



Economic Challenges of Lagging Regions

Annex 2

Task 2 - Country report HUNGARY

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Task 2 - Country report HUNGARY



A joint effort by



- › The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche
- › Cambridge Econometrics
- › Applica Sprl.

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Preliminary note

The Country Reports are concerned with identifying the main structural imbalances in each of the 8 Member States on the basis of a broad range of data from various sources with regard to the 6 reform areas that has been identified as likely to most influence investment decisions and which are:

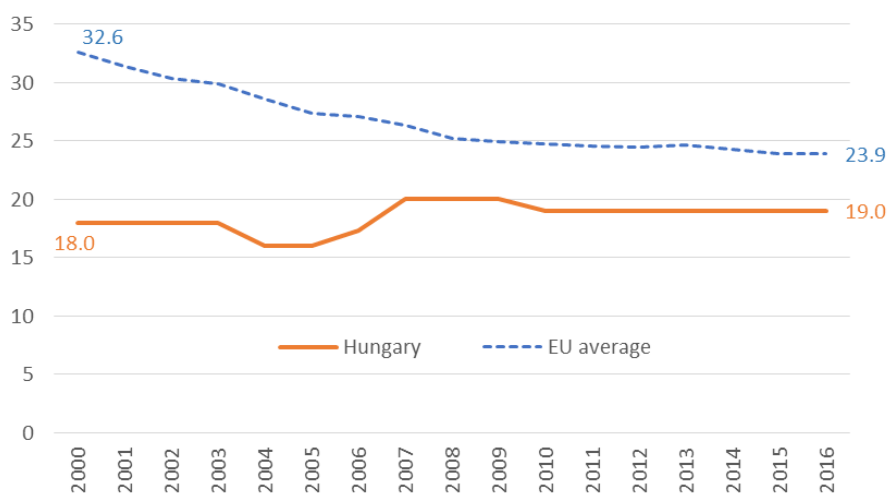
1. Corporate taxation
2. Banking and Access to finance
3. Labour market
4. Education
5. Business environment including product markets, research and innovation
6. Governance

The approach is to compare, for each structural variable, the situation in the country concerned and, so far as possible, in the lagging (NUTS 2) regions where data are available with the EU average, used as a benchmark. The findings are then confronted with the reforms recommended and implemented so to identify areas still in need of reform.

A summary of the main findings coming out from the detailed analysis provided in the Country Reports is included in the main report.

1. CORPORATE TAXATION

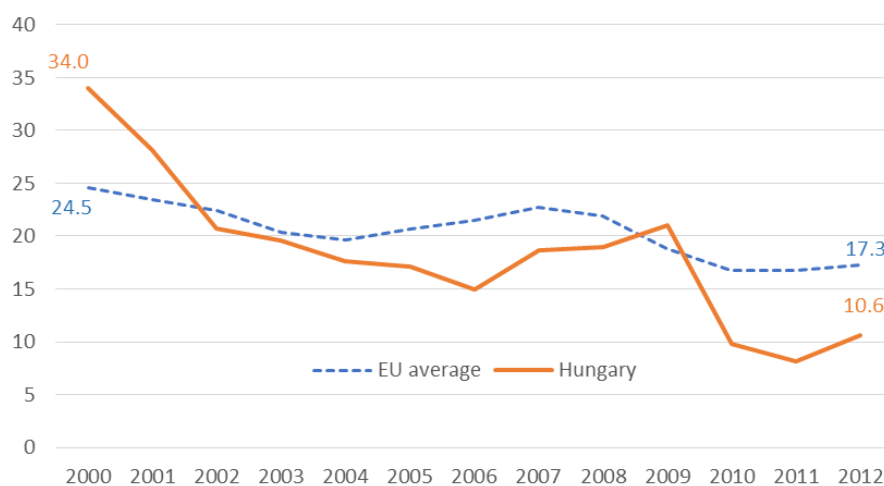
Figure 1.1 – Corporate income tax rate in Hungary, 2000-2016



Source: OECD Tax Database.

Notes: The data presented is the combined corporate income tax rate imposed by central government and regional or local governments. The EU average does not include BG, LT, LV, MT, HR and RO.

Figure 1.2 – Implicit tax rate on capital and business income of corporations in Hungary, 2000-2012



Source: Eurostat, Government statistics [gov_a_tax_itr].

Note: the EU average does not include BG, DK, DE, IE, EL, HR, LU, MT and RO.

CORPORATE TAXATION in Hungary	
Country-specific recommendations, 2011-2015	
2011	-
2012	Reduce tax compliance costs and establish a stable lawful and non-distortive framework for corporate taxation.
2013	Ensure a stable more balanced and predictable corporate tax system. Streamline corporate taxation

	and minimise distortions of resource allocation created by sector-specific taxes in order to foster growth and employment.
2014	Ensure a stable more balanced and streamlined tax system for companies including by phasing out distortive sector-specific taxes.
2015	Reduce distortive sector-specific corporate taxes.
Structural reforms carried out, 2011-2015	
2013	A fixed tax rate (16%) for micro, small and medium enterprises (KATA) was adopted to replace several taxes (social contribution tax, vocation contribution, and corporate tax).
2014	The corporate tax system was amended to simplify the interpretation of corporate tax and help application.
2012-2015	Introduction of new sectoral taxes: the telecommunication tax (since July 2012), a special tax in the retail, telecommunications and energy sectors (applicable between 2011 and 2013), the public utilities tax (since 2013), the financial transaction duty (since 2013), the insurance tax (since 2013), the tax on wires and pipelines (since 2013), the advertisement tax (since 2014), the introduction of steeply progressive rates in the food inspection fee (2015) as well as the introduction of a tax on tobacco manufacturers and distributors (2015). However, in response to a suspension injunction by the European Commission, the progressive rates in the food inspection fee have been repelled, the government also abolished the advertisement tax in July 2015, and the tax on financial institutions was halved in 2016. In addition, since January 2013 the surtaxes of retail, telecommunication and energy sectors were abolished to promote growth and employment.
Outstanding challenges	
	The heavy reliance on sector-specific taxes is a source of distortion across sectors and may also weaken investor confidence.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 85 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

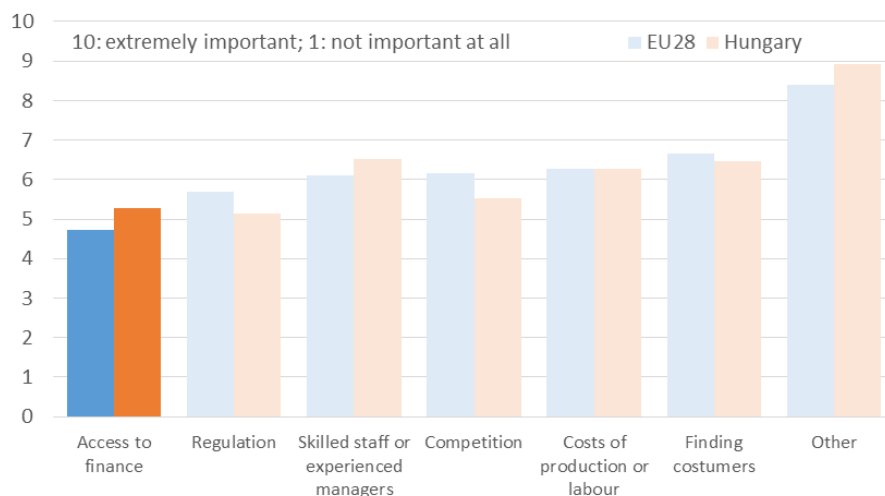
The latest available data indicate that the two indicators on corporate taxation in Hungary were well below the levels observed in the EU. This was the case for the corporate tax rate over the 2000-2016 period, which has remained constant at 19% since 2010. On the other hand, the effective (or implicit) tax rate on company income has fallen since the onset of the crisis in 2008 (possibly because of various kinds of allowances or the ability of companies to obtain refunds of taxes paid in the past on losses), before slightly rising again in 2012, the latest year for which data is available. In sum, therefore, taxes on businesses do not seem to represent an obstacle to growth in Hungary.

However, the country specific recommendations insisted on the importance of reducing sector-specific corporate taxes as these pose additional financial and administrative burdens on the sectors concerned. Over the 2012-2015 period, various new sector taxes were however introduced in Hungary even if some of them were recently abolished. Sector-specific taxes are held to be a potential hindrance to investment and are regarded as an outstanding challenge to be tackled¹.

2. ACCESS OF ENTERPRISES TO FINANCE

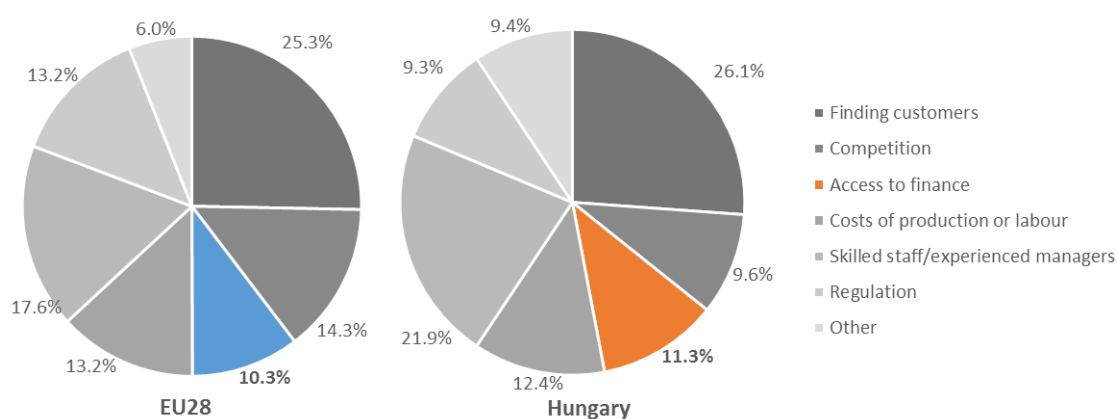
¹ Member States Investment Challenges – SWD(2015) 400 final.

Figure 2.1 – Problems faced by enterprises in the past 6 months in Hungary, 2015



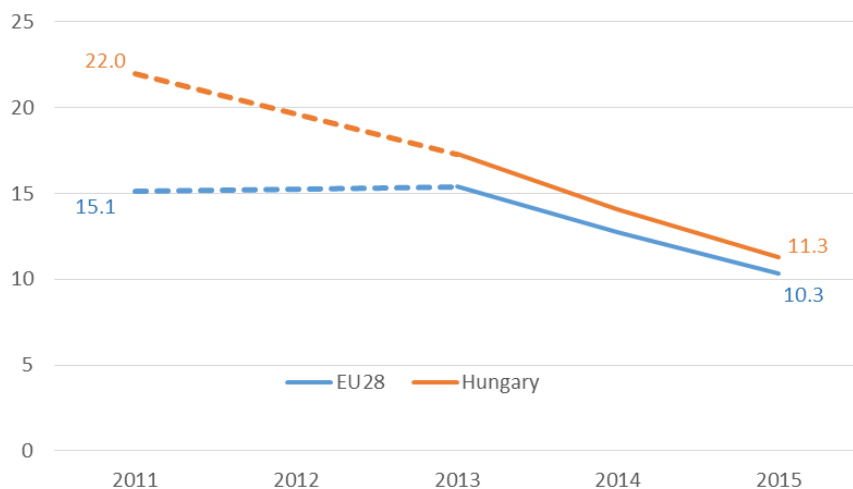
Source: SAFE, wave 13.

Figure 2.2 – Current most important problem for enterprises in Hungary, 2015



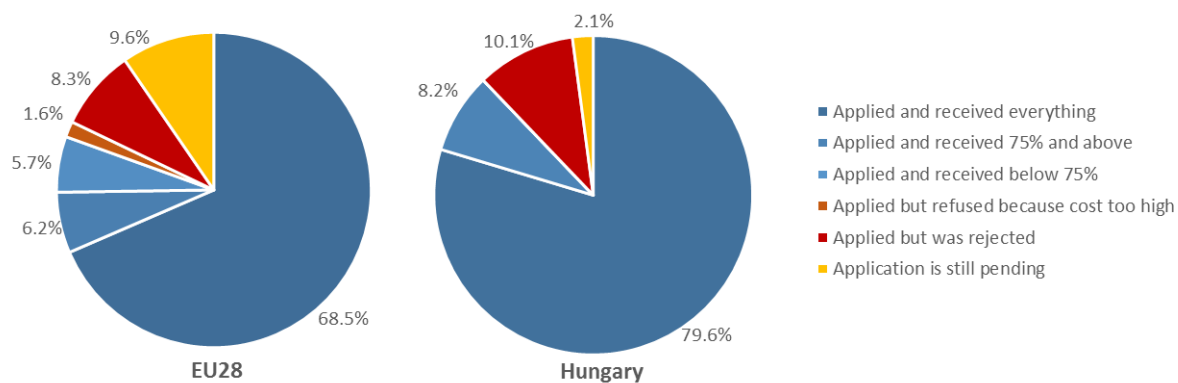
Source: SAFE, wave 13.

Figure 2.3 – Share of responding enterprises that said that access to finance was the current most important problem for them in Hungary, 2011-2015



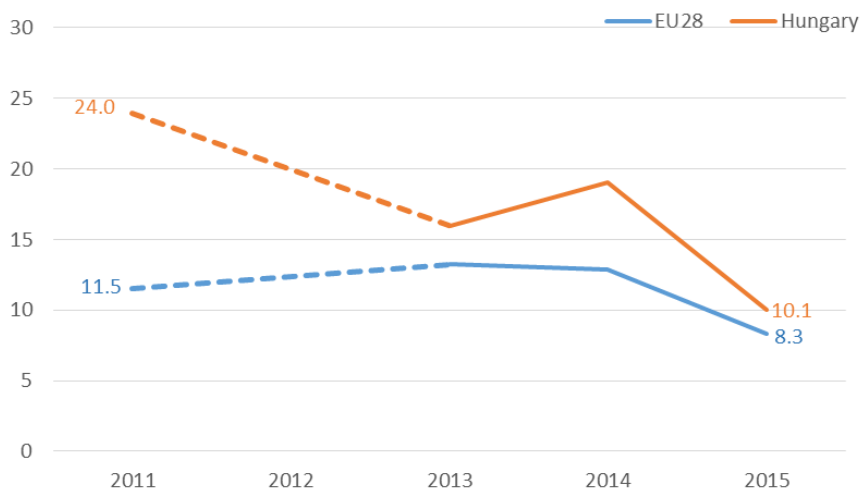
Source: SAFE, waves 5, 9, 11 and 13.

Figure 2.4 – Outcome of applications by enterprises for bank loans in Hungary, 2015



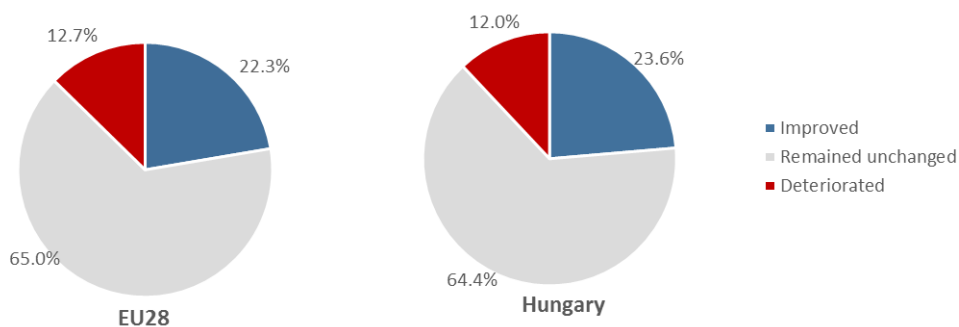
Source: SAFE, wave 13.

Figure 2.5 – Share of responding enterprises that applied for a bank loan but saw their application rejected in Hungary, 2011-2015



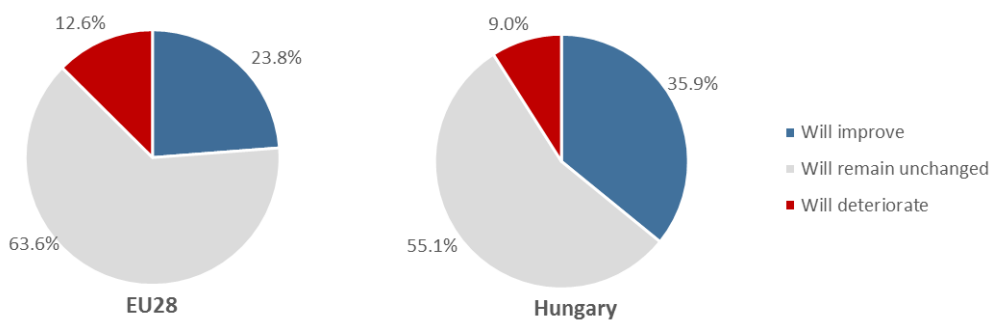
Source: SAFE, waves 5, 9, 11 and 13.

Figure 2.6 – Availability of bank loans over the past 6 months in Hungary, 2015



Source: SAFE, wave 13.

Figure 2.7 – Evolution of the availability of bank loans for the future in Hungary, 2015



Source: SAFE, wave 13.

ACCESS TO FINANCE in Hungary	
Country-specific recommendations, 2011-2015	
2011	Assess the effectiveness of current SME support policies and adjust public programmes in order to

	improve access to non-bank funding.
2012	-
2013	Help restore normal lending to the economy primarily by improving the capacity for capital accumulation in the financial sector.
2014	Help restore normal lending flows to the economy.
2015	Take measures to restore normal lending to the real economy.
Structural reforms carried out, 2011-2015	
2012	The Hungarian Development Bank provides bank guarantees for the facilities/loans of businesses with a term of more than one year to improve their competitiveness.
2012	The <i>New Széchenyi Combined Micro-credit</i> and the <i>New Széchenyi Credit Programme</i> to develop micro- and small-sized enterprises that cannot be financed through commercial banking methods or that can only be financed to an extent other than required through commercial banks' methods, by improving the options of obtaining credits.
2013	The <i>Funding for Growth Scheme</i> (FGS) allows SMEs to have access to affordable credit. Under the FGS scheme, the Central Bank provides credit to commercial banks at zero interest for the banks to lend onward to SMEs at a maximum annual interest rate of 2.5%. Under the FGS+ scheme launched in March 2015, the Central Bank improves access to credit for SMEs that have not been able to participate in FGS so far. The Central Bank takes over the credit risk from credit institutions for a limited period and to a limited extent.
2013	EXIM (which was formed through the organisational integration of the Export-Import Bank (Eximbank) and the Export Credit Insurance (MEHIB)) plans to provide more substantial financial assistance to the export-oriented SMEs.
2013	Modification of the <i>New Hungary Business Credit Programme for Producer Organisations</i> to offer credit at preferential interest rates to producer organisations/producer groups operating in the vegetable/fruits sector, and to producer groups operating in the agricultural, forestry and fisheries sectors.
2014	The <i>Széchenyi Card</i> provides SMEs with preferential investment, current asset loans and loans prior to grants.
Outstanding challenges	
	Lending activity remains subdued due to factors on both the supply and demand side of the credit market.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 85 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

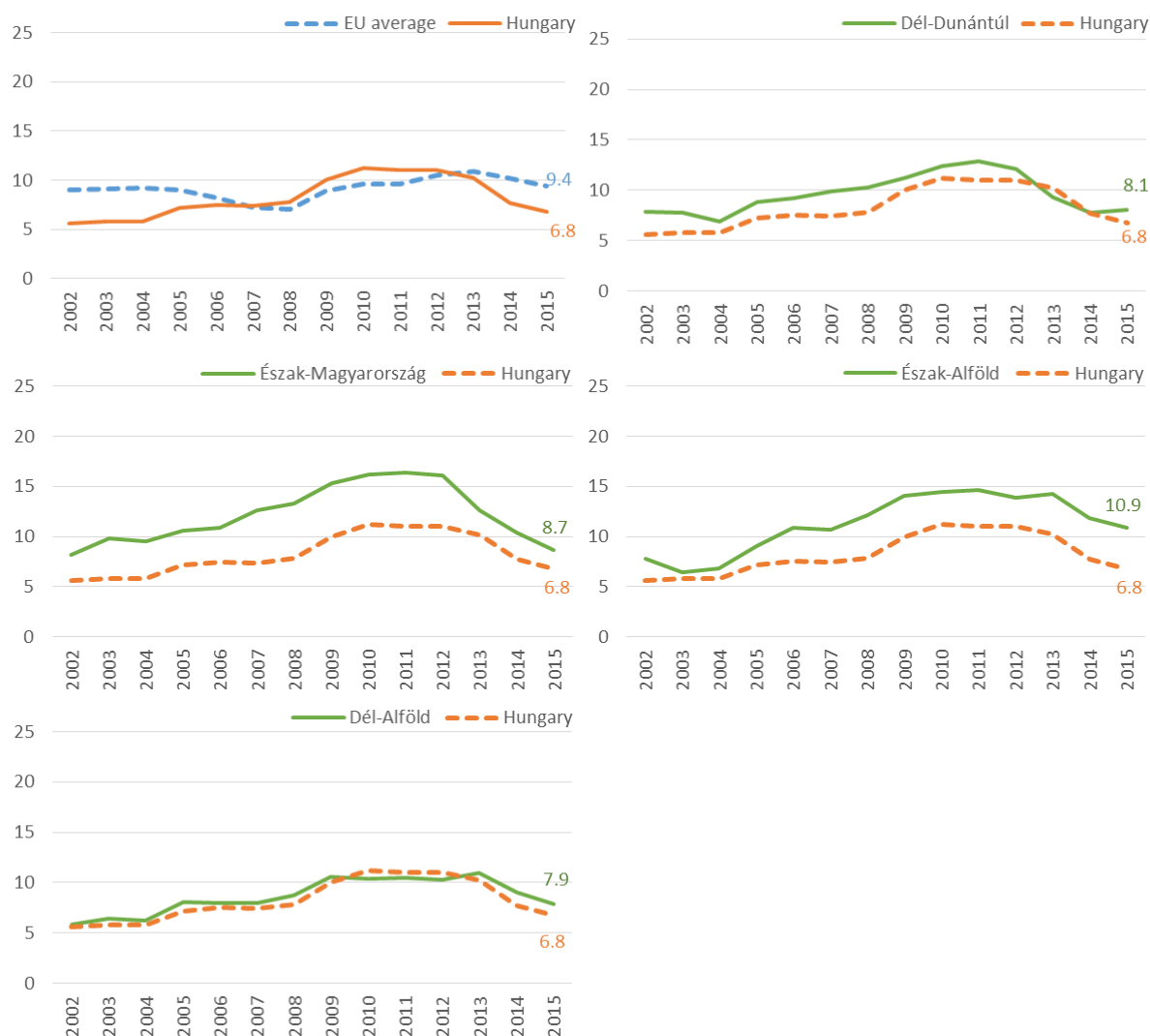
In the case of access to finance, data are not available at the regional level. The analysis is therefore limited to the country level.

