



THE GOVERNMENT OF HUNGARY

**NATIONAL REFORM PROGRAMME 2018
OF HUNGARY**

April 2018

I. INTRODUCTION

Hungary has steered its economy on a successful, sustainable growth path in the past years. Last year, the economy grew by 4% *while it is expected to expand by 4.3% in 2018, and 4.1% in 2019.* Sustainable growth is strongly supported by the domestic labour market, with the number of people employed exceeding 4.4 million at the beginning of 2018. Financial risks arising in the aftermath of the 2009-2010 crisis have significantly dropped by now, which is clearly reflected by the steadily decreasing government debt, falling interest rates on government bonds, and by the low inflation environment. Economic growth is balanced, which is shown by the stable growth of the industry and retail sector, the recovery of both domestic demand and investment, as well as trade surplus. This stable macroeconomic background has also allowed Hungary to achieve improving results in key areas defined by the EU2020 Strategy: in the past years, Hungary has managed to continuously improve employment and energy efficiency, and to reduce poverty.

The joint objective of Hungary and the European Union is to become the most competitive region of the world, where economic growth is inclusive, sustainable and intelligent. The European Semester is the key element of the reinforced common economic governance with the aim of achieving stronger coordination of economic policy in the EU. Continuing the practice of recent years, every member state submits its National Reform Programme in mid-April, in which member states present the steps they have taken in response to the country specific recommendations given by the European Council, as well as the measures they have adopted in order to achieve the headline targets defined for the implementation of the Europe 2020 Strategy.

Hungary remains committed to achieving the common objectives; therefore, similarly to the practice of recent years, the National Reform Programme 2018 of Hungary presents in detail the key measures taken to attain European targets and to support the long-term future of Hungary: steps to improve competitiveness and the business environment, as well as projects aimed at developing the society's human resources. While introducing key policy measures of the National Reform Programme 2018, we endeavour to thoroughly present how different measures are linked to the main strategic goals, and we also present the results that have been reached so far and the results that can be expected due to new measures. As is customary, the National Reform Programme has been developed together with the Convergence Programme. The corresponding chapters include cross-references.

A significant portion of the measures included in the National Reform Programme 2018 are independent strategies or pieces of legislation, which were preceded by public consultation stipulated by law. In line with the EU grant procedure, regarding measures adopted in connection with EU programmes, public consultations have taken place both in the planning and the selection processes.

II. MEDIUM-TERM MACROECONOMIC OUTLOOK

II.1. Development of the Macroeconomic Environment

In this section the medium-term macroeconomic outlook is briefly introduced, on which the National Reform Programme of Hungary is based.

It is important to emphasize that the National Reform Programme and the Convergence Programme of Hungary have been developed together based on one another, in accordance with the integrated approach of the European Semester; these two documents are submitted to the European Commission at the same time. Considering the fact that the macroeconomic scenario for the period 2017-2021 is elaborated in the Convergence Programme in detail, the following medium-term macroeconomic outlook aims to summarize the macroeconomic scenario detailed in the Convergence Programme.

	2017	2018	2019	2020	2021	2022
percentage, changes in volume in relation to the previous year						
Gross domestic product	4,0	4,3	4,1	4,0	4,2	4,1
Household consumption expenditures	4,7	5,2	4,8	4,7	4,6	4,5
Gross fixed capital formation	16,8	12,8	7,5	3,8	5,7	5,1
Export	7,1	7,2	6,9	6,7	7,3	7,1
Import	9,7	9,2	7,4	6,3	7,1	6,9
percentage, annual average						
Unemployment rate (15-74)	4,2	3,6	3,1	2,8	2,5	2,4
Employment rate (20-64)	73,3	74,8	76,2	77,5	78,7	79,7
percentage, in relation to the gross domestic product						
External financing capacity	4,1	5,9	5,9	5,9	4,1	3,1
percentage, annual average						
Consumer Price Index	2,4	2,5	2,7	2,9	3,0	3,0

Source: CSO, MNE calculation

The Hungarian economic policy faced several challenges in the past years. First, the economic crisis reached Hungary in an instable, vulnerable condition to the external shocks. Following the Government change of 2010, the economic policy focused on restoring the resilience of the Hungarian economy and setting on stable growth path. After 2013, growth turned positive, as a result the Hungarian economy has vigorously increased on average by 3,6% in the past four years. The performance of the Hungarian economy exceeded that of the majority of the new member states and at the same time, exceeded significantly the EU average. As a result of all this the catching up of the Hungarian economy has accelerated to the developed member states in recent years. The performance of the Hungarian economy increased by 4%. Accordingly, the performance of the Hungarian economy accelerated significantly last year, while the growth path continues to be

sustainable, namely the stable and dynamic extension coupled with the disruption of neither external, nor internal balance.

In the next few years, further improvement of the competitiveness and the productivity will be of key importance, in favour of which it is essential to promote innovation, the implementation of infrastructural investments and support of services and products with higher value added. As part of this, one of the main objectives of the economic policy is to continue the establishment of the framework which help Hungarian businesses in internationalisation.

