by the end of 2031. Part of the new coaches will be alternatively powered, while diesel vehicles will be fitted with modern and more environmentally friendly EURO 6 engines. Consequently, the carbon-dioxide emission of interurban transport may drop by 38% in the next 4 years.

The Green Bus Model Project launched in 2020 and the subsequent Green Bus Programme aim to put purely electric buses exclusively into use in urban transport after 2022. The Government appropriated HUF 36 billion for the programme running until 2029 to subsidize the purchase of purely electric drive buses. Within the framework of the Modern Cities Programme, preparations for complex projects aimed at laying the groundwork for electric public transport are underway in several cities. Also within the framework of the Modern Cities Programme, intermodal hubs are going to be created in 10 cities with county rights for the amount of HUF 132 billion in order to increase the efficiency of the public transport system.

The Jedlik Ányos Plan, adopted in 2015 to ensure the competitiveness of the electromobility sector, came under review in 2019, which was necessary because of the accelerated rate of development of electromobility. The revised plan defines 9 priorities until 2030 and sets development targets for different time periods. National target figures for electric vehicles and charging stations are currently under review pending Government approval.

The subsidy for electric car purchases aims to promote and extend electromobility among citizens. The subsidy amount is 21% of the purchase price but capped at HUF 1.5 million per car. The HUF 3.4 billion budget may support a total of 1,847 car purchases. The obligatory minimum biofuel ratio of fuels distributed at petrol stations saw an increase as of 1 January 2020. The obligatory minimum biofuel ratio is 8.2%. The obligatory minimum bioethanol proportion is 6.1% for fuels with a petrol grade research octane number of 95.
The institutional framework of the approval of the NRP

Similarly to previous years, the public consultation on the measures of the National Reform Programme 2020 was conducted in cooperation with the ministries responsible for the specific measures. The relevant ministries conducted the necessary consultations in accordance with the laws applicable to the preparation and planning of laws, programmes and other actions. The consultation concerning legislation (and government decrees concerning strategies and programmes) was typically carried out based on the provisions of Act CXXXI of 2010 on Social Participation in the Drafting of Legislation. Public consultation takes the form of sharing opinions through the contact channel provided on the website (general consultation) and direct consultation with the persons, institutions and organisations invited by the minister responsible for the preparation of the legislation (direct consultation). General consultation is mandatory in every case.

Within the framework of the Modern Cities Programme, based on the cooperation agreement, which takes into consideration national priorities and is aligned to the local integrated urban development/territorial development strategy, the city leadership conducted the necessary consultations and made their decisions.

The Hungarian Village Programme was drawn up in the context of an extensive dialogue during which more than 4,000 municipal councillors and mayors received information at more than 70 places. In the two most affected counties, 7 and 4 information events were organized in catching up villages. During the consultations, the local governments of catching up villages, advocacy organisations, NGOs and relevant ministries worked in close cooperation.

In the case of actions carried out in the framework of EU-financed programmes in the 2014-2020 programming period, the public consultation process was conducted in accordance with the provisions of Government Resolution No. 272/2014. (XI.5.) on the rules of the use of European Union funds. Consultation applies both to the planning and the selection process.

This year the COVID–19 pandemic rendered it impossible to conduct extensive public consultations concerning the National Reform Programme.

The following good practices could be identified in the course of the preparation of the NRP:

- The Ministry for Innovation and Technology together with the Hungarian Chamber of Commerce and Industry launched a nation-wide series of consultations in 2019 concerning the strategy developed to strengthen micro, small and medium-sized enterprises (2019-2030). 1,000 enterprises were involved in the development of the strategy. Questionnaire surveys, in-depth interviews and various research were conducted during the series of consultations.
- The Territorial Innovation Platforms (TIPs) event series aims to address a wide-ranging audience at university bases. At the events, informative presentations were delivered about RDI strategic goals and up-to-date information regarding the subsidy policy.
- In relation to the National Clean Development Strategy the Ministry for Innovation and Technology (ITM) organized a workshop on 5 May 2019 about the EU’s draft of long-term emissions reduction strategy. The event provided an opportunity to government, economic and non-governmental organizations to share their view on long-term climate policy.
planning. The drafters of the strategy held several consultations in the second half of 2019 with the relevant ministries and experts of background institutions about the content of the strategy. The ITM initiated a public consultation in regard to the strategy between 18 and 25 November 2019 in compliance with Article 10 of the Governance decree. During the consultation, a questionnaire was published on a government website and its results were summarized in a separate document. According to the results, 92% of respondents support the aspiration that Hungary become carbon neutral by 2050.

- In the review process of water management strategies, the debate material of significant Water Management Issues was subject to public consultation in the first half of 2020 through the www.vizeink.hu website.
- During the drafting process of the National Energy and Climate Plan, ITM held extensive expert, civil and public consultations in order to implement a plan which is widely supported by citizens. The National Energy and Climate Plan is publicly available on the kormany.hu website.
- The legislative changes related to the renewal of teacher training were preceded by extensive consultation with professionals. During 2019, consultations were led by higher education institutions involved in teacher training, the National Faculty of Teachers and the Klebersberg Centre representing the state as maintainer. The consultations were conducted in various committees relating to specific issues. Relations with these committees will be maintained in order to involve them in the development of teaching contents which comply with the requirements of the new national curriculum introduced in 2020.
- On 21 November 2018 a partnership agreement was signed with six national organizations representing the interests of people with disabilities about the long-term concept for the deinstitutionalization of nursing and care services for disabled people. The revised concept takes into account the opinions of these organizations as well as previous experiences drawn from the deinstitutionalization of services. In addition, as the highest level consultation body, the National Disability Council continually debated the current issues of deinstitutionalization, and the National Body for the Coordination of Deinstitutionalization comprising of state and civil members has been following the process since 2011.