Based on the SAFE results for 2015, access to finance was not considered as the most important issue for enterprises in Hungary which seem more concerned about finding customers and skilled workers. It was however a major issue over the preceding years and, in general, it was more of an issue than in the rest of the EU, though the discrepancy with the EU average substantially reduced since 2013. In addition, data on the outcome of bank loan applications indicate that the number of enterprises who applied and received a bank loan in 2015 in Hungary was relatively higher than in the EU as a whole (even if the proportion that saw their application rejected was also higher in the country, though again much smaller compared to previous years). Moreover, perceptions of the future availability of bank loans indicate a better situation in Hungary than in the EU on average.

The country-specific recommendations issued over the 2011-2015 period highlighted the need to restore normal lending to the economy and to improve access to non-bank funding. Hungary has responded to this through the introduction of various measures to help the access of micro and small-sized businesses to financing (such as the *New Széchenyi Combined Micro-credit* and the *New Széchenyi Credit Programme*, the *Funding for Growth Scheme (FGS)* and the *FGS+ scheme*). Enterprises in Hungary appear to face less difficulty in accessing finance compared to some years ago, but it seems that the lending activity could be further developed.

3. LABOUR MARKET

Figure 3.1 – Unemployment rate (15 and over) in Hungary, 2002-2015



Source: Eurostat, LFS [lfst_r_lfu3rt].

Table 3.1 – Unemployment rate in Hungary, 2015

Region	Unemployment rate, 15 and over (%), 2015
Dél-Dunántúl	8.1

Észak-Magyarország	8.7
Észak-Alföld	10.9
Dél-Alföld	7.9
Hungary	6.8
EU average	9.4

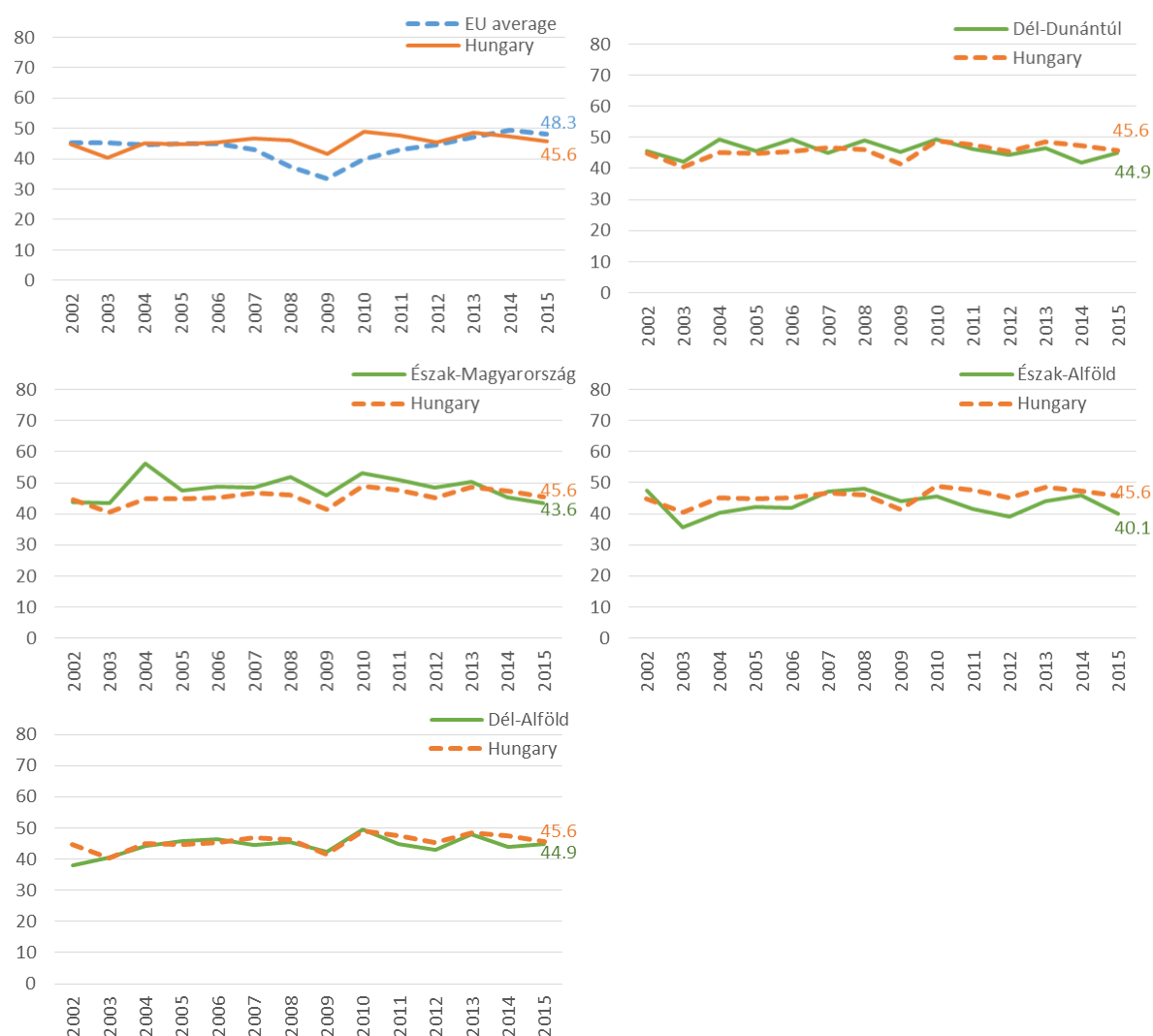
Source: Eurostat, LFS [lfst_r_lfu3rt].

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The unemployment rate in Hungary was significantly less than the EU average in 2015 having been above the average between 2007 and 2012. In all the lagging regions however, the unemployment rate was higher than the national average. This was especially true in Észak-Alföld, the only lagging region where the rate was also higher than the EU average in 2015. In this region as well as in Észak-Magyarország the rate was consistently above the national average over the 2002-2015 period whereas unemployment in the other two lagging regions was similar to the EU average over that period. Job shortages, therefore, seem to be a particular problem in the northern regions of Észak-Alföld and Észak-Magyarország.

Figure 3.2 – Long-term unemployment in Hungary, 2002-2015, % of total unemployed



Source: Eurostat, LFS [lfst_r_lfu2ltu].

Table 3.2 – Long-term unemployment in Hungary, 2015

Region	LTU rate (% of total unemployed), 2015
Dél-Dunántúl	44.9
Észak-Magyarország	43.6
Észak-Alföld	40.1
Dél-Alföld	44.9
Hungary	45.6
EU average	48.3

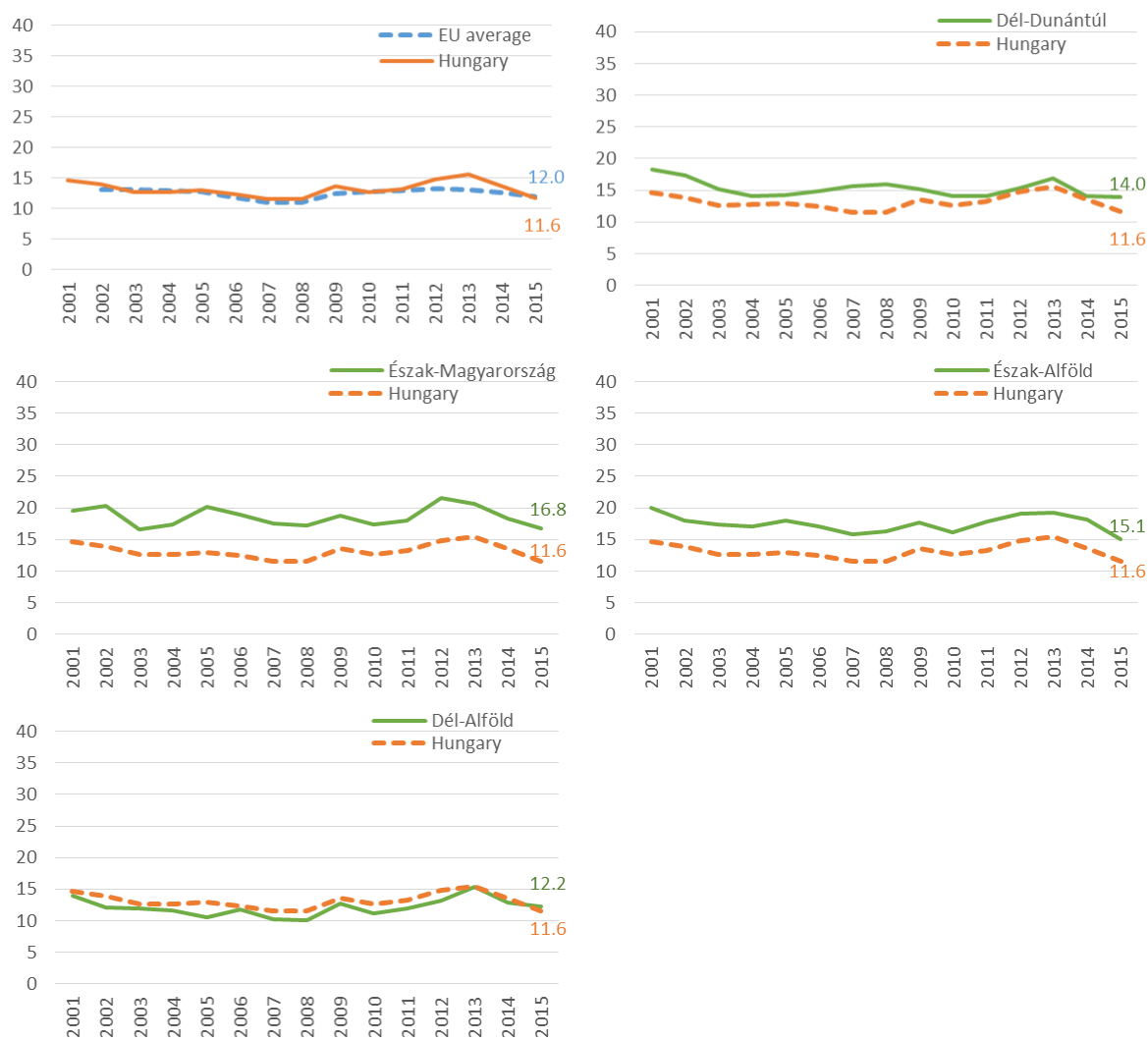
Source: Eurostat, LFS [lfst_r_lfu2ltu].

Commentary

The share of the unemployed out of work for a year or more – i.e. long-term unemployment – was also smaller than the EU average in Hungary in 2015. But this was only the case since 2014, between 2006 and

2013 the share was higher than in the EU. The latest data therefore suggest that structural unemployment has become less of a problem in Hungary and its lagging regions compared to the rest of the EU. Indeed, the long-term unemployment rate was also below the national and the EU average in all the lagging regions, especially in Észak-Alföld. Structural unemployment, therefore, does not seem to be a particular problem in any of the lagging regions of the country.

Figure 3.3 – Proportion of young people aged 15-24 neither in employment nor in education and training in Hungary, 2001-2015



Source: Eurostat, LFS [edat_lfse_22].

Table 3.3 – NEET rate in Hungary, 2015

Region	NEET rate (15-24), % 2015
Dél-Dunántúl	14.0
Észak-Magyarország	16.8
Észak-Alföld	15.1
Dél-Alföld	12.2
Hungary	11.6
EU average	12.0

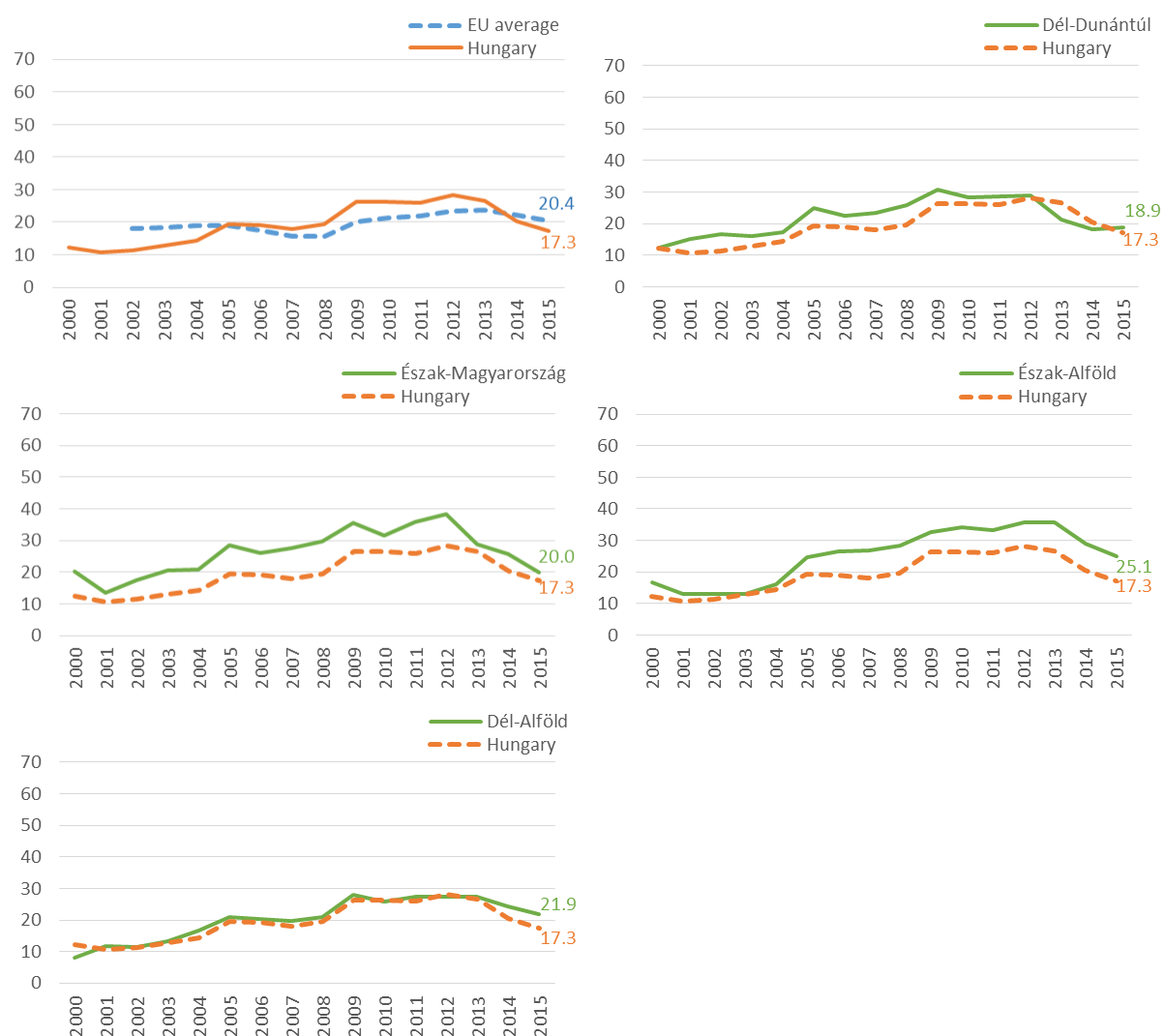
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

In 2015, the NEET rate among young people aged 15-24 in Hungary was slightly below the one observed in the EU as a whole whereas in the preceding 4 years it was higher and much the same as the EU rate over the rest of the period (2002-2010). In all the four lagging regions, the rate was higher than the national and the EU average. In 2015, the NEET rate was particularly high in the northern regions of Észak-Magyarország and Észak-Alföld. In these regions the rate has been appreciably above the national average over the 2001-2015 period. In Dél-Dunántúl, the NEET rate was also above the national average over the whole period but the difference was less marked. Dél-Alföld is the only lagging region where the rate was below the national level over whole the period except in 2015 where it was slightly above. Lack of jobs for young people and/or their limited participation in education or initial vocational training were therefore a problem in all the lagging regions, and in particular in the two northern regions.

Figure 3.4 – Unemployment rate (15-24 years) in Hungary, 2000-2015



Source: Eurostat, LFS [lfst_r_lfu3rt].

Table 3.4 – Youth unemployment rate in Hungary, 2015

Region	Unemployment rate (15-24), % 2015
Dél-Dunántúl	18.9
Észak-Magyarország	20.0
Észak-Alföld	25.1
Dél-Alföld	21.9
Hungary	17.3
EU average	20.4

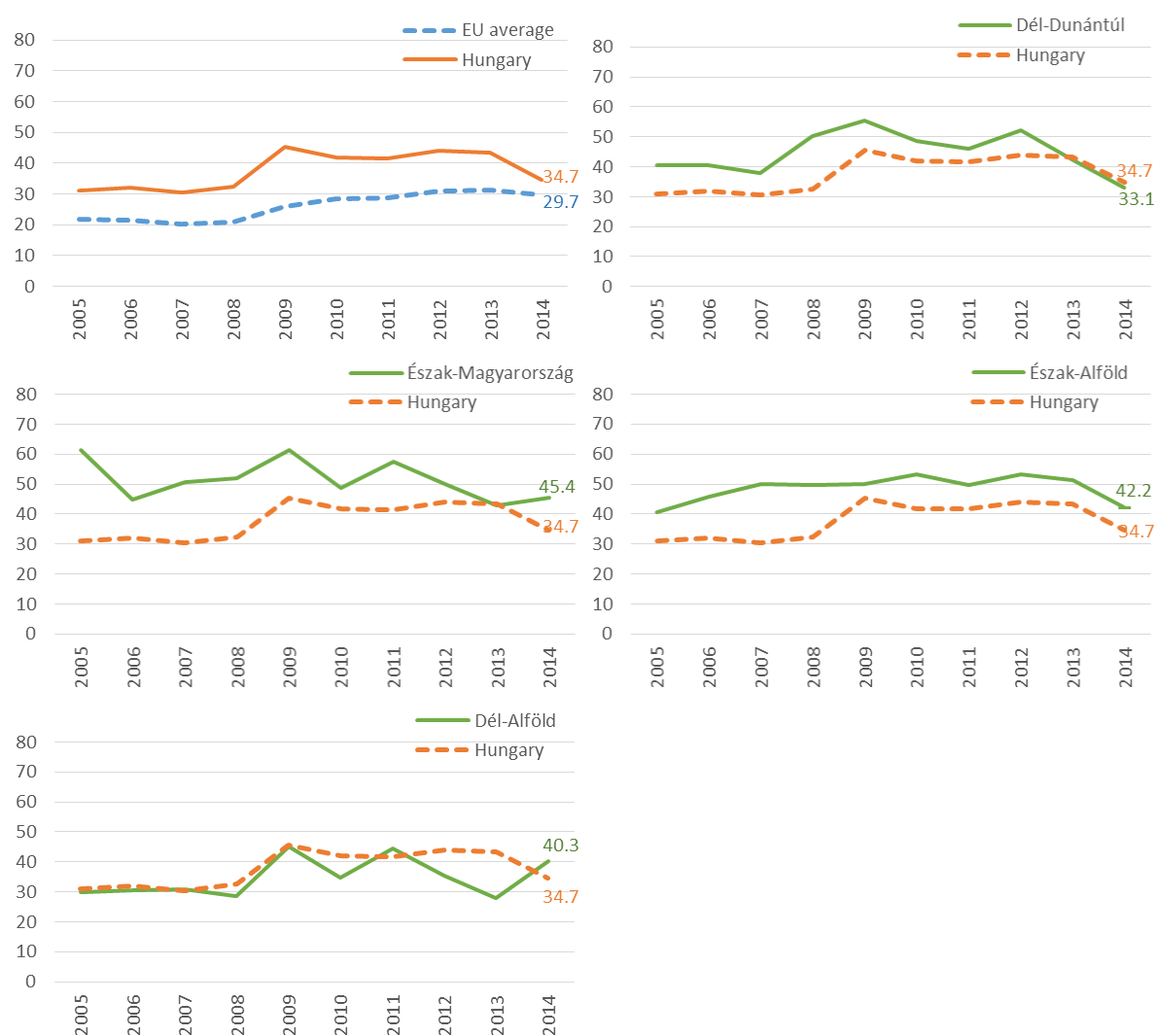
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The youth unemployment rates show a similar picture than the NEET rates. In Hungary as a whole, youth unemployment was indeed lower than the EU average in 2015, just like the NEET rate (and the overall unemployment rate), implying that young people in Hungary are more likely to find a job or to participate in education or training than in the EU as a whole. As for the NEET rate, this is a recent trend as before 2014 the youth unemployment rate used to be significantly higher than in the EU. At the regional level however, the youth unemployment rate in all the lagging regions was higher than the national average, in particular in the regions of the Great Plain (Észak-Alföld and Dél-Alföld) where it was also above the EU level. The implication is that jobs were especially scarce for young people entering the labour market in these two regions.

Figure 3.5 – Unemployment rate of young people aged 15-24 with low education in Hungary, 2005-2014



Source: Eurostat, LFS microdata.

Commentary

The unemployment rate among young people with only basic schooling was consistently higher in Hungary than that in the EU over the 2005-2014 period, though it seems that the gap is narrowing over the recent years. At the regional level, problems of young low-educated finding employment were particularly acute in Észak-Magyarország and Észak-Alföld, where the unemployment rate was substantially above the national and EU average in 2014 and most of the rest of the period. By contrast, the rate was below the national average in Dél-Dunántúl in 2013 and 2014 (unlike for previous years).

Figure 3.6 – Unemployment rate of young people aged 15-24 with medium education in Hungary, 2005-2014



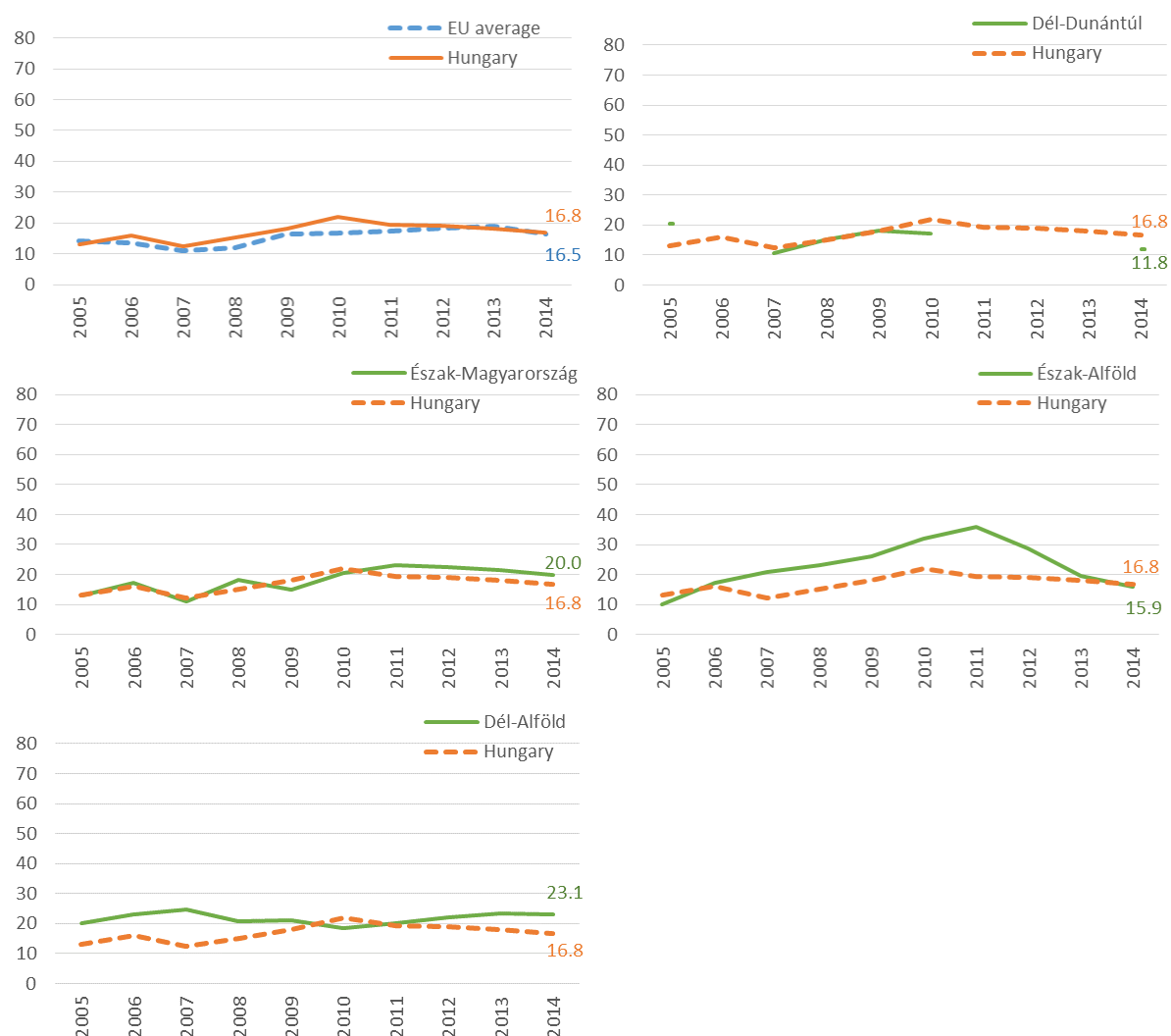
Source: Eurostat, LFS microdata.

Commentary

As for the overall youth rate, young people with upper secondary education in Hungary were less likely to be unemployed compared to those in the EU. Apart from Dél-Dunántúl, the situation was less favourable in all the three lagging regions as the unemployment rate among this group of population was higher in these

regions than in the country, and especially in Észak-Alföld and Dél-Alföld where it was also above the EU rate.

Figure 3.7 – Unemployment rate of young people aged 15-24 with high education in Hungary, 2005-2014



Source: Eurostat, LFS microdata.

Notes : Unemployment rates of people with high education in Dél-Dunántúl cannot be published for 2006, 2011, 2012 and 2013 because of the insufficient number of observations.

Table 3.5 – Youth unemployment rate by education attainment level in Hungary, 2014

Region	Unemployment rate, 15-24, %, 2014		
	ISCED 0-2	ISCED 3-4	ISCED 5-8
Dél-Dunántúl	33.1	14.4	11.8
Észak-Magyarország	45.4	18.4	20.0
Észak-Alföld	42.2	27.4	15.9
Dél-Alföld	40.3	21.6	23.1
Hungary	34.7	17.3	16.8

EU average	29.7	20.0	16.5
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Source: Eurostat, LFS.

Notes: Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

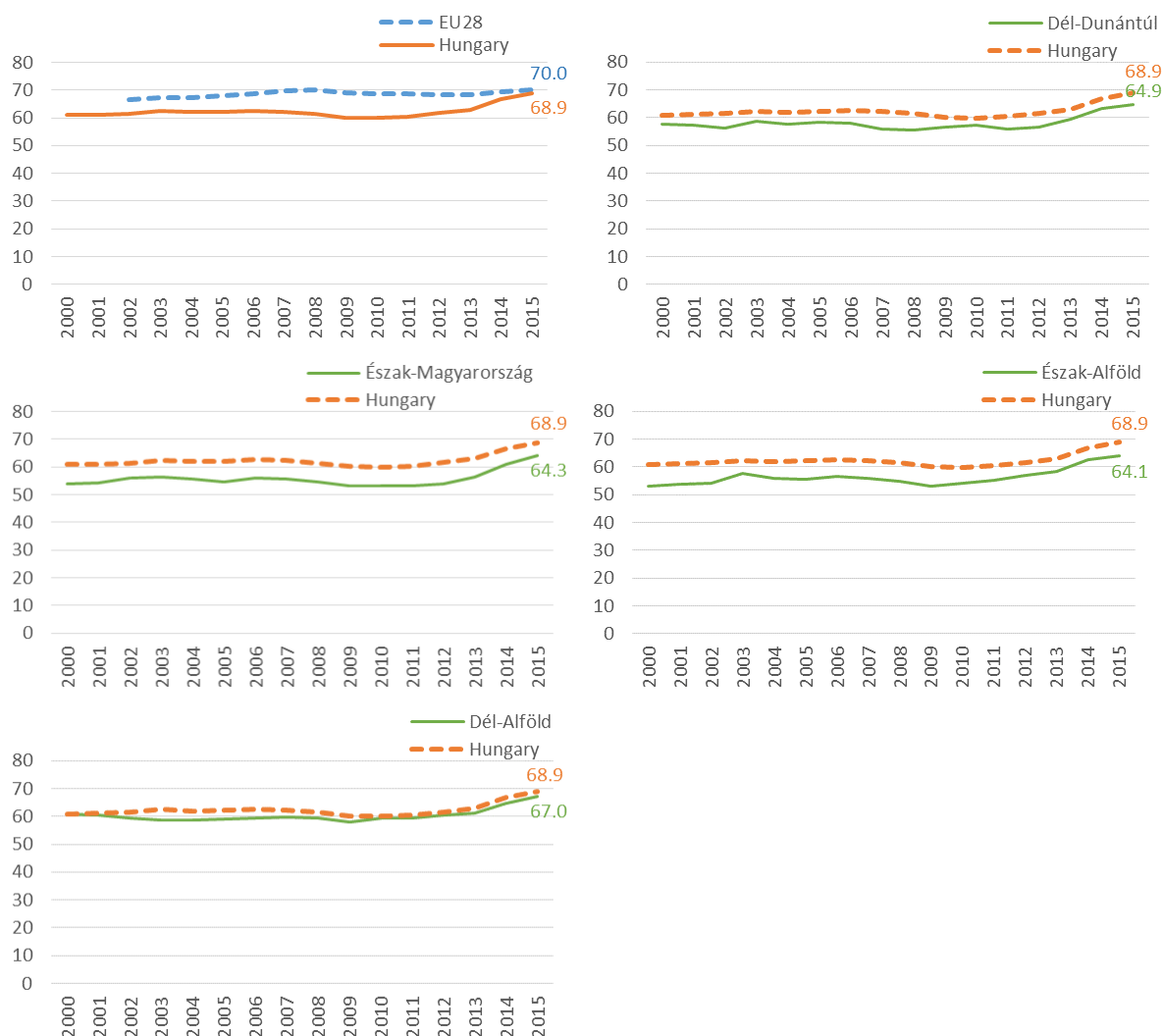
Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The unemployment rate among young people with tertiary education was slightly higher in Hungary than in the rest of the EU in 2014. And over the 2005-2014 period it was much the same as the one observed for the EU. In Dél-Dunántúl and Észak-Alföld the rate was lower than in the country as a whole and in the EU whereas in the remaining two lagging regions, it was higher in both cases, in particular in Dél-Alföld.

In sum, apart from Dél-Dunántúl, the unemployment of young people was higher than the national average in all the other lagging regions irrespective of their level of education, showing therefore a shortage of jobs for young people entering the labour market in these regions. The only exception is Észak-Alföld where the unemployment rate for the tertiary-educated youth was lower than in the country.

Figure 3.8 – Employment rate (20-64 years) in Hungary, 2000-2015



Source: Eurostat, LFS [lfst_r_lfe2emprt].

Table 3.6 – Employment rate in Hungary, 2015

Region	Employment rate (20-64 years), % 2015
Dél-Dunántúl	64.9
Észak-Magyarország	64.3
Észak-Alföld	64.1
Dél-Alföld	67.0
Hungary	68.9
EU average	70.0

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The employment rate in Hungary has been consistently below the EU average over the years, though the gap has significantly narrowed over the last couple of years. Since the unemployment rate was also below the EU average, the implication is that the participation rate (also called the rate of economic activity) was below the EU average as well. This was particularly true for women, as reflected in their low employment rate as described below.

At the regional level, the employment rate in all the four lagging regions was lower than the national and EU average over the 2000-2015 period, reflecting the relatively high levels of unemployment in these regions. The employment rate was particularly low over the period in the northern regions of the country (Észak-Magyarország and Észak-Alföld), which is altogether in line with the unemployment rate which tended to be well above the national average over the same period in these two regions.

Figure 3.9 – Employment rate of women (20-64) in Hungary, 2000-2015



Source: Eurostat, LFS [lfst_r_lfe2emprr].

Table 3.7 – Employment rate of women in Hungary, 2015

Region	Female employment rate (20-64 years), % 2015
Dél-Dunántúl	59.2
Észak-Magyarország	57.3
Észak-Alföld	57.5
Dél-Alföld	60.6
Hungary	62.1
EU average	64.2

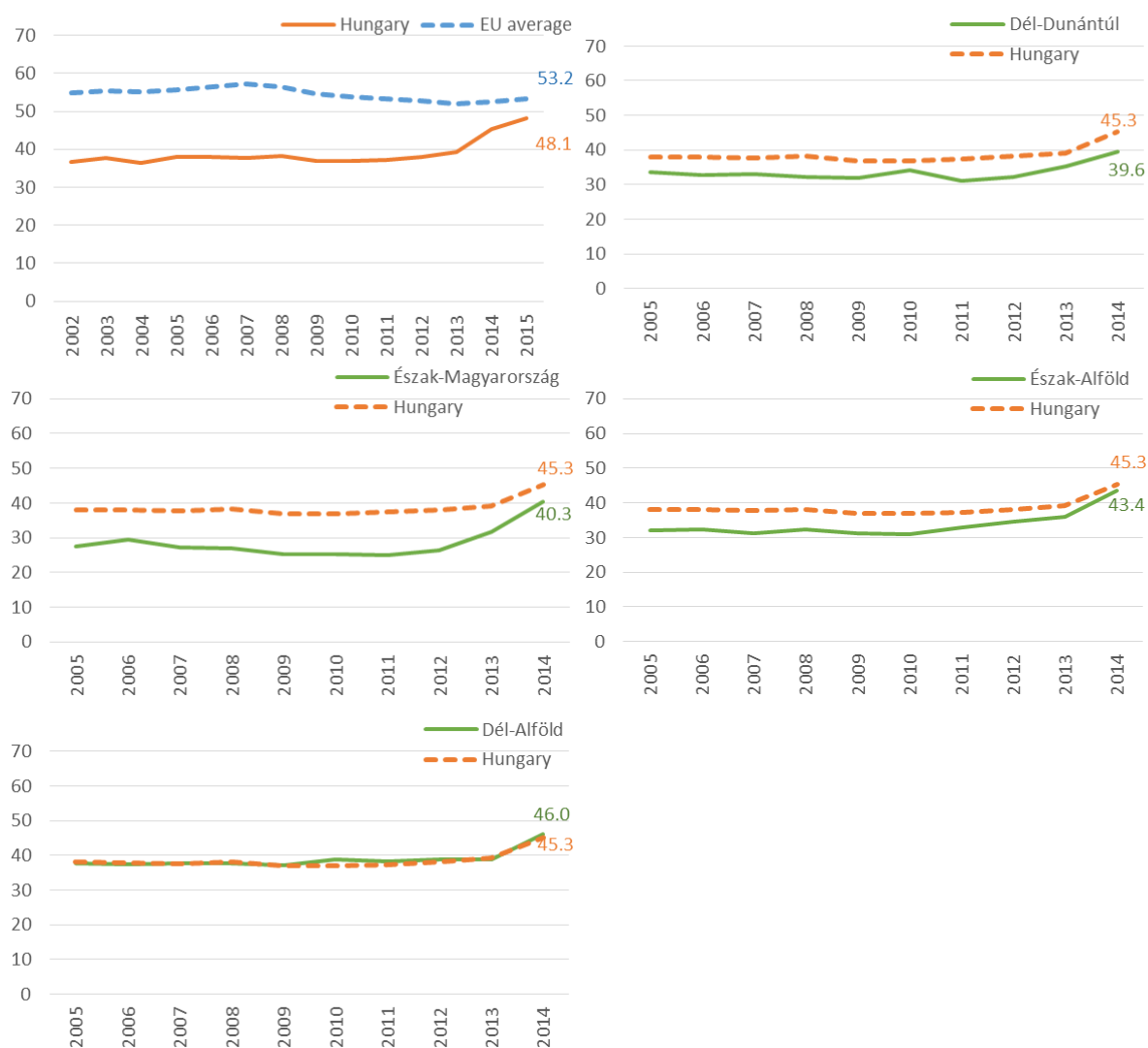
Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The employment rate of women in Hungary was further below the EU average in 2015 than the overall rate, reflecting the lower participation of women in the work force. It was also below the EU average in all lagging regions, and in particular in the northern regions of Észak-Magyarország and Észak-Alföld, reflecting the low overall employment rates observed in these regions. Women, therefore, seem to face similar difficulties of finding employment as men in most lagging regions, though their participation rates are also relatively low, which might reflect a shortage of jobs as much as a reluctance to be in paid employment.

Figure 3.10 – Employment rates of those aged 25-64 with low education in Hungary in 2002-2015 and lagging regions in 2005-2014



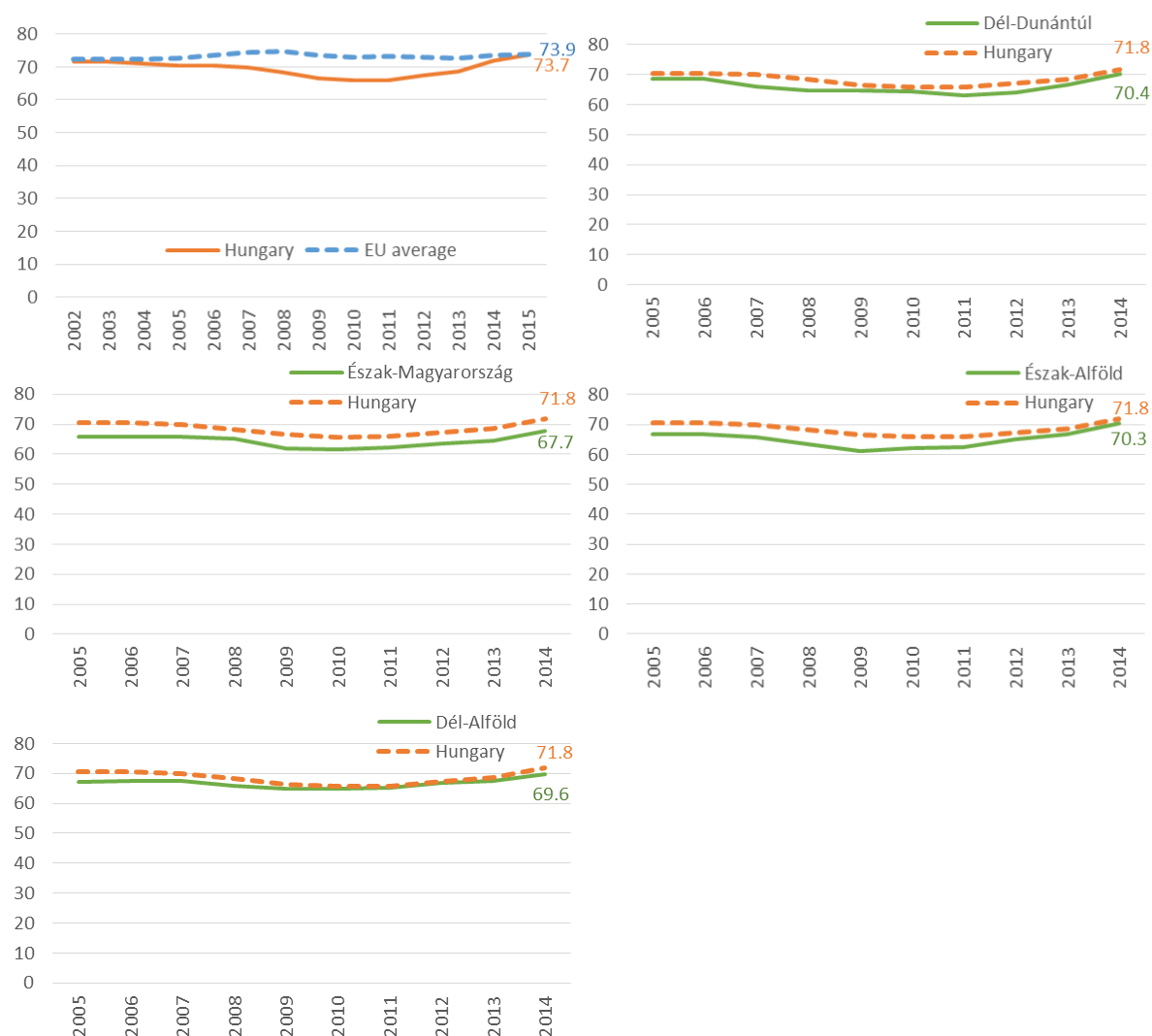
Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Commentary

The employment rate of those aged 25-64 with only basic schooling in Hungary was well below the EU average in 2015 and this has consistently been the case over the 2002-2015 period, though the gap significantly narrowed over the recent years. People with low education, therefore, face particular problems

finding work in the country, though it is also the case that participation rates are equally relatively low for this group of people, especially among women. In Dél-Alföld, the employment rate of those with only basic schooling was much the same as the rate observed in the country over the 2005-2014 period, and slightly higher in 2014 (though still well below the EU rate). In all the other lagging regions, it has been below the national and EU average over the same period. In these regions, therefore, there seem to be less jobs available for the low-educated than in the rest of the country.

Figure 3.11 – Employment rate of people aged 25-64 with medium education in Hungary in 2002-2015 and its lagging regions in 2005-2014

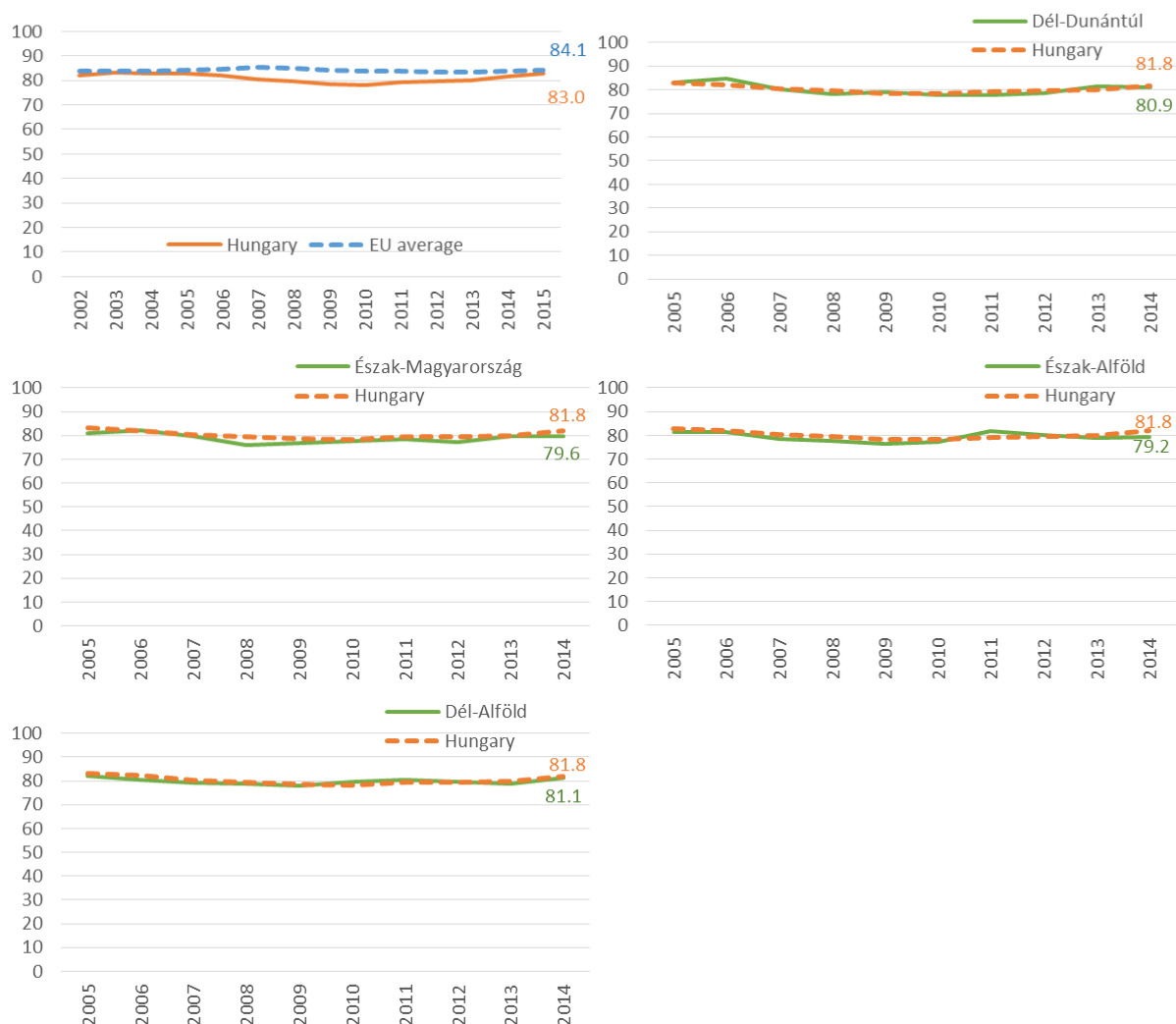


Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Commentary

The employment rate of those with upper secondary education in Hungary was also below the EU average, though less so. In the lagging regions the relative rates broadly reflect the relative level of overall rates. The employment rate was particularly low in Észak-Magyarország.

Figure 3.12 – Employment rate of people aged 25-64 with high education in Hungary in 2002-2015 and its lagging regions in 2005-2014



Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Commentary

As for the employment rates for the low-educated and those with upper secondary education, the rate for those with tertiary education in Hungary was lower than the EU average in 2015 and marginally so over the last decade. In 2014, the rate was also below the EU average in all the lagging regions and below the national level though less so in Dél-Alföld and Dél-Dunántúl. Over the 2005-2014 period, the rates in all the lagging regions were much the same as the levels observed in Hungary as a whole.

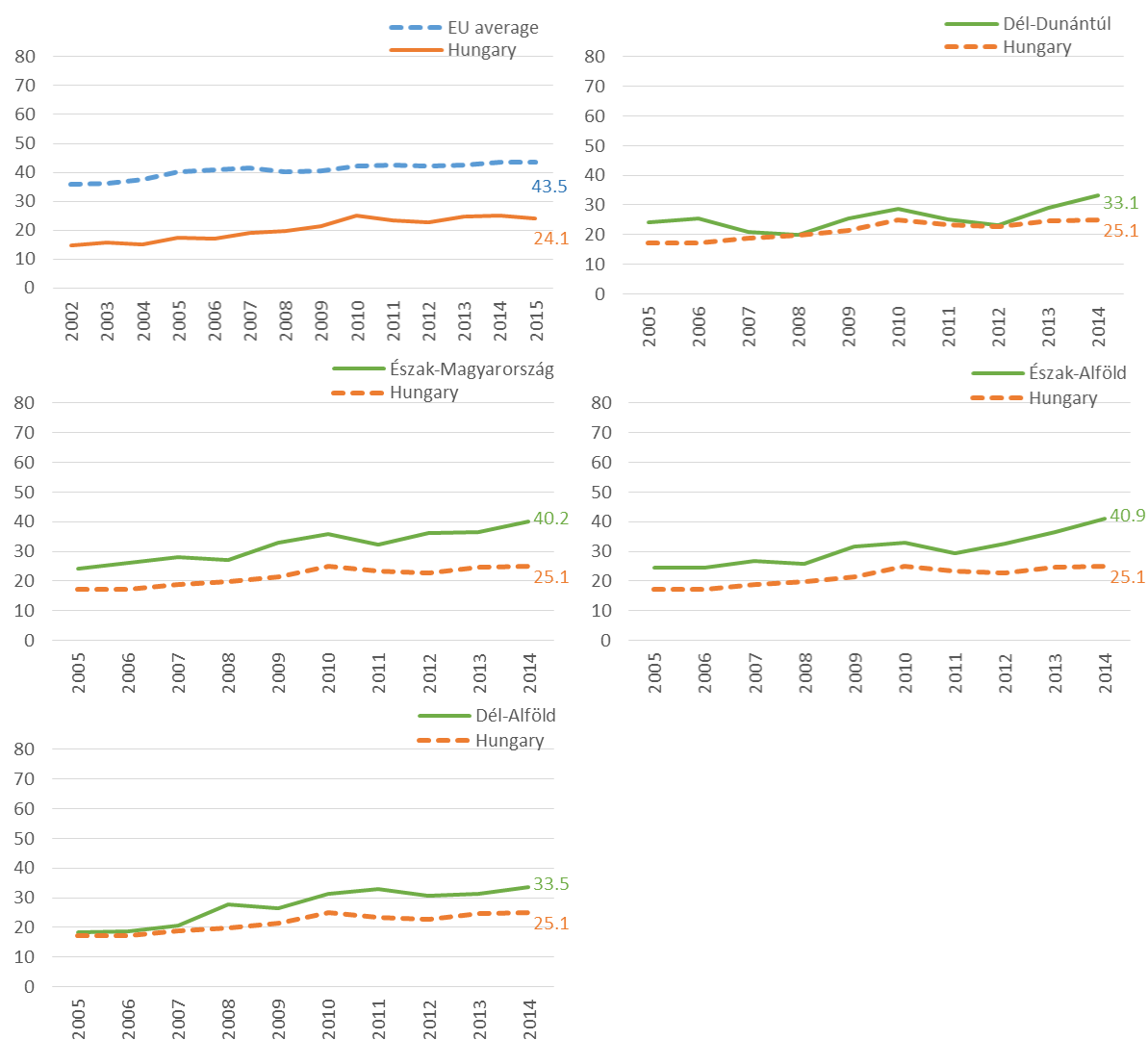
Table 3.8 – Employment rate by education attainment level in Hungary, 2014

Region	Employment rate (25-64), % 2014		
	ISCED 0-2	ISCED 3-4	ISCED 5-8
Dél-Dunántúl	39.6	70.4	80.9
Észak-Magyarország	40.3	67.7	79.6
Észak-Alföld	43.4	70.3	79.2
Dél-Alföld	46.0	69.6	81.1
Hungary	45.3	71.8	81.8
EU average	52.8	73.4	83.6

Source: Eurostat, LFS.

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Figure 3.13 – Temporary employment (% of total employees aged 15-24) in Hungary in 2002-2015 and its lagging regions in 2005-2014

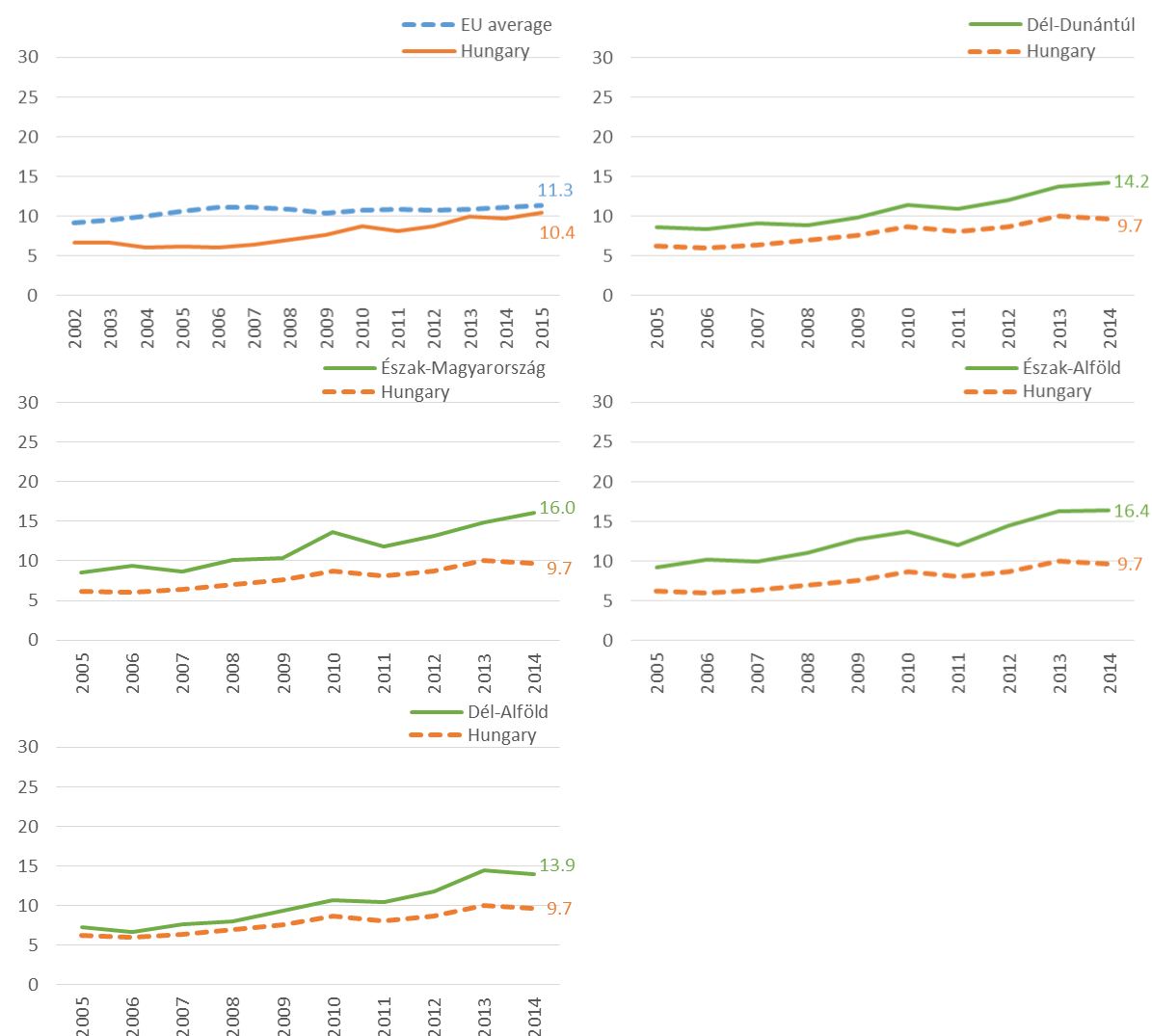


Source: Eurostat, LFS [lfsa_etpga] and LFS microdata for the regional data.

Commentary

The share of young employees aged 15-24 in temporary jobs is much lower in Hungary than in the rest of the EU over the 2002-2015 period. In the lagging regions as well the proportion is well below the EU average but much higher than the rate observed in Hungary as a whole. Temporary employment among young people is particularly large in the northern regions of Észak-Magyarország and Észak-Alföld, reflecting the fact that young people in these regions are more likely to be employed on short-term contracts (in many cases for a probationary period or on a traineeship) than in the rest of the country.

Figure 3.14 – Temporary employment (% of total employees aged 25 or over) in Hungary in 2002-2015 and in lagging regions in 2005-2014



Source: Eurostat, LFS [lfsa_etpga] and LFS microdata for the regional data.

Table 3.9 – Temporary employment in Hungary by age group, 2014

Region	Temporary employment (% of total employees), 2014	
	15-24	25 or over
Dél-Dunántúl	33.1	14.2
Észak-Magyarország	40.2	16.0
Észak-Alföld	40.9	16.4
Dél-Alföld	33.5	13.9
Hungary	25.1	9.7
EU average	43.4	11.1

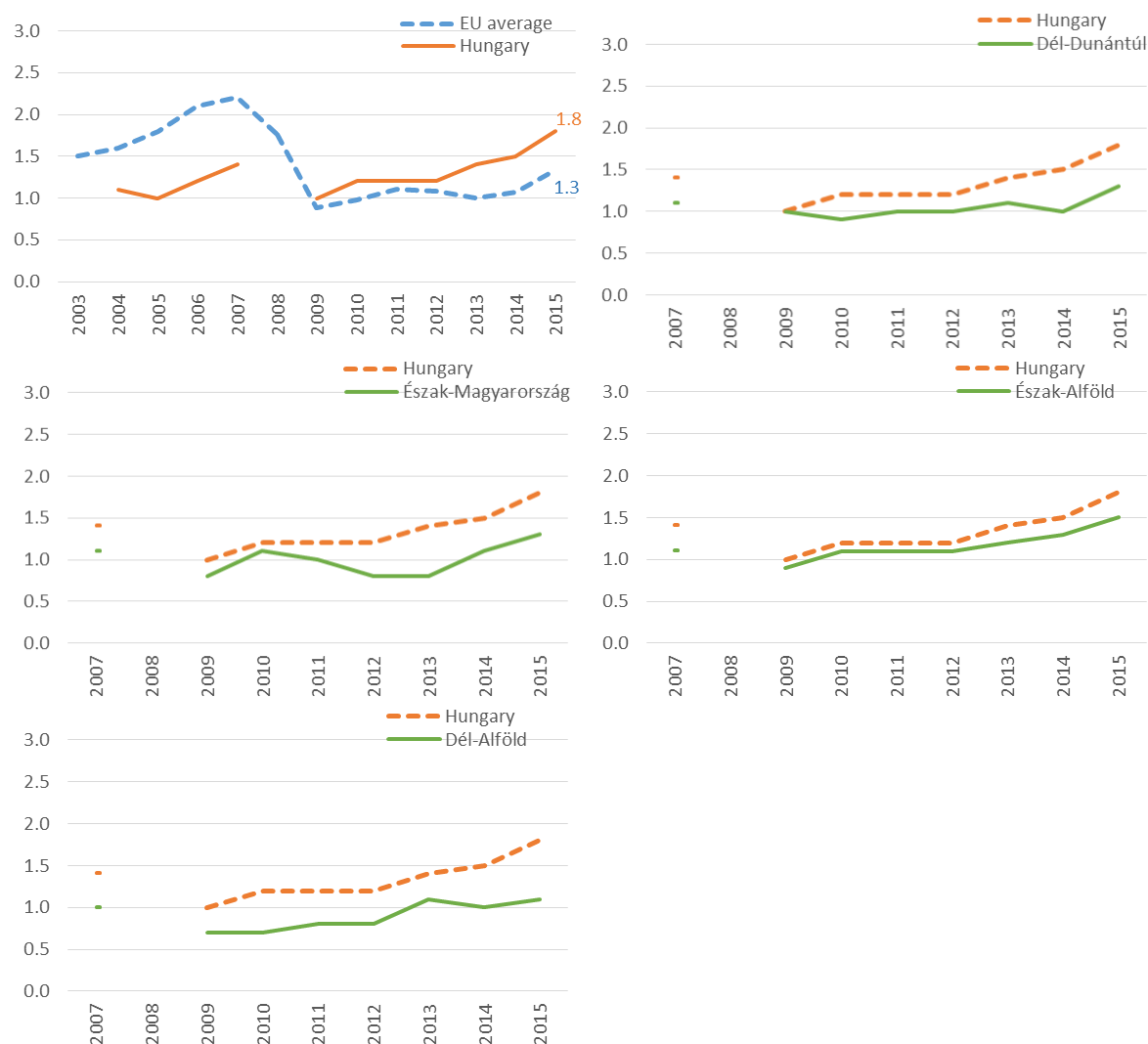
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

The share of employees aged 25 and over who are in temporary jobs is a more relevant indicator of labour market issues than the share of young people. The share in Hungary is also below the EU average though the difference is smaller than among those aged 15-24, and is narrowing over the period 2002-2015. In all the lagging regions it was however both above the EU and the national average and was especially large in again in the northern regions of Észak-Magyarország and Észak-Alföld. In the four lagging regions, there seems to be a tendency for the share to increase over the recent years.

Figure 3.15 – Job vacancy rate in Hungary, 2003-2015



Source: Eurostat, Job vacancy statistics [jvs_a_nace2].

Notes: Data is not available for 2008 for Bulgaria. For the calculation of the EU average: 2003-2007 refers to EU27 as provided by Eurostat. From 2008, average estimated with available data, which excludes BE, DK, IE, EL, ES, FR, IT, CY, MT and AT, for PT data are available only for 2014 and 2015. There is no data for SE for 2008 and 2014.

Table 3.10 – Job vacancy rate in Hungary, 2015

Region	Job vacancy rate, % 2015
Dél-Dunántúl	1.3
Észak-Magyarország	1.3
Észak-Alföld	1.5
Dél-Alföld	1.1
Hungary	1.8
EU average	1.3

Source: Eurostat, Job vacancy statistics.

Commentary

The rate of unfilled job vacancies is higher in Hungary than the EU average but because of the partial coverage of the data, this means relatively little. More relevantly, the vacancy rate in all the lagging regions was less than the national average over the 2009-2015 period, and has increased over the recent years, along with the national average. There therefore does not seem to be a problem of a great many unfilled vacancies in these regions, but because of the shortage of jobs observed there, it suggests that there is an insufficient demand for labour from enterprises in the lagging regions.

Summary 1 – Overview of labour market (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)

LABOUR MARKET					
	Hungary	Dél-Dunántúl	Észak-Magyarország	Észak-Alföld	Dél-Alföld
Unemployment and long-term unemployment					
Unemployment rate (15+), 2015	-2.6	+1.3	+1.9	+4.1	+1.1
LTU rate (15+), 2015	-2.6	-0.8	-2.1	-5.5	-0.8
NEETs					
NEET rate (15-24), 2015	-0.4	+2.4	+5.2	+3.5	+0.6
Youth unemployment rate					
Youth unemployment rate (15-24), 2015	-3.1	+1.6	+2.7	+7.8	+4.6
Youth unemployment rate (15-24), ISCED 0-2, 2014	+4.9	-1.6	+10.7	+7.5	+5.6
Youth unemployment rate (15-24), ISCED 3-4, 2014	-2.7	-3.0	+1.0	+10.0	+4.2
Youth unemployment rate (15-24), ISCED 5-8, 2014	+0.3	-5.0	+3.2	-0.9	+6.4
Employment rate					
Total employment rate (20-64), 2015	-1.1	-4.0	-4.6	-4.8	-1.9
Female employment rate (20-64), 2015	-2.1	-2.9	-4.8	-4.6	-1.5
Employment rate (25-64), ISCED 0-2, 2014	-7.5	-5.6	-5.0	-1.9	+0.7
Employment rate (25-64), ISCED 3-4, 2014	-1.6	-1.4	-4.1	-1.5	-2.2
Employment rate (25-64), ISCED 5-8, 2014	-1.7	-1.0	-2.2	-2.6	-0.7
Temporary work					
Temporary employees (15-24), 2014	-18.3	+8.0	+15.1	+15.8	+8.4
Temporary employees (25+), 2014	-1.4	+4.5	+6.3	+6.7	+4.2
Job vacancy*					
Job vacancy rate, 2015		-0.5	-0.5	-0.3	-0.7
STRUCTURAL IMBALANCE					
Number of unfavourable variables	7	11	14	13	13

Number of favourable variables	7	4	1	2	2
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Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

* The job vacancy rate is considered in conjunction with the unemployment rate. Low vacancies and high unemployment mean that there is insufficient demand for labour, that there are unused resources which could add to GDP; high vacancies and high unemployment mean that there are structural problems in the sense that labour is available but it does not have the skills demanded by employers; high vacancies and low unemployment signal the labour available is not sufficient to meet the demand; low vacancies and low unemployment suggests a balanced labour market. Since there are problems in comparing vacancy statistics across countries because of the partial extent of coverage, the comparison here is relative to the national average only.

LABOUR MARKET in Hungary	
Country-specific recommendations, 2011-2015	
2011	Enhance participation in the labour market by alleviating the impact of the tax reform on low earners in a budget-neutral manner. Strengthen measures to encourage women's participation in the labour market by expanding childcare and pre-school facilities. Take steps to strengthen the capacity of the PES to increase the quality and effectiveness of training, jobsearch assistance and individualised services. Reinforce active labour market measures delivering positive evidence-based results.
2012	Strengthen the capacity of the PES to increase the quality and effectiveness of training, jobsearch assistance and individualised services. Strengthen the activation element in the public work scheme through effective training and jobsearch assistance.
2013	Address youth unemployment for example through a YG. Strengthen active labour market policy measures and enhance the client profiling system of the PES. Reduce the dominance of the public work scheme within employment measures and strengthen its activation elements.
2014	Strengthen targeted active labour market policy measures including by accelerating the introduction of the client profiling system of the PES. Put in place the planned youth mentoring network and coordinate it with education institutions and local stakeholders to increase outreach. Review the public works scheme to evaluate its effectiveness in helping people find employment.
2015	Reorient the budget resources allocated to the public work scheme to active labour market measures to foster integration into the primary labour market.
Structural reforms carried out, 2011-2015	
2011	The new Labour Code was adopted to improve the flexibility of the labour market (revision of the regulation on atypical employment, changes in the rules on work contracts, paid holidays, working hours, agency workers and probation work).
2012	A programme was launched to promote business start-ups for young people aged 18-35. It helps young people to acquire and develop entrepreneurial skills (financial information, business planning, marketing, statutory environment, etc.) and provides assistance for the start-up of businesses by young entrepreneurs. The programme also offers professional consulting and mentoring to ensure the sustainability of these businesses.
2012	Apprenticeship-type programmes encouraging the employment of young people and facilitating the transition from vocational training to employment. The purpose is to help young people obtain work experience at an early stage and to thereby enhance their subsequent employability.
2012	The former <i>START Plus</i> and <i>START Extra</i> programmes are replaced by the <i>START Bonus</i> programme. It offers 27% tax refund during one year for employers who employ a disadvantaged jobseeker. Additionally, employers may also be eligible for a social contribution tax benefit when hiring young workers, workers with disability or women returning to work after a period of childcare.
2012	The <i>First Job Guarantee Programme</i> is aimed at supporting the entry of young people on the labour market. Wage and social contribution taxes are fully refunded for employers hiring young people.
2013	<i>Support to job creation in SMEs</i> : this measure provides additional support (HUF 500,000/new job) to SMEs providing long-term employment to jobseekers. In disadvantaged/severely disadvantaged areas, another HUF 200,000-300,000/new job may be given. For the Roma, a supplementary support

	of HUF 300,000/new job may be provided.
2013	The <i>Job Protection Act</i> entered into effect: employers are now entitled to a social contribution tax allowance and a relief on vocational training levy for disadvantaged jobseekers (workers under 25 and over 55, unskilled workers, permanent jobseekers, workers with small children). Since 2014, it is extended to employees with 3 or more children after they have been paid childcare fee, childcare benefit and childcare allowance.
2013	Enterprises operating in disadvantaged areas (Free Enterprise Zones) can benefit from the contribution relief on wages for any new employee. The amount of the social contribution tax and the vocational training levy is 0% in the first two years. The conditions have become simpler since June 2013: investment is not a condition any more, only a staff increase is required.
2014	The <i>Youth Guarantee scheme</i> is introduced with a variety of tools (wage subsidies, labour market training courses, labour market services, social contribution allowances, trainee programmes, mobility support, support for becoming an entrepreneur, vocational training possibilities, transit employment, inclusive education, "second chance" schools etc.).
2014	To promote female labour market participation, the Government introduced <i>GYED extra</i> (childcare fee extra) from January 2014. When the mother returns to work after the first birthday of the child, she does not lose entitlement to the childcare fee.
2014	In 2014, Hungary strengthened the activating elements of <i>public works</i> ² by supplementing employment with training programmes. Training possibilities are offered to those with obsolete or low-skills and those without qualification; personalised services helping to exit public works are also provided. Under the training programmes launched in 2014, there was a significant structural shift from training providing basic skills and competency development to training providing professional qualifications. The government has recently introduced financial incentives for public workers who accept job offers in the open labour market.
2016	A profiling system of jobseekers was introduced in the PES in January. The aim is the early identification of jobseekers prone to the risk of permanent unemployment, and to provide measures and services for jobseekers registered at the PES tailored to their qualifications in order to improve their employability and support their employment.
Outstanding challenges	
	Active labour market policies rely excessively on the public works scheme, but this programme does not sufficiently help participants to acquire the necessary skills and to find jobs in the open labour market. There is a risk that participants are locked into the scheme, particularly low-skilled people and those living in disadvantaged regions.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 85 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

Unemployment is a problem in all the four lagging regions (in particular in Észak-Alföld), even if it decreased in all these regions over the recent years. This is combined with a relatively low vacancy rate which suggests that there are not the jobs available to employ the people looking for them rather than the unemployed not having the skills to take up the jobs on offer. (This, however, has to be a tentative conclusion insofar as employers may not create jobs if they consider that there is not the labour available with the requisite skills to fill them.) Long-term unemployment rates were however smaller in these regions than in the EU and in Hungary as a whole, suggesting that in general unemployed people there seem to find a job more quickly than those elsewhere. On the other hand, both the NEET and youth unemployment rates among those aged 15-24 were higher than in the country, reflecting the fact that not only young

² Public work is a special form of employment, a type of state-supported 'transit employment' aimed at the successful integration or reintegration into the labour market. By providing jobseekers with the necessary skills, public work gives them a better chance to find employment in the private sector or become self-employed after leaving the public work scheme.

people struggle to find a job but it's also more difficult for them to participate in education or training programmes in these regions.

Employment rates were below the national and EU average in 2015 in all the lagging regions. Low employment rates among women, which reflect low rates of labour force participation, are equally a problem in these regions. Low employment seems to be a particular problem irrespective of the level of education in Hungary as a whole as well as in the lagging regions.

The country-specific recommendations have mainly focused on increasing female participation in the labour market, addressing youth unemployment, strengthening the capacity of the PES, and reducing the use of the public work scheme. In 2014, in order to promote female labour market participation the government introduced *GYED extra* (childcare fee extra) so that returning mothers do not lose entitlement to the childcare fee. Since 2012 under the START Bonus programme, employers hiring women returning to work after a period of childcare are also eligible to a social contribution tax benefit. Several measures were introduced to promote youth employment (through the Youth Guarantee scheme, but also through various other interventions such as a programme supporting young entrepreneurs, an apprenticeship programme to facilitate the transition from training to employment, fiscal incentives). In order to provide more tailored services to jobseekers, a jobseekers profiling tool was introduced in the PES in early 2016. Both NEET rates and youth unemployment rates fell in 2014 and 2015 while overall and female employment generally increased over these years. In 2014, the Hungarian authorities strengthened the activation of the public work scheme by adding training programmes delivering professional qualifications, and financial incentives were recently introduced for people employed under public works accepting job offers in the regular labour market. However, in end-2015, it was still considered that this scheme was not efficient enough in improving the employability of the participants and ensuring their integration in the regular labour market.

In Dél-Dunántúl the unemployment rate among young people with upper secondary or tertiary education is relatively low, but on the other hand, the employment rate of the working-age population with only basic schooling is also relatively low. Which suggests that low-educated people seem to have more difficulty to find a job in this region compared to elsewhere.

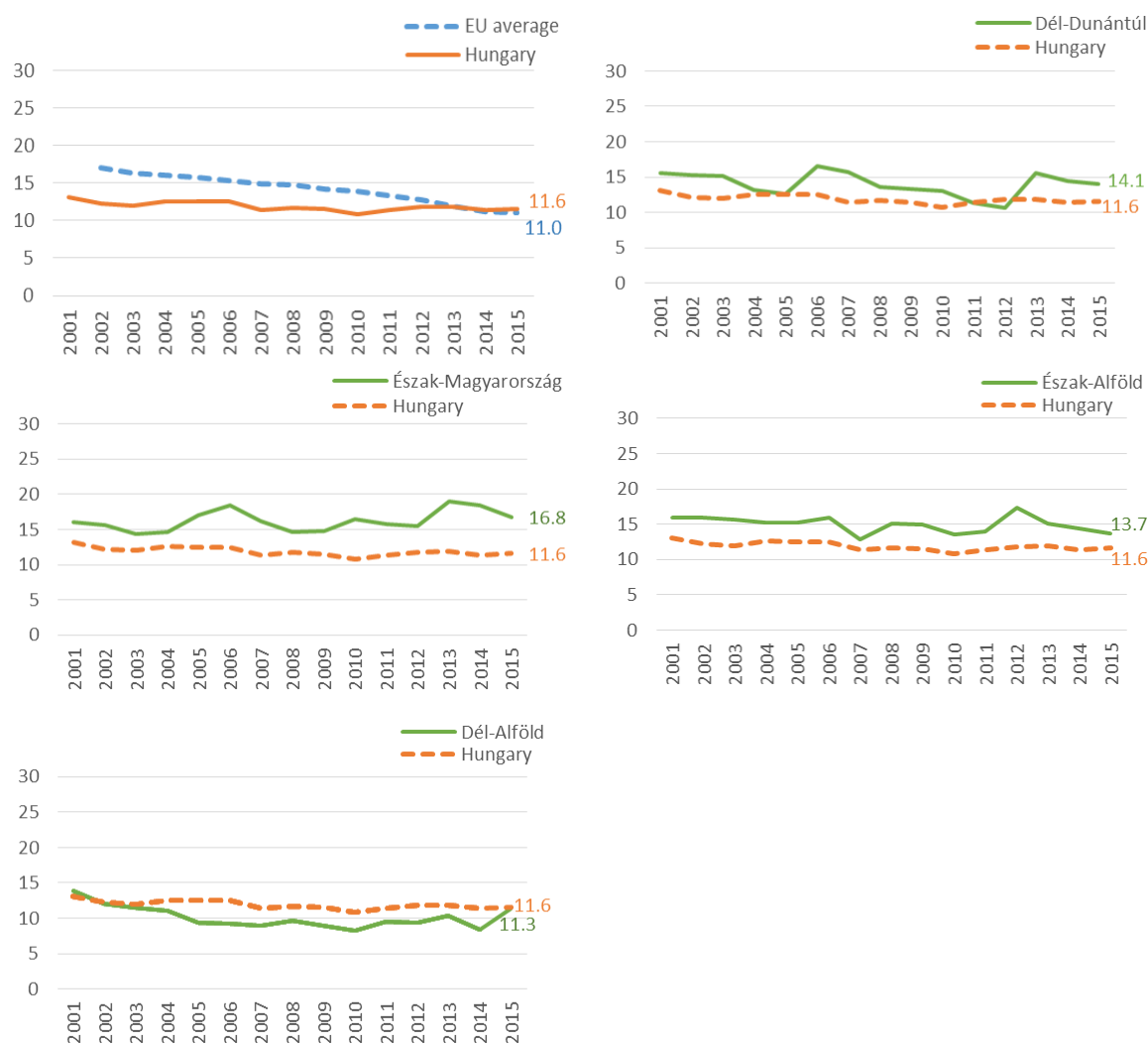
In Észak-Magyarország, the main issues seem to relate to the relatively high NEET rate, the high unemployment rate among young low-educated people and low employment rates (especially among women and those with only basic education or upper secondary education).

In Észak-Alföld, youth unemployment was also a particular acute problem (especially among those without tertiary education). This was combined with a relatively high NEET rate among young people. Here too, the employment rate was well below the national average and overall unemployment was higher than in the rest of the country, signalling an acute shortage of jobs.

In Dél-Alföld, the youth unemployment rate was particularly higher than the national and EU average irrespective of the education level. But it was even higher among those with tertiary education, suggesting that finding a job is slightly more difficult for young people with this level of education in this region than elsewhere.

4. EDUCATION AND TRAINING

Figure 4.1 – Early leavers from education and training in Hungary, 2001-2015



Source: Eurostat, LFS [edat_lfse_16].

Table 4.1 – Early leavers from education and training in Hungary, 2015

Region	Early leavers aged 18-24, % 2015
Dél-Dunántúl	14.1
Észak-Magyarország	16.8
Észak-Alföld	13.7
Dél-Alföld	11.3
Hungary	11.6
EU average	11.0

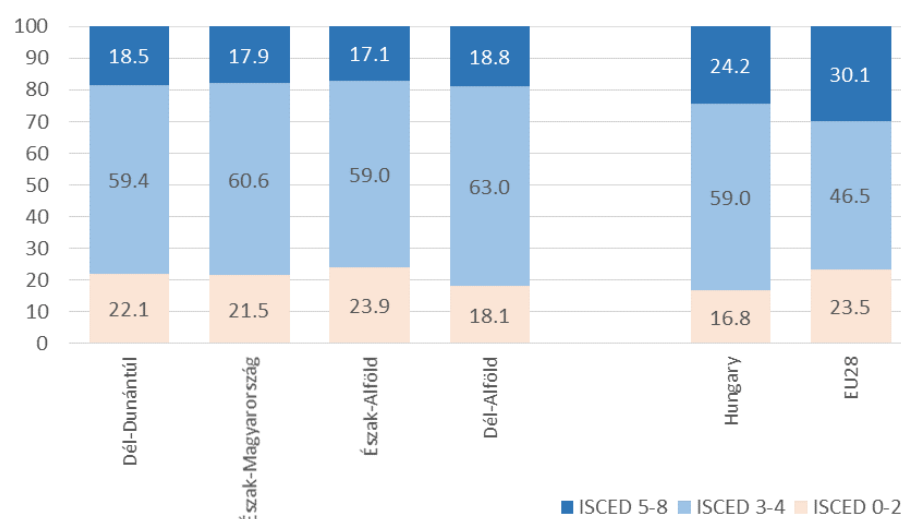
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The relative number of young people leaving school without any qualifications beyond basic schooling in Hungary is slightly above the EU average, unlike what was observed over the 2002-2012 period where it was smaller. In fact while the EU rate tended to decline over the past decade, in Hungary the number of early school leavers remained relatively unchanged and since the employment rate of those with only basic education is relatively low, this represents an obstacle both for the young people concerned to find employment and for the region to achieve its growth potential. Three of the lagging regions have proportions which are above the national and EU average. The exception is Dél-Alföld where the proportion is slightly smaller than the national average but still above the EU average. However, unlike in the other lagging regions, the proportion in this region significantly increased in 2015. In 2015, the highest proportion was observed in Észak-Magyarország which is also a region with a relatively low employment rate among those with only basic education.

Figure 4.2 – Educational attainment by ISCED level in Hungary, % of population aged 25-64, 2015



Source: Eurostat, LFS [edat_lfse_04].

Table 4.2 – Percentage of population aged 25-64 by educational attainment in Hungary, 2015

Region	Individuals with at least upper secondary education, ISCED 3-8, %	Individuals with tertiary education, ISCED 5-8, %
Dél-Dunántúl	77.9	18.5
Észak-Magyarország	78.5	17.9
Észak-Alföld	76.1	17.1
Dél-Alföld	81.9	18.8
Hungary	83.2	24.2
EU average	76.5	30.1

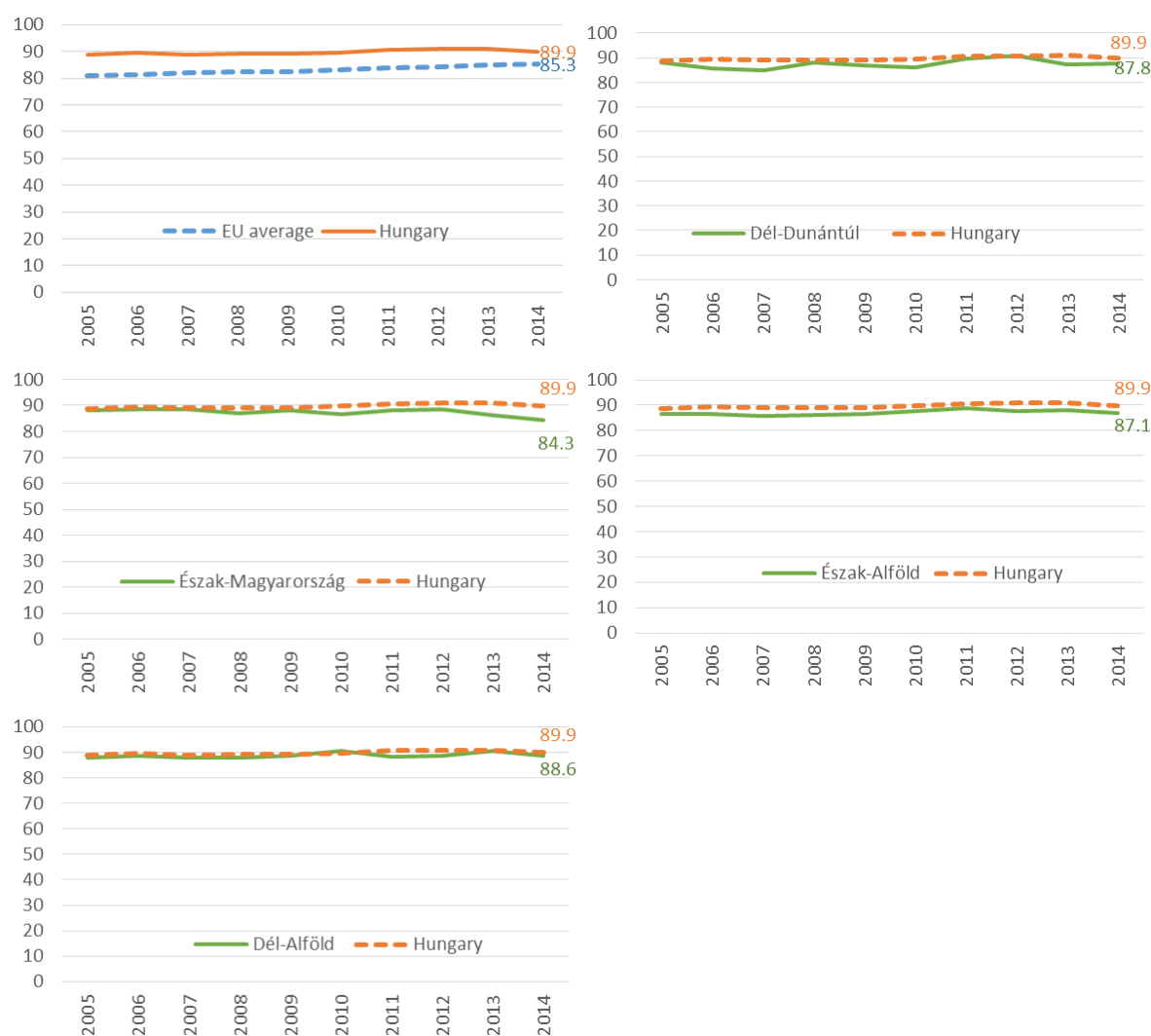
Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The relative number of people of working age with qualifications beyond basic schooling is higher in Hungary than in the EU as a whole and this is also the case in three lagging regions. The proportion in all the lagging regions is however smaller than the national average, most especially in Észak-Alföld. The proportion with tertiary education, however, is less than the EU average, as it is in all of the lagging regions. It is also below the national average in all these regions, again most especially in Észak-Alföld (though the difference between the four regions is rather limited). Since the proportion of the work force with tertiary education has consistently been found to be closely correlated with GDP per head, the relatively small proportion in this region in particular is a potential hindrance to growth.

Figure 4.3 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 3-8 in Hungary, 2005-2014



Source: Eurostat, LFS microdata.

Figure 4.4 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 5-8 in Hungary, 2005-2014



Source: Eurostat, LFS microdata.

Table 4.3 – Highest educational level attained among people aged 25-34 in Hungary, 2014

Region	ISCED 3-8, %	ISCED 5-8, %
Dél-Dunántúl	87.8	27.2
Észak-Magyarország	84.3	26.8
Észak-Alföld	87.1	27.7
Dél-Alföld	88.6	26.3
Hungary	89.9	33.2
EU average	85.3	39.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

Like for the working-age population as a whole, the proportion of the 25-34 age group who completed tertiary education in Hungary is below the EU average. Participation in tertiary education however seems to be on an increasing trend over the last decade in the country. The proportion in the lagging regions is also below the EU average and the national average in all cases, suggesting that there has been less young people participating in tertiary education in the lagging regions or alternatively that a significant number of those who have participated have left the region to live and work elsewhere.

Figure 4.5 – Share of young people aged 15-24 in regular education or vocational training in Hungary, 2005-2014



Source: Eurostat, LFS microdata.

Table 4.4 – Share of young people aged 15-24 in regular education or vocational training in Hungary, 2014

Region	Young people in regular education or vocational training (% of population 15-24), 2014
Dél-Dunántúl	62.0
Észak-Magyarország	61.9

Észak-Alföld	59.2
Dél-Alföld	64.7
Hungary	63.2
EU average	65.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Table 4.5 – Share of young people aged 15-24 in vocational education or training in Hungary, 2014

Region	Young people in vocational education or training (% of population 15-24), 2014
Dél-Dunántúl	7.0
Észak-Magyarország	8.0
Észak-Alföld	8.3
Dél-Alföld	7.4
Hungary	7.1
EU average	16.4

Source: Eurostat, LFS.

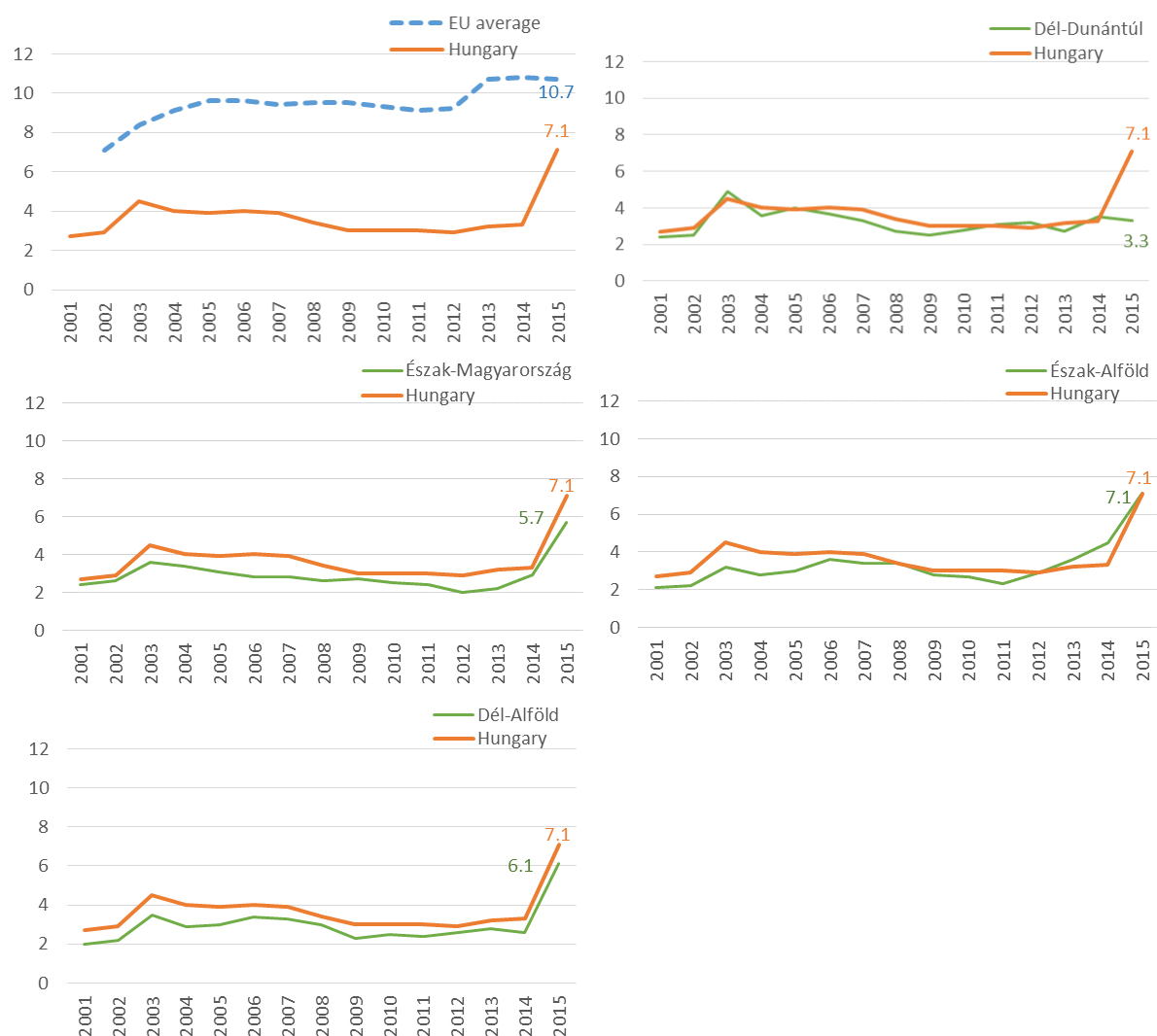
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

In 2014, the proportion of young people aged 15-24 in education or initial vocational training was lower in Hungary than in the EU, though the reverse was the case over the 2006-2012 period. Since 2010, the rate in the country has tended to decrease, in contrast with the EU average which tended to rise over the recent years. The proportion is also lower than the EU level in all the lagging regions, and lower than the national average in three of these), in line with the relatively small proportion of those aged 25-34 with tertiary education.

In 2014, the proportion of young people in vocational education or training in Bulgaria was significantly lower than the EU average, accounting for less than half of those aged 15-24. In most of the lagging regions however the proportion was slightly higher than the national average (except in Dél-Dunántúl which was about the same).

Figure 4.6 – Participation rate of people aged 25-64 in continuing education and training in Hungary, 2001-2015



Source: Eurostat, LFS [trng_lfse_04].

Table 4.6 – Participation rate of people aged 25-64 in continuing education and training in Hungary, 2015

Region	Education and training participation rate, % 2015
Dél-Dunántúl	3.3
Észak-Magyarország	5.7
Észak-Alföld	7.1
Dél-Alföld	6.1
Hungary	7.1
EU average	10.7

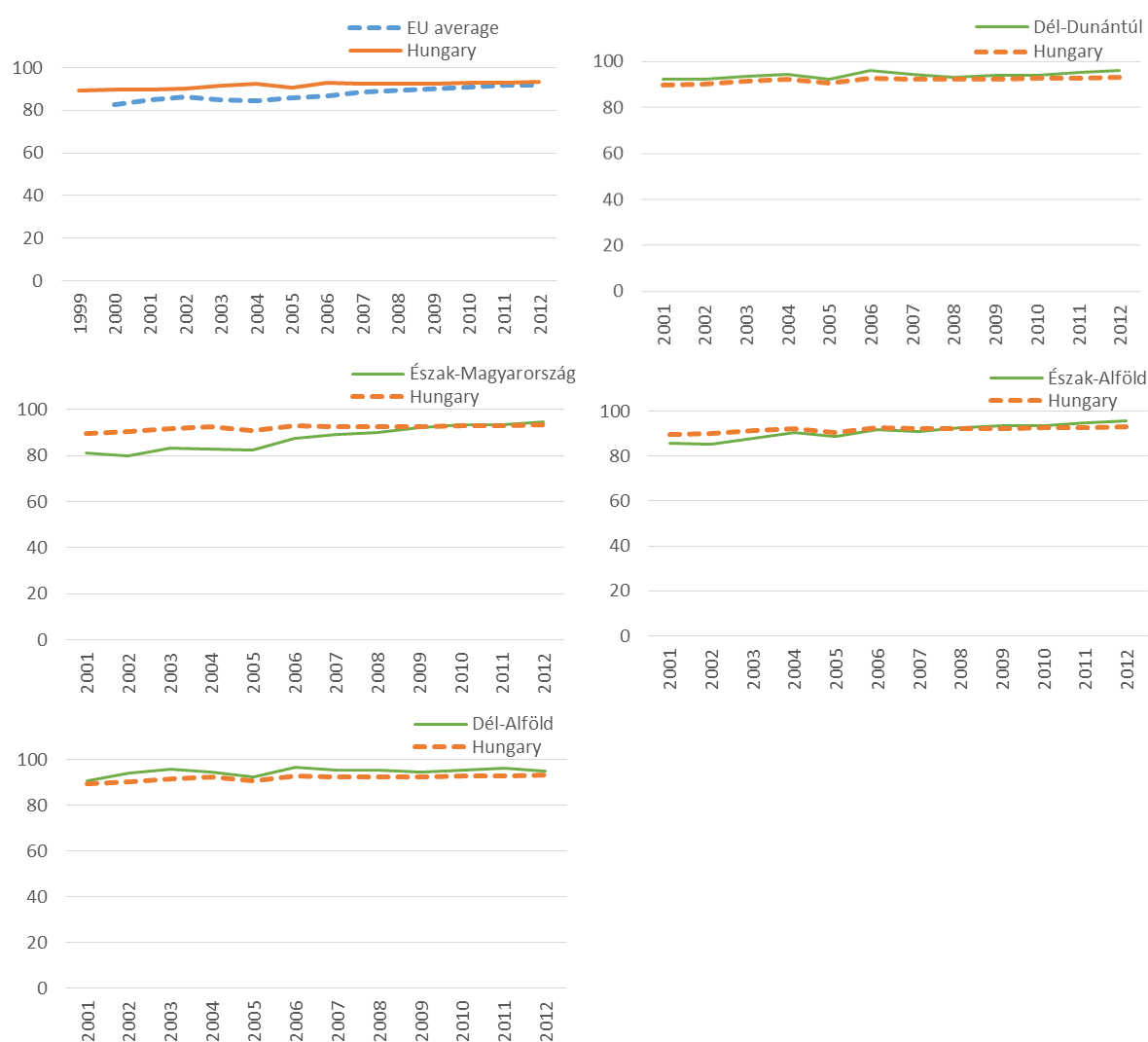
Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The participation of those aged 25-64 in continuing education or training is lower in Hungary than in the EU. However, both the national and EU average have tended to increase over the past few years, and the increase has been particularly marked in Hungary (and in three of the lagging regions) between 2014 and 2015. The situation is even less favourable in the lagging regions, except in Észak-Alföld, where the proportion is the same as the national average. In the other regions it is less than the national average. While the regional rates broadly tracked the national rate over the 2001-2015 period, in Dél-Dunántúl the participation rate slightly decreased between 2014 and 2015 in contrast with the significant increase observed at the national level as well as in the other lagging regions. In Hungary and in the lagging regions (especially in Dél-Dunántúl), workers have less possibility of improving their skills or acquiring new ones than in the EU, and the unemployed have less access to training to help them increase their employability.

Figure 4.7 – Participation rate of 4-years-olds in education in Hungary, 1999-2012



Source: Eurostat, Regional education statistics [educ_regind].

Table 4.7 – Participation rate of 4-year-olds in education in Hungary, 2012

Region	4-years-old in education, %, 2012
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Dél-Dunántúl	96.1
Észak-Magyarország	94.6
Észak-Alföld	95.6
Dél-Alföld	94.8
Hungary	93.2
EU average (EU27)	91.9

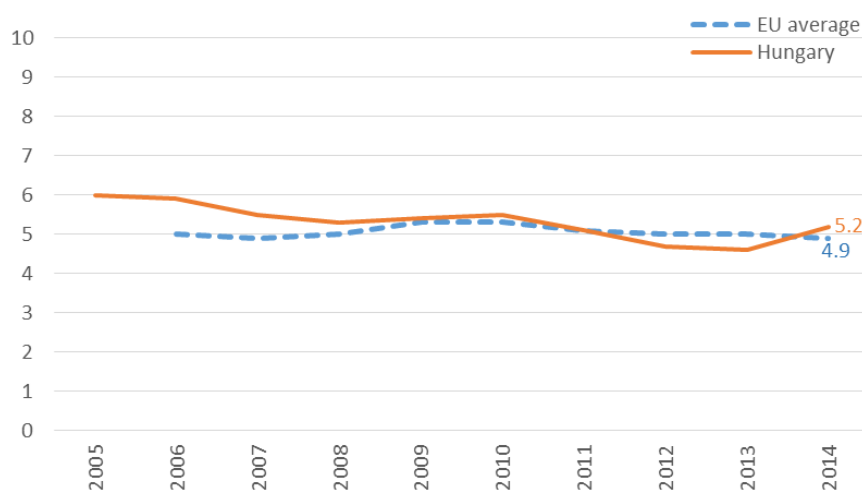
Source: Eurostat, Regional education statistics.

Commentary

The extent to which children are involved in education at the age of 4 is higher in Hungary than in the EU as a whole and this has consistently been the case over the 2000-2012 period (2012 is the latest year for which data are available).. While the situation is tending to improve, the implication is that children are less well prepared for school in the Polish regions, especially in Podkarpackie and Warmińsko-Mazurskie, than those in other parts of the EU.

It is even higher in all the lagging regions, and especially in Dél-Dunántúl. The implication is that young children appear as more prepared for school in the lagging regions than in the country as a whole or in the EU.

Figure 4.8 – Expenditure of the general government in education in Hungary, 2005-2014, % of GDP



Source: Eurostat, General government expenditure [gov_10a_exp].

Commentary

Expenditure on education was slightly larger in relation to GDP in Hungary than the EU average in 2014, though the reverse was the case over the preceding two years.

Summary 2 – Overview of Education (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)

EDUCATION					
	Hungary	Dél-Dunántúl	Észak-Magyarország	Észak-Alföld	Dél-Alföld
Early leavers					
Early leavers aged 18-24, 2015	+0.6	+2.5	+5.2	+2.1	-0.3
Educational attainment level					
Share of population aged 25-64 with ISCED 3-8, 2015	+6.7	-5.3	-4.7	-7.1	-1.3
Share of population aged 25-64 with ISCED 5-8, 2015	-5.9	-5.7	-6.3	-7.1	-5.4
Share of population aged 25-34 with ISCED 3-8, 2014	+4.6	-2.0	-5.5	-2.8	-1.3
Share of population aged 25-34 with ISCED 5-8, 2014	-6.5	-6.0	-6.4	-5.4	-6.9
Education and apprenticeship					
Young people aged 15-24 in regular education or vocational training, 2014	-2.5	-1.2	-1.3	-4.0	+1.5
Young people aged 15-24 in vocational education or training, 2014	-9.3	-0.1	+0.9	+1.2	+0.3
Lifelong learning					
Participation rate of 25-64 in continuing education and training, 2015	-3.6	-3.8	-1.4	-	-1.0
Early childhood education					
Participation rate of 4-years-olds in education, 2012	+1.3	+2.9	+1.4	+2.4	+1.6
Education expenditure					
General government expenditure in education (% of GDP), 2014	+0.3	:	:	:	:
STRUCTURAL IMBALANCE					
Number of unfavourable variables	6	8	7	6	5
Number of favourable variables	4	1	2	3	4

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

“:” Not available, “-“ No difference.

EDUCATION in Hungary	
Country-specific recommendations, 2011-2015	
2011	-
2012	Prepare and implement a national strategy on early school leaving by ensuring adequate financing.

	Ensure that the implementation of the higher education reform improves access to education for disadvantaged groups.
2013	Implement a national strategy on early school leaving and ensure that the education system provides all young people with labour market relevant skills. Improve access to inclusive mainstream education for those with disadvantages in particular Roma. Support the transition between different stages of education and toward the labour market. Implement a higher education reform that enables greater tertiary attainment in particular by disadvantaged students. Reinforce training programmes to boost participation in lifelong learning.
2014	Implement a national strategy on early school leaving prevention with a focus on drop-outs from vocational education and training. Put in place a systematic approach to promote inclusive mainstream education for disadvantaged groups in particular Roma. Support the transition between different stages of education and towards the labour market and closely monitor the implementation of the vocational training reform. Implement a higher education reform that enables greater tertiary attainment particularly by disadvantaged students.
2015	Increase participation of disadvantaged groups (in particular Roma) in inclusive mainstream education and improve the support offered to these groups through targeted teacher training. Strengthen measures to facilitate the transition between different stages of education and to the labour market and improve the teaching of essential competences.
Structural reforms carried out, 2011-2015	
2011	The <i>National Public Education Law</i> was approved in 2011 (but effective as of 2014) with the aim of better adjusting the structure of education to the needs of the economy. Under this law, kindergarten attendance is compulsory from the age of 3 (rather than 5 previously). The <i>National Higher Education Law</i> was also passed in December 2011 to improve the quality of higher education. A new dual vocational training system in public education was set up and mandatory attendance in education was lowered from 18 to 16 years. The <i>Higher Education Planning Board</i> was also created to assess the needs related to higher education. In addition, the <i>Higher Education Accreditation Committee</i> , reinstated by the new law, plays a very important role in terms of quality assurance.
2011	Various measures were undertaken to reduce early school drop-out: <i>Grade 0</i> (preparatory year for school after kindergarten), <i>Híd Programme</i> (assistance for poorly performing pupils in elementary education). In 2012, the <i>Second Chance programme</i> aims to help young people beyond compulsory school attendance age who dropped out of the school system without secondary qualifications to obtain secondary qualifications and to reduce school failure. In 2015, the implementation plan for the Early school leaving strategy was approved. New methodologies to prepare teachers to teach disadvantaged children have been introduced in some schools. One of the most important measures of the strategy is the set-up of the early warning and pedagogical support system.
2011	The new <i>Act on vocational training</i> was adopted. It changes the rules on the content and length of vocational school education, strengthens the vocational element in vocational secondary school training, introduces a new type of vocational certificate, prescribes minimum training hours for adult vocational training and many other measures. In order to avoid school drop-out, the government introduced the early start of vocational training: after completing elementary school, pupils can directly enter a vocational training course.
2012	The <i>School-Net programme</i> to facilitate the school integration of disadvantaged children, in particular Roma, and to gather relevant best practices and to analyse experiences.
2012	The new <i>Act on adult training</i> provides guarantees to ensure that participants leave the subsidised adult training courses with quality skills and the certificates obtained upon the completion of the courses are equivalent to the qualifications acquired in the school system.
2014	The new <i>Lifelong Learning Strategy 2014-2020</i> was approved: it primarily covers vocational and adult training, it is closely connected to certain fields of public education and higher education, and broadly connected to culture, sport, youth and healthcare.
2015	Schools are now obliged to prepare action plans in response to low results in national competence tests. Several new measures such as teacher appraisals, pedagogical professional inspections and a network of pedagogical education centres were introduced.

2015	It is a priority to further increase the number of apprenticeship contracts, therefore the Government has introduced a system of <i>Chamber guarantee</i> which strengthens the match-making role and the responsibility of the Hungarian Chamber of Commerce and Industry in concluding apprenticeship contracts.
2016	The <i>Higher education strategy</i> was approved and an action plan adopted. The strategy in particular aims to achieve a 35% tertiary attainment rate by 2023.
Outstanding challenges	
	There are skill mismatches in the labour market. For instance a lack of highly-skilled labour hinders investments in certain high technology areas.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 85 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

The extent of early school leaving is relatively more important in the Hungarian lagging regions than in the rest of the country as well as the EU as a whole, though this is less the case in Dél-Alföld, where the proportion of young people aged 18-24 who have attained at most ISCED level 2 and who are no longer in education or training was much the same as the national average.

As a reflection of this, the proportion of people of working age with at least upper secondary education is smaller in all the lagging regions than in Hungary. The relative number of 15-24 year-olds in some form of education or training is also lower in all the lagging regions than in the EU, which bodes ill for the future education level of the work force.

The proportion of working age population with university education or equivalent is smaller in all the lagging regions than in the country as a whole and in the EU. And the same is true for the proportion of young people aged 25-34 whose highest education level attained is tertiary education. Since tertiary education is often positively correlated with GDP per head, the data show a potential hindrance to growth in these regions.

In most of the lagging regions, the relatively small proportion of young people who have successfully completed a tertiary-level education programme is coupled with a relatively small share of those aged 15-24 in tertiary education. This suggests that the overall share of working-age population with this level of education is likely to continue to decrease in future years. While this applies to most of the lagging regions, it does not apply to Dél-Alföld, where the proportion of the 15-24 age group undertaking a tertiary-level programme was relatively high in 2014.

An important weakness of the education and training system in Hungary, lies in the limited extent of continuing education and training. The proportion of those aged 25-64 participating in education or training is therefore considerably below the EU average and this is even more the case in most of the lagging regions. Workers therefore have limited opportunity to learn new skills and to adapt to advances in technology and methods of working.

The extent of earlier childhood education (the proportion of 4-year olds in school or pre-school) is however higher in Hungary than in the rest of the EU, as it is in all the lagging regions, which suggests that children in the country and in the lagging regions are likely to be better prepared for their future schooling than those elsewhere.

Country-specific recommendations in relation to education and training have mainly concerned the implementation of a national strategy on early school leaving, access to education for disadvantaged children, supporting the transition between education and the labour market, the implementation of a higher education and vocational training reforms as well as lifelong learning.

It seems that various measures were implemented to tackle early school leaving: *Grade 0* (which offers a preparation to school after kindergarten), *Híd Programme* (which helps children with low performance in elementary school) and the *Second Chance programme* (which helps young people who dropped out of the school system without secondary qualifications). In 2011, the government also gave the possibility to start vocational training course immediately after completing elementary school, which should also contribute to reduce early school leaving. Moreover, the implementation plan for the *Early school leaving strategy* was approved in 2015.

As far as access to education for disadvantaged groups is concerned, the *School-Net programme* was created in 2012 to facilitate the school integration of disadvantaged children (in particular Roma), and to gather relevant best practices and to analyse experiences. In addition, new methods to prepare teachers to teach disadvantaged children were introduced in 2015 in some schools.

In terms of promoting the transition between education and the labour market and to further increase the number of apprenticeship contracts, the government introduced in 2015 a system which strengthens the match-making role and the responsibility of the Hungarian *Chamber of Commerce and Industry* in concluding apprenticeship contracts.

The *National Higher Education Law* was adopted in 2011 to improve the quality of higher education. Under this law, the mandatory attendance in education was lowered from 18 to 16 years. The *Higher Education Planning Board* was also created to assess the needs related to higher education. In addition, the *Higher Education Accreditation Committee*, reinstated by the new law, plays a very important role in terms of quality assurance. The *Higher education strategy* was approved and an action plan adopted. The strategy in particular aims to achieve a 35% tertiary attainment rate by 2023.

The new *Act on vocational training* was also adopted in 2011. It mainly changes the rules on the content and length of vocational school education, strengthens the vocational element in vocational secondary school training, introduces a new type of vocational certificate, prescribes minimum training hours for adult vocational training.

In 2012, the new *Act on adult training* provides guarantees to ensure that participants leave the subsidised adult training courses with quality skills and that the certificates obtained upon completion of courses are equivalent to the qualifications acquired in the school system. A *Lifelong Learning Strategy 2014-2020* was approved in 2014.

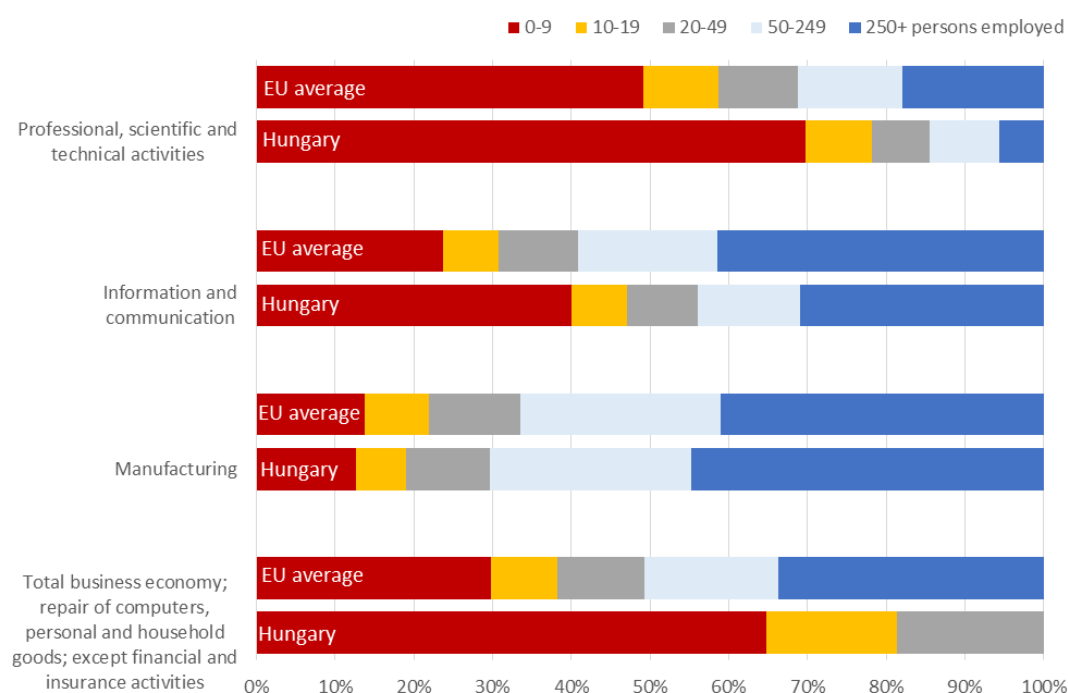
Despite these efforts, the shortage of high-skilled workers remains an outstanding challenge as it potentially hinders investment in high technology sectors.

In Dél-Alföld, the situation with regard to education and training was slightly more favourable than in the other lagging regions. Indeed, even if the share of people with tertiary education was as low as in the three other lagging regions, the early school leaving rate was lower, and young people are more likely to participate in some form of education or training in this region than elsewhere in the country.

In the rest of the lagging regions, the situation is very similar with a relatively high number of young people leaving school without adequate qualifications, a low proportion of people with tertiary education (below the national and EU average for young people as well as for the working age group). In addition, Dél-Dunántúl is characterised by a significantly low participation of adults in continuing training whereas in Észak-Alföld, it's the number of young people in regular education or training which is particularly small.

5. BUSINESS ENVIRONMENT AND RDTI

Figure 5.1 – Breakdown of employment by size of enterprise in critical sectors in Hungary in 2013



Source: Eurostat, Structural Business Statistics [sbs_sc_sca_r2].

Commentary

The share of employment in manufacturing in large and medium-sized enterprises is slightly larger in Hungary than in the rest of the EU, which indicates that firms in this sector are not at a size disadvantage compared to those in other countries. In Information and communications, however, and even more in Professional, scientific and technical activities, there is a larger share of employment in micro and small firms in Hungary than in the rest of the EU, which could imply a disadvantage in competing on national and international markets.

Table 5.1 – Ease of doing business and Starting a business in Hungary, 2016

Region (city)	Hungary (rank in the EU, 1-28)
Ease of doing business*	22
Starting a business**	18

Source: World Bank: Doing Business report 2016.

Notes: *A low value corresponds to a high ease of doing business.

** A low value implies a more favourable situation in terms of the regulatory environment for starting a business.

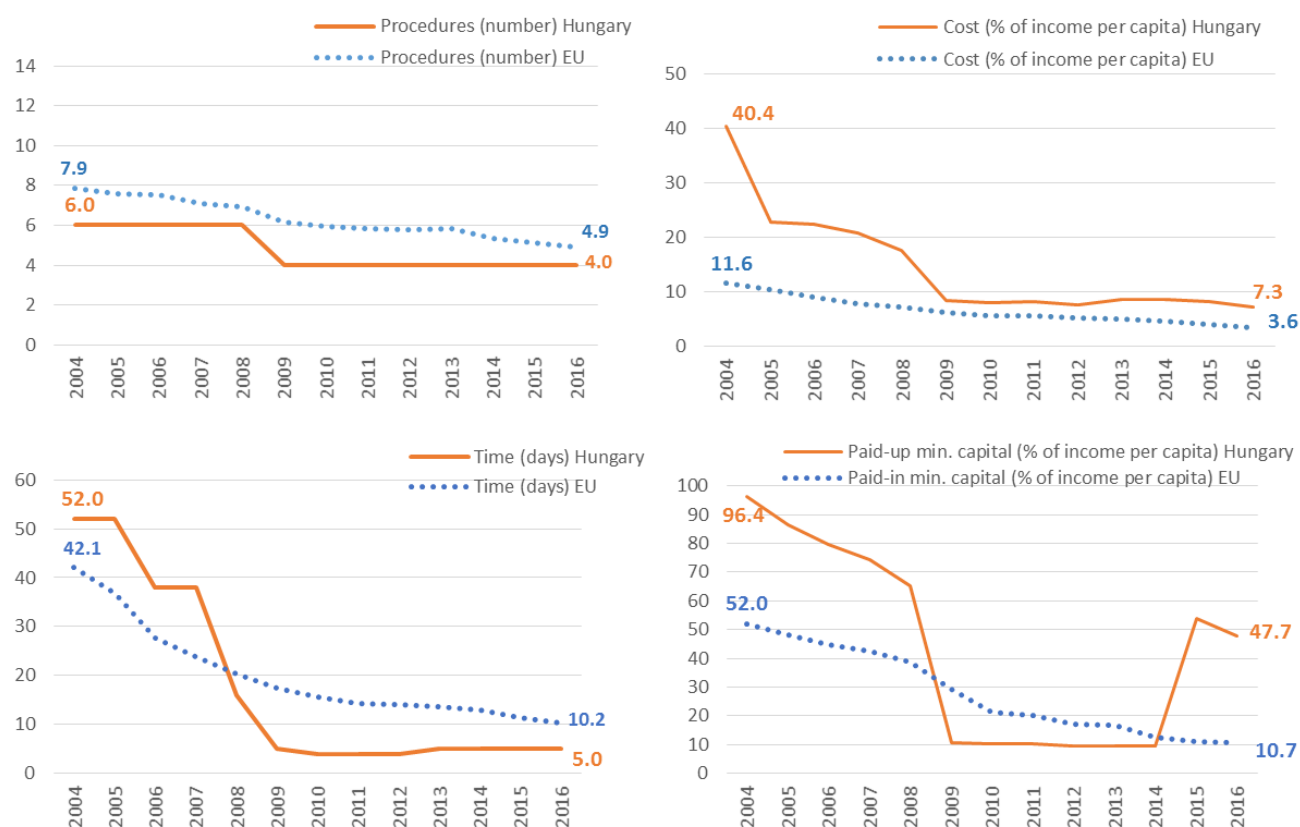
Table 5.2 – Starting a business indicators in Hungary, 2016

Region	Procedures (number)*	Time (days)	Cost (% of income per capita)*	Paid-up minimum capital (% of income per capita)
Hungary	4	5	7	48
EU average	4.9	10.2	3.6	10.7

Source: World Bank: Doing Business report 2016.

Notes: Values which are higher than the EU average are highlighted in grey.

Figure 5.2 – Starting a business indicators in Hungary, 2004-2016



Source: World Bank: Doing Business 2004-2016.

Commentary

It's less easy to do business in Hungary than in the EU on average (the country is ranked 22 out of the 28 EU Member States). In terms of starting a business, the country performs better but is still ranked in the bottom half of the EU28 country (18 out of 28). It is in particular the minimum capital to be paid up to start a business which is significantly higher (about four times more) than in the EU. The same is true for the cost to set up a business, though the difference with the EU level is smaller.

Although the cost of starting a business has remained relatively unchanged over the past 7 years, for the minimum capital paid-up a sudden and large rise was observed in 2015, after about six years where the rate was stable and below the EU average. Between 2015 and 2016 the minimum capital paid-up to start a business decreased but remains at a very high level compared to the EU.

Table 5.3 – Product Market Regulation (PMR) indicators in Hungary, 2003, 2008 and 2013

	Overall PMR			State control			Barriers to entrepreneurship			Barriers to trade and investment		
	2003	2008	2013	2003	2008	2013	2003	2008	2013	2003	2008	2013
Hungary	2.11	1.54	1.33	2.47	2.03	2.05	2.30	2.20	1.69	1.57	0.38	0.24
EU average	1.78	1.53	1.44	2.57	2.27	2.17	2.15	1.85	1.69	0.63	0.45	0.47

Source: OECD PMR indicators.

Notes: Values which are higher than the EU average are highlighted in grey.

The index ranges from 0 to 6, from least to most restrictive.

Commentary

According to the OECD PMR indicators, there was less State control in Hungary than in the EU on average, the index declined over the preceding 10 years as in the rest of the EU. Barriers to entrepreneurship have also diminished since 2003 and are now the same as in the EU (in contrast to the World Bank indicator on starting a business which ranked the country 18 out of 28 in 2016, probably reflecting the increase of the minimum capital paid-up in 2015). As for barriers to trade and investment, they have equally been reduced, quite significantly in this case, and also to well below those in the rest of the EU. Unlike in 2003 and 2008, the overall PMR in Hungary was assessed as less restrictive than in the EU on average in 2013.

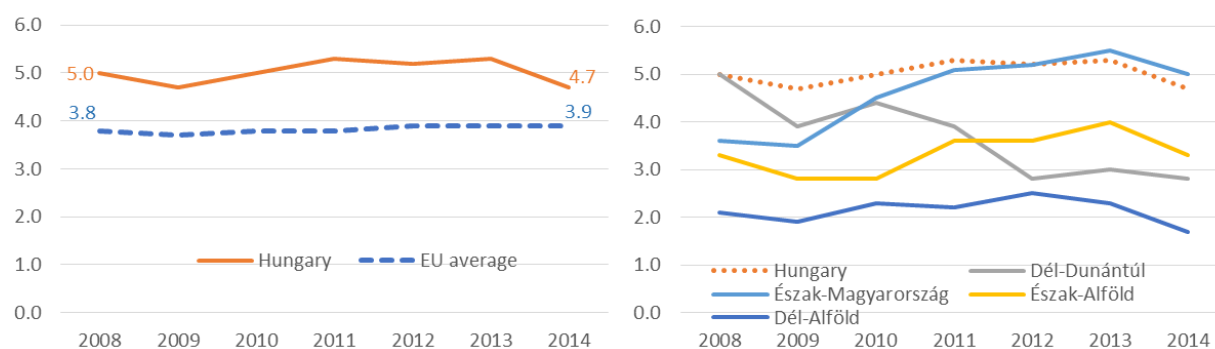
Table 5.4 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Hungary, 2014, % of total employment

Region	Employment in high-technology sectors (% of total employment) 2014
Dél-Dunántúl	2.8
Észak-Magyarország	5.0
Észak-Alföld	3.6
Dél-Alföld	1.7
Hungary	4.7
EU average	3.9

Source: Eurostat, High-tech statistics [htec_emp_reg2].

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.3 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Hungary, 2008-2014, % of employment



Source: Eurostat, High-tech statistics [htec_emp_reg2].

Commentary

The share of employment in high tech manufacturing and knowledge-intensive sectors is larger in Hungary than in the EU on average though it has tended to decrease between 2013 and 2014 (which is the latest year available), as in all the lagging regions. However, the share in the lagging regions is much smaller than the national and EU average in most cases (and in particular in Dél-Alföld). The only exception is Észak-Magyarország where it was both higher than in Hungary and in the EU in 2014.

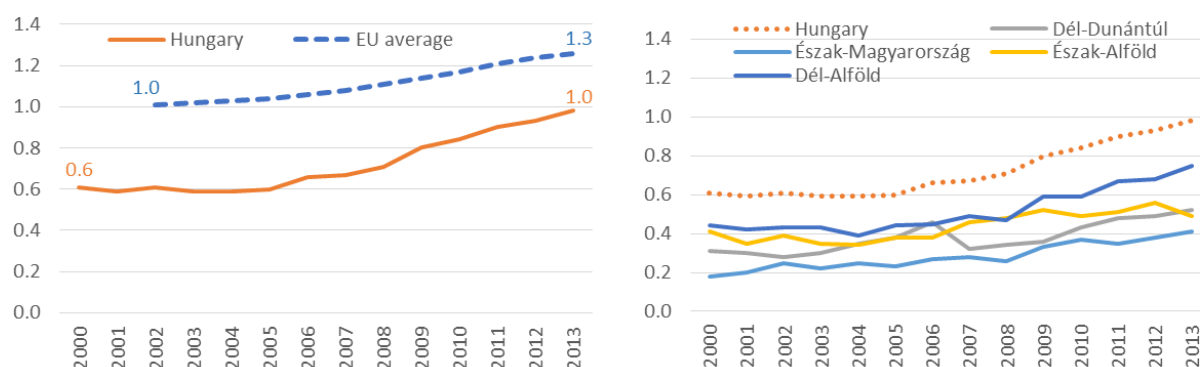
Table 5.5 – R&D personnel and researchers in Hungary, 2013

Region	Total R&D personnel and researchers (% of total employment) 2013
Dél-Dunántúl	0.5
Észak-Magyarország	0.4
Észak-Alföld	0.5
Dél-Alföld	0.8
Hungary	1.0
EU average	1.3

Source: Eurostat, R&D statistics [rd_p_persreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.4 – R&D personnel and researchers in Hungary, 2000-2013, % of total employment



Source: Eurostat, R&D statistics [rd_p_persreg].

Commentary

The share of employment accounted for by R&D personnel and researchers in Hungary is slightly below the EU average, though as in the EU as a whole it tended to increase over the past decade. The share is smaller than the national average in all lagging regions, though less so in Dél-Alföld. It is particularly small in Észak-Magyarország.

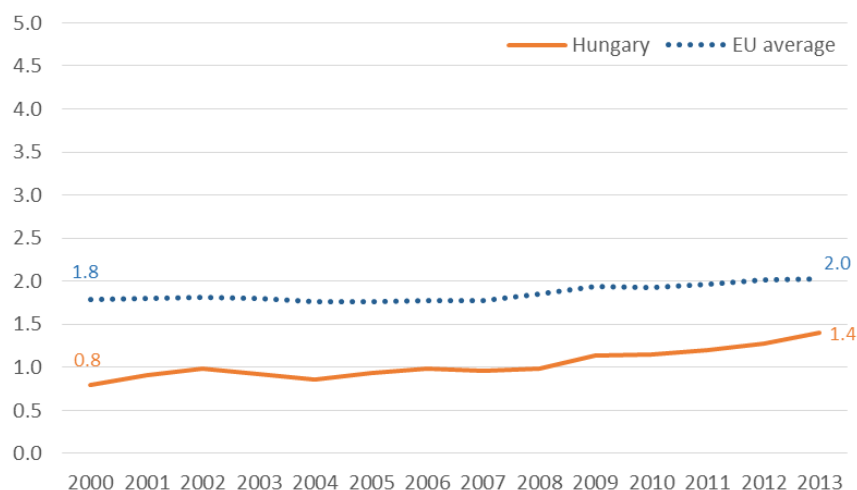
Table 5.6 – Total intramural R&D expenditure in Hungary, 2013

Region	Total intramural R&D expenditure (GERD) % of GDP 2013
Dél-Dunántúl	0.8
Észak-Magyarország	0.7
Észak-Alföld	1.3
Dél-Alföld	1.2
Hungary	1.4
EU average	2.0

Source: Eurostat, R&D statistics [rd_e_gerdreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.5 – Total intramural R&D expenditure in Hungary, 2000-2013, % of GDP



Source: Eurostat, R&D statistics [rd_e_gerdreg].

Commentary

Expenditure on R&D in Hungary relative to GDP is lower than the EU average though the gap tended to slightly increase over the recent years. It was below the national average in all the lagging regions, and particularly low again in Észak-Magyarország (in line with the small share of researchers in total employment in this region).

Summary 3 – Overview of business environment (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures, except where otherwise stated)

BUSINESS ENVIRONMENT AND RDTI					
	Hungary	Dél-Dunántúl	Észak-Magyarország	Észak-Alföld	Dél-Alföld
Ease of doing business ranking	Bottom half (22/28)	:	:	:	:
Starting a business ranking	Bottom half (18/28)	:	:	:	:
Procedures (number)	-0.9	:	:	:	:
Time (days)	-5.2	:	:	:	:
Cost (% of income per capita)	+3.7	:	:	:	:
Paid-up min. capital (% of income per capita)	+37.0	:	:	:	:
PMR indicators (The index ranges from 0 to 6, from least to most restrictive)					
Overall PMR, 2013	-0.1	:	:	:	:
State control, 2013	-0.1	:	:	:	:
Barriers to	-	:	:	:	:

entrepreneurship, 2013					
Barriers to trade and investment, 2013	-0.2	:	:	:	:
Employment in technology and knowledge intensive sector					
Employment in high-technology and knowledge intensive sector, 2014	+0.8	-1.9	+0.3	-1.1	-3.0
R&D personnel/researchers and expenditure					
Intramural R&D expenditure, 2013	-0.3	-0.5	-0.6	-0.5	-0.2
R&D personnel and researchers, 2013	-0.6	-0.6	-0.7	-0.1	-0.2
STRUCTURAL IMBALANCE					
Number of unfavourable variables	6	3	3	3	3
Number of favourable variables	7	0	0	0	0

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

“:” Not available. “-”: No difference.

BUSINESS ENVIRONMENT AND RDTI in Hungary	
Country-specific recommendations, 2011-2015	
2011	Improve the business environment by implementing all the measures envisaged for regulatory reform and lowering administrative burdens.
2012	Ensure a stable regulatory and business-friendly environment for financial and non-financial enterprises, including foreign direct investors. Remove unjustifiable restrictions on the establishment of large-scale retail premises. Provide specific well-targeted incentive schemes to support innovative SMEs in the new innovation strategy.
2013	Create a supportive business environment in particular restore an attractive environment for foreign direct investors by making the regulatory framework more stable and by fostering market competition. Ensure the full implementation of measures envisaged to reduce the administrative burden. Remove recently introduced barriers in the services sector including in retail services. Provide targeted incentives to support innovative enterprises.
2014	Stabilise the regulatory framework and foster market competition including by removing barriers in the services sector.
2015	Remove the unjustified entry barriers in the service sector.
Structural reforms carried out, 2011-2015	
2011	The Government approved a medium-term programme to reduce the administrative burdens for businesses in November 2011. The programme contains 114 measures in ten areas of intervention (reduced tax administration, simplification of the operation of authorities, making the authorisation of investment projects faster and more predictable and reducing the administrative burdens of employment). In addition, new laws were adopted for quicker foreclosure and liquidation proceedings. By further improving the <i>Entrepreneurial Portal</i> funded with EU funds in 2014, the

	range of online administrative procedures is extended, thus helping enterprises to fulfil their administrative obligations.
2013	The EU directive on the reduction of late payments by public authorities was transposed to Hungarian law in March 2013.
2013	The <i>Strategy on SMEs 2014-2020</i> determines the main objectives of the Government's SME-related policy. In addition to the provision of assistance to SMEs, the strategy also directs significant attention to the instruments conducive to the growth of micro enterprises. The main pillars of the strategy will include reinforcement of the innovation potential; development of a business environment that facilitates networking and cooperation between enterprises; reduction of the administrative burden on enterprises; elimination of excessive regulations; easier access to financial sources for enterprises; and the creation of programmes based on difficulties experienced in the past.
2013	Government Decree 1589/2012 on the <i>Reasonable Simplification of Qualification Requirements</i> , which sets out the main directions to simplify the qualification requirements for certain activities and jobs.
2014	The <i>R+D Competitiveness and Excellence Cooperation programme</i> supports the research-development activities of strategic importance. It has three sub-programmes (Health care; Energy; Management technique).
2015	The government adopted the <i>Public Administration and Public Services development strategy 2014-2020</i> to reduce administrative burden by 20%, total processing time by 20%, and administrative fees and charges by 10%. Hungary also plans to build the overall national network of government windows (one-stop-shops) to make administration easier, the implementation of which is expected for 2017. A one-stop-shop would be created in each district office.
2015	The Hungarian institutional system of RDI changed: following the merge of the National Innovation Office, the Hungarian Scientific Research Fund and the department of the Research and Technology Innovation Fund, the <i>National Research, Development and Innovation Office</i> and the <i>National Research, Development and Innovation Fund</i> were established. The most important advantage is that the aid funding scheme is now standardised and integrates the RDI policy and funding into one organisation, thus allowing more efficient and coordinated use of resources.
2016	Hungary significantly increased the number of professions which are notified to the <i>Database of Regulated Professions</i> .
Outstanding challenges	
	The restrictive regulations in the service sector (such as retail) remain a concern for businesses.
	The overall administrative burden, also for start-ups, negatively affects investment decisions.
	The instability of the regulatory framework creates uncertainty for investors and is hindering both internal investment and foreign direct investments.
	Financing of new innovative companies through venture/seed capital and newer initiatives such as crowdfunding remains marginal.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 85 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

In 2016, indicators on starting a business and on doing business both indicate a less favourable situation in Hungary compared to the EU on average. What is particularly problematic in Hungary is the relatively high minimum capital to pay to start a business (which has significantly increased over the recent years) as well as the costs to a lesser extent.

In 2013, product market regulation was however considered to be less restrictive in Hungary than in the EU average, this is especially the case for barriers to trade and investment.

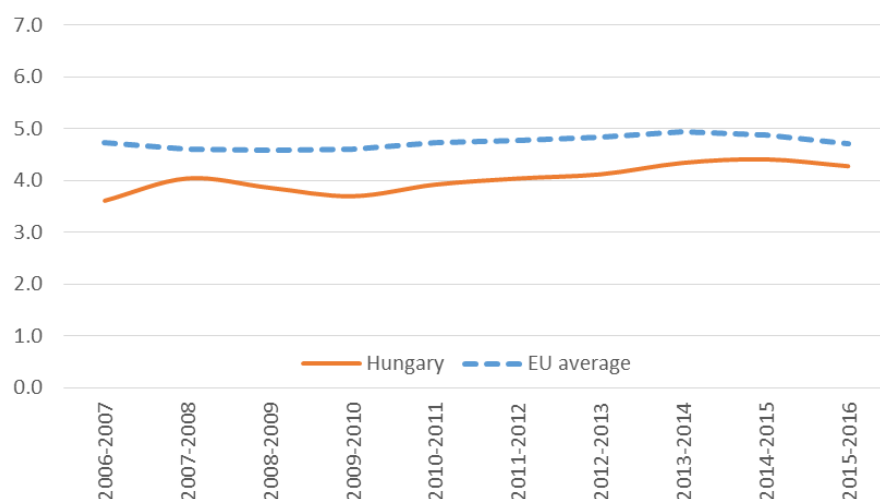
The share of employment in high-tech and knowledge-intensive sectors is larger in Hungary than the EU average but it is smaller in all the lagging regions apart from Észak-Magyarország.

The share of employment in R&D activities and R&D expenditure relative to GDP in Hungary are lower than the EU average, and in lagging regions even smaller. Accordingly, the limited availability of research expertise and R&D facilities are likely to discourage investment in Hungary.

The focus of the country-specific recommendations has been on ensuring a stable regulatory and business-friendly environment, on removing entry barriers in the service sector (and in particular in retail) and on providing targeted incentives to support innovative enterprises. In 2011, the Government approved a medium-term programme to reduce the administrative burdens for businesses. The programme contains a package of measures in ten areas of intervention (reduced tax administration, simplification of the operation of authorities, making the authorisation of investment projects faster and more predictable and reducing the administrative burdens of employment). New laws were also adopted for quicker foreclosure and liquidation proceedings. Also, improvements in the *Entrepreneurial Portal* extended the range of administrative procedures available online. In addition, in 2015 the *Public Administration and Public Services development strategy 2014-2020* was adopted to reduce administrative burden. In 2014, the *R+D Competitiveness and Excellence Cooperation programme* was created to support research and development activities. There seems however, that no particular measure was taken with respect to the entry barriers in the service sector.

6. GOVERNANCE

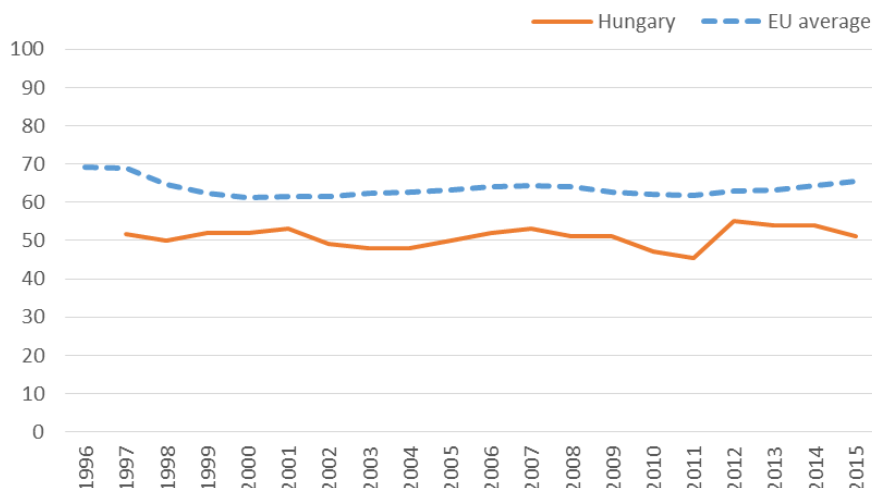
Figure 6.1 – Judicial independence in Hungary, 2006-2016



Source: World Economic Forum.

The scale ranges from 1 to 7, from least to most independent (i.e. a higher value reflects a more independent judicial system).

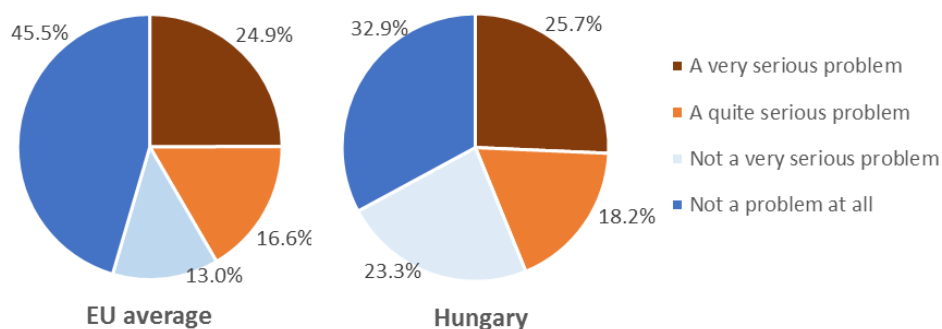
Figure 6.2 – Corruption perception index in Hungary, 1996-2015



Source: Transparency International.

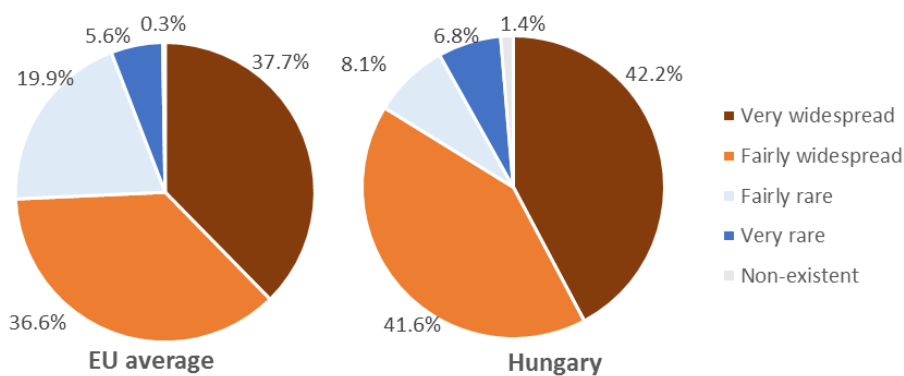
Note: The scale ranges from 0 to 100, from highly corrupt to highly clean.

Figure 6.3 – Corruption as problem for doing business in Hungary, 2015



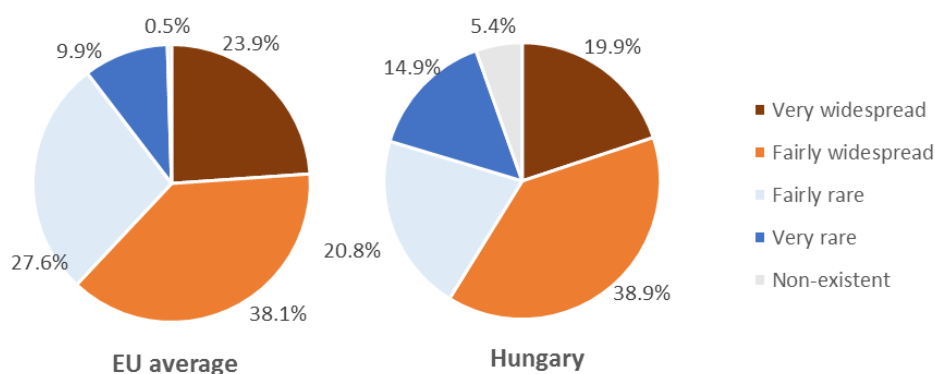
Source: Flash Eurobarometer 428, European Commission.

Figure 6.4 – Extent of corruption in Hungary, 2015



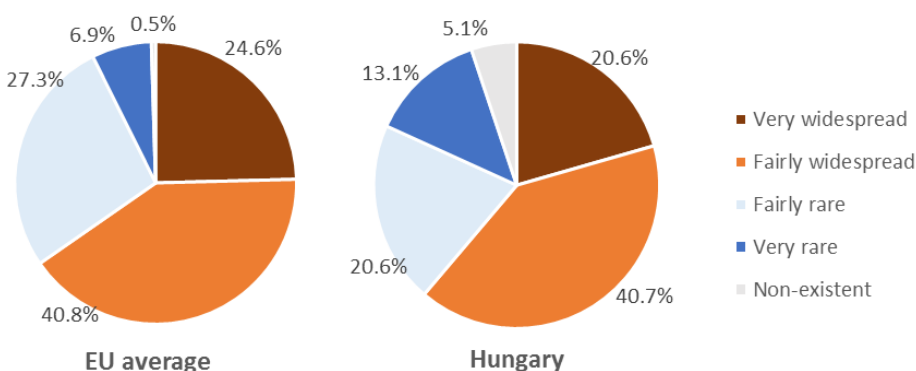
Source: Flash Eurobarometer 428, European Commission.

Figure 6.5 – Extent of corruption in public procurement managed by national authorities in Hungary, 2015



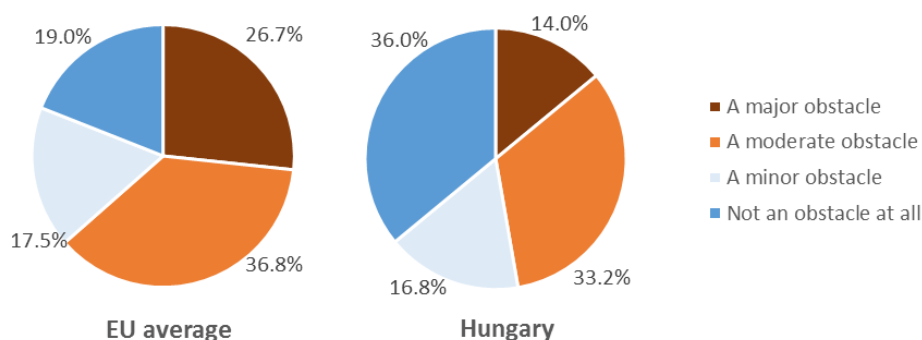
Source: Flash Eurobarometer 428, European Commission.

Figure 6.6 – Extent of corruption in public procurement managed by regional or local authorities in Hungary, 2015



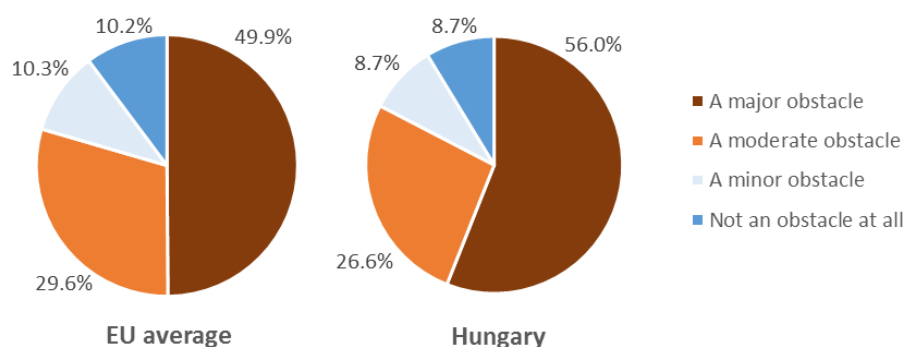
Source: Flash Eurobarometer 428, European Commission.

Figure 6.7 – Procedures for contract enforcement is an obstacle to the activities of enterprises, 2015



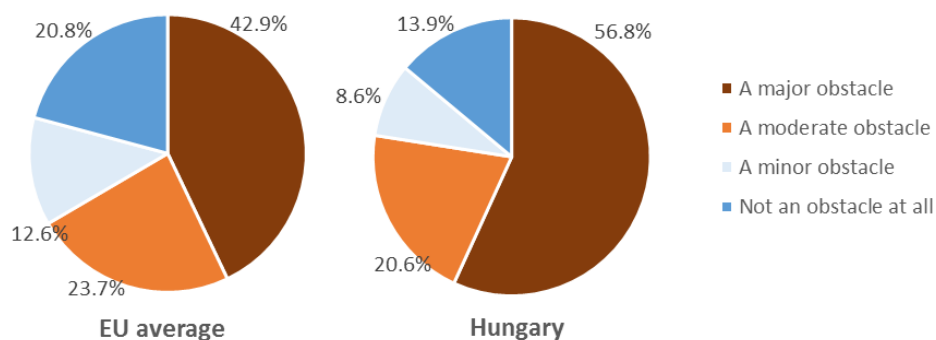
Source: Flash Eurobarometer 417, European Commission.

Figure 6.8 – Lack of predictability and stability of legislation is an obstacle to the activities of enterprises, 2015



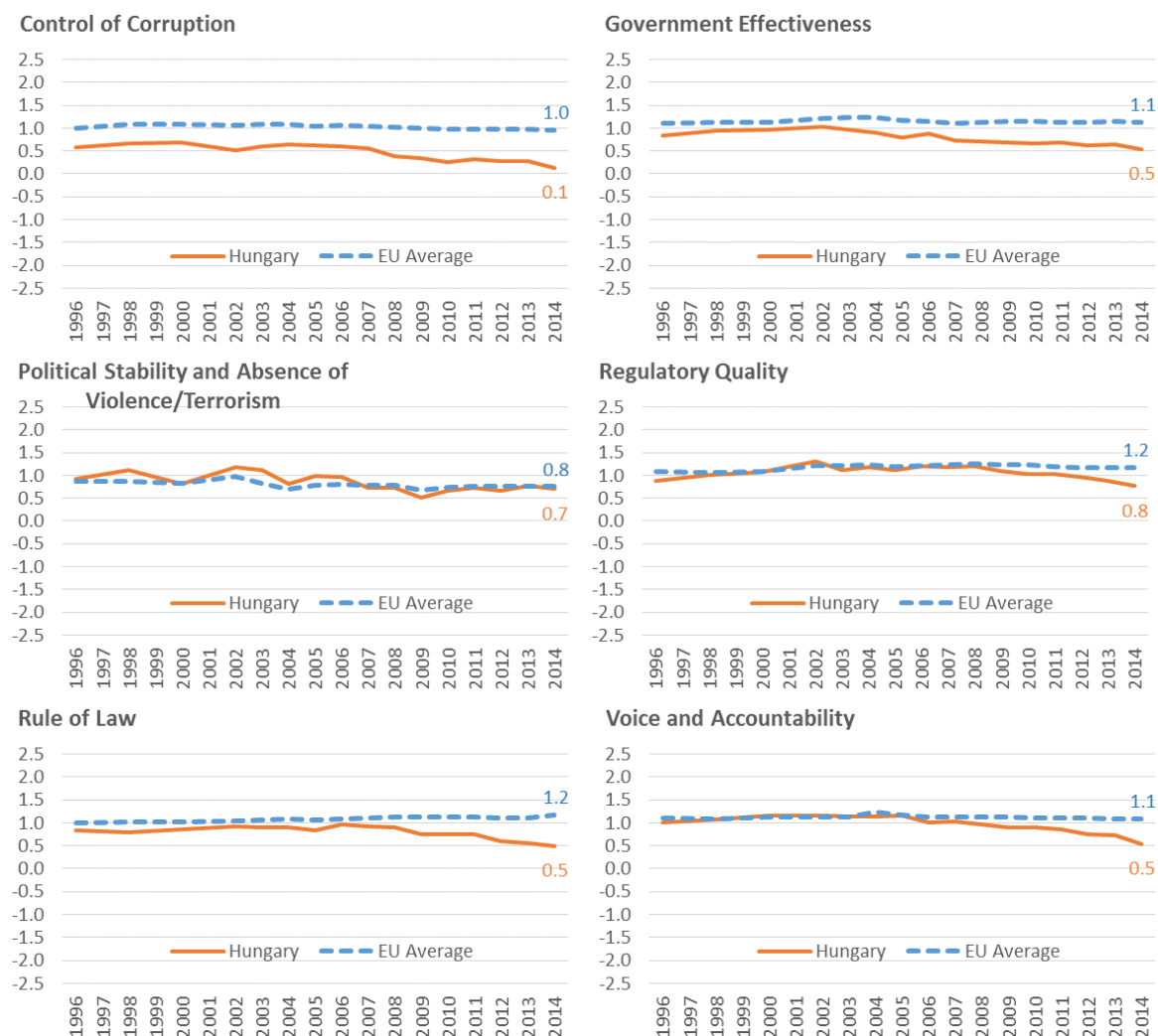
Source: Flash Eurobarometer 417, European Commission.

Figure 6.9 – The existence of an informal economy is an obstacle to the activities of enterprises, 2015



Source: Flash Eurobarometer 417, European Commission.

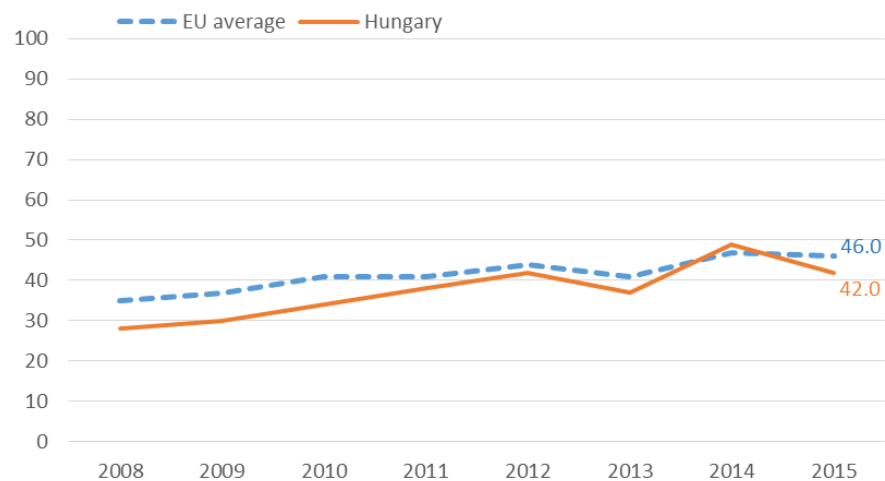
Figure 6.10 – Worldwide Governance Indicators in Hungary, 1996-2014



Source: Worldwide Governance Indicators, World Bank.

Note: The scale ranges from -2.5 to 2.5, higher values corresponding to better governance.

Figure 6.11 – People aged 16-74 using the internet for interaction with public authorities in Hungary, 2008-2015 (% total)



Source: Eurostat ([tsdgo330] for years 2000-2010; [tin00012] afterwards).

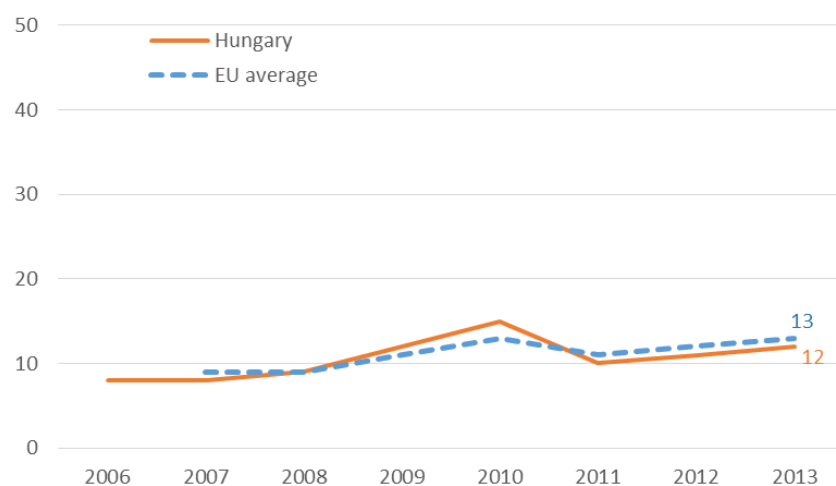
Table 6.1 – People aged 16-74 using the internet for interaction with public authorities in Hungary, 2015

Region	% of individuals 16-74
Dél-Dunántúl	38.0
Észak-Magyarország	42.0
Észak-Alföld	30.0
Dél-Alföld	37.0
Hungary	42.0
EU average	46.0

Source: Eurostat [isoc_r_gov_i].

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

Figure 6.12 – Enterprises using the Internet to submit a proposal to public authorities in Hungary, 2005-2013



Source: Eurostat [tin00109].

Table 6.2 – European Quality of Government Index in Hungary, 2010 and 2013

Region	European Quality of Government Index (0-100)	
	2010	2013
Dél-Dunántúl	42.0	55.2
Észak-Magyarország	38.2	52.5
Észak-Alföld		
Dél-Alföld		
Hungary	38.4	49.4
EU average	51.2	61.7

Source: N. Charron, L. Dijkstra and V. Lapuente, 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions'.

Notes: Data for Hungary is only available at NUTS 1 level. In 2013, Hungary was ranked 19th among EU countries.

Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey. The scale ranges from 1 to 100 range, higher values corresponding to a better quality of government.

GOVERNANCE in Hungary	
Country-specific recommendations, 2011-2015	
2011	-
2012	Ensure that public procurement and the legislative process support market competition.
2013	Take further adequate measures to tackle corruption. Improve competition in public procurement. Strengthen further the judiciary.
2014	Further reduce corruption and the overall administrative burden. Take more ambitious steps to increase competition and transparency in public procurement including better use of e-procurement.
2015	Further improve the anti-corruption framework. Strengthen structures in public procurement that promote competition and transparency.
Structural reforms carried out, 2011-2015	
2011	A new public procurement law was adopted to better serve the transparency of public spending and fair competition. In 2014, the law was amended to boost market competition and ensure greater transparency (for example documentation shall be provided for the applicant free of charge, the possibility of error correction and providing supplementary files has been broadened so that more offers may compete). Moreover, the <i>Public Procurement Authority</i> has been operating a <i>Public Procurement Database</i> since July 2013.
2011	The e-government pillar of the <i>Magyary Programme</i> draws up professional guidelines and gives digital solutions to cut administrative burdens, to simplify processes, to implement on-demand programmes with the participation of the citizens, to develop public services and to support information and knowledge-based asset management and economy.
2014	Implementation of the <i>Anti-corruption programme 2015-2018</i> to explore the reasons for and to assess the current situation of corruption and to identify and effectively use the tools and measures that may serve to prevent corruption. As part of the programme, an anonymous reporting system as well as a reporting system providing effective protection for those filing reports are planned, central integrity and anti-corruption training are to be provided and information campaigns will be conducted to enhance the sensitivity of the business sector and society. In 2016, the government aims to create an easily searchable and regularly updated database of procurement calls for tender and contracts available online, with each procedure and each bidder given a unique and permanent identifier.
2015	The government recently launched the reform of the public administrative procedure and the civil procedure in court for appeals against public administration decisions.
2015	The Parliament adopted a new specific e-government law to provide the legal basis for the planned extension of electronic public administrative services.
Outstanding challenges	
	Competition in public procurement remains limited while unpredictable regulatory changes and administrative burden hamper private business and investment. A comprehensive e-procurement strategy has not yet been developed and corruption risks remain high.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 85 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

According to the World Economic Forum survey the judiciary in Hungary is perceived to be less independent of Government and other sources of influence than the EU average, though the difference with the latter has narrowed over the recent years. The Transparency International indicator also shows that the country is perceived to be more corrupt than the EU average, and the difference has increased since 2013. In line with this finding, an Eurobarometer survey in 2015 of business views on corruption indicate that this is seen as more of a problem in terms of doing business in Hungary than in other parts of the EU. However, as far as corruption in public procurement is concerned, the perceptions of businesses in Hungary is more favourable than in the EU as a whole.

In addition, a larger proportion of businesses in Hungary surveyed by Eurobarometer in 2015 considered the lack of predictability and stability of legislation as an obstacle to their activities than in other parts of Europe. The same is true for the presence of an informal economy whereas procedures for enforcing contracts were seen as obstacles by a smaller proportion of respondents in Hungary compared to the EU on average.

World Bank Worldwide Governance Indicators show that Hungary is viewed less favourably than the EU average in terms of control of corruption, government effectiveness, the rule of law, the quality of regulations, voice and accountability as well as political stability, though for the last, the difference was relatively small. For all these indicators (except political stability), the situation over the recent years seemed to have worsened.

The extent to which the internet is used by people to communicate with public authorities in Hungary is less than the EU average. This was true over the whole 2008-2015 period except in 2014 where it was higher. In the lagging regions, the extent was even less. Equally, the proportion of enterprises in Hungary using the internet to submit a proposal to public authorities in 2013 (the latest year for which there are data) was lower than in the EU.

The quality of government index, based on a survey of residents, shows government in Hungary to be assessed less favourably than that in other parts of the EU on average. It also shows, however, higher values for the index than the national average in all the lagging regions, though ones which were still well below the EU average. But the analysis at the regional level is limited as the data is only available at the NUTS 1 level (and therefore the same index is provided for three of the lagging regions).

The country-specific recommendations in terms of governance related to the strengthening of the public procurement structures and of the judicial system as well as the reduction of corruption. In 2011, a new public procurement law was adopted and in 2014, it was amended to boost market competition and ensure greater transparency (for example documentation shall be provided for the applicant free of charge, the possibility of error correction and providing supplementary files has been broadened so that more offers may compete). Moreover, a Public Procurement Database is operational since July 2013. The *Anti-corruption programme 2015-2018* was implemented in 2014 (with an anonymous reporting system), and in 2016, the government aims to create a database of procurement calls for tender and contracts available online, with each procedure and each bidder given a unique and permanent identifier. As for the judiciary, the government recently launched the reform of the public administrative procedure and the civil procedure in court for appeals against public administration decisions. Nevertheless, at the end of 2015, the corruption affecting public procurement was still identified as an outstanding challenge to be addressed.

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