To implement the structural reforms, a stable macroeconomic background is available. This is proved by the fact that the sustainability of the general government debt continues not to have risks, the country risk margin has decreased in recent years, furthermore, continuing the investment upgrading series of 2016, two of the three big credit rating institutions changed the rating outlook of Hungary in 2017 to positive. Through maintaining the high growth pace of the economy and continuing sound fiscal policy and continuously decreasing deficit as a share of GDP, the debt rate under 60% as a share of GDP will be achieved by 2022. Further objective is to adopt a budget without deficit in relation to cash flow by 2020. Due to the agreement between the employers' and the employees' stakeholders, the charges on wages may be decrease below the regional average by 2022. Through a closer link between the enterprises and those taking part in the education may further increase the employment rate. By 2020, through the activation of the reserves found in the economy, 1 million new jobs could be established during 10 years.

II.2. Macroeconomic Effects of the Economic Policy Measures

The quantified macroeconomic effects of the economic policy measures are included in the Convergence Programme in detail.

Positive trends of the macroeconomic fundamentals – besides sustaining the budget equilibrium – make it possible for the Government to take measures which support several economic situations and increase social well-being. The subject of the impact assessment by the Government as follows:

- New state investments, developments: for example technological modernisation and increase of the effectiveness of the construction sector; maintenance and operation of public road intelligent camera network (VÉDA system);
- Frontloading of wage increase of health care employees in relation to the planned date (by 2018);
- Demographic package: for example extension of baby bond, release of mortgage, nursery development;
- Providing Erzsébet voucher to the pensioners in 2017 and in 2018;
- Winter overhead decreasing: in order to mitigate the heating expenses, the households will get 12 thousand HUF reduction of expenses;
- Social contribution tax is reduced by further 0,5 percentage points to 19,5 percentage in accordance with the six-year wage agreement;
- Targeted VAT reduction: VAT reduction of pork, Braille-screen and printer.

	2017	2018	2019	2020	2021	2022
GDP	0,03	0,19	0,13	0,33	0,42	0,47
Household consumption expenditures	0,12	0,69	0,30	0,38	0,51	0,60
Investments	0,00	0,01	0,31	1,34	1,58	1,68
Export	0,00	0,01	0,01	0,00	0,00	0,00
Import	0,03	0,15	0,09	0,16	0,21	0,23
Consumer price level	0,00	-0,02	-0,03	0,00	0,03	0,06
Employment in the private sector	0,01	0,13	0,08	0,14	0,20	0,20
Gross average wage in the private sector	0,00	0,13	0,19	0,28	0,44	0,59
General government debt in % of GDP*	-0,05	-0,29	-0,17	-0,30	-0,26	-0,25

*Change in percentage point in relation to the basic path

Source: MNE calculation

The majority of the measures increases directly or indirectly the spendable salary available for people, which results in consumption increase. Measures supporting capacity building could be highlighted which improve the growth potential of the economy not only in the short term, but in the long term as well. Finally, the reduction of social contribution tax improve also the profitability of the enterprises, thus strengthens the demand for the production factors. Therefore, it encourages investments as well as employment. A part of the governmental measures (for example targeted VAT reduction) mitigates, another part of the measures (for example wage increases) raises the development of consumer prices. The two effects jointly do not result in significant inflation pressure. Parallel to this, higher tax income due to the GDP growth partly offsets the negative effect of the additional governmental measures on the fiscal balance.

II.3. Achieving the Medium-term Budgetary Objective

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

The fiscal consolidation implemented in the past years was successful and sustainable. The general government deficit has been under 3% of GDP since 2012 and better than the targets for years, which is in large part due to the Government's prudent budgetary planning. The Government reviewed the deficit targets of the previous convergence programme – also taking into account the outturn of 2017, however, did not changed them. The fiscal path, which is projected to ensure the continued decline of public debt with deficits continuously remaining well under 3% of GDP and at the same time is also expected, that this fiscal path continues to support economic growth, which contributes to the realisation of economic and social policy priorities.

The debt-to-GDP ratio, which has been decreasing continuously since 2011 with the exception one minimal setback, may be on a sharply declining path throughout the forecast horizon. This is largely due to the rapid growth – which also ensures economic convergence – and the decreasing deficit, the combination of these factors will facilitate a relatively rapid decrease of the debt ratio. The ratio of gross public debt to GDP already decreased from 80.5% in 2011 to 73.6% by the end of 2017. The debt ratio may fall by further 14 percentage points therefore it may be below the 60% of GDP reference value throughout the forecast horizon of the Convergence Programme.

III. STEPS SUPPORTING HUNGARY'S SUSTAINABLE GROWTH

III.1. Establishing a Competitive Business Environment

III.1.1. A Growth-supporting Tax System

The Government's tax policy was driven by three major objectives in the past year: reducing the tax burden, fighting against tax evasion, and reducing the burden of tax administration on businesses.

In line with the wage agreement reached by employers, the Government and trade unions in November 2016, on the Standing Consultation Forum of the Private Sector and the Government, the rate of social contribution tax was lowered by 2.5 percentage points to 19.5% as of 1 January 2018 (1.). On top of that, for four years beginning from 2019, the tax burden of employers may decrease by additional 2 percentage points annually if the rate of real wage increase reaches 6% on a yearly basis. In line with the reduction of the tax rates, the parameters of the Job Protection Action allowances were also standardised. In 2017, on a monthly average, the Act contributed to the employment of 900 thousand disadvantaged employees in the private sector. By decreasing the social contribution tax, the tax wedge of low-income earners also continues to decrease, from 46.15% to 45.04% in 2018, and by the end of 2020, it is expected to drop to 43.16% (in the case of single tax payers without children; the situation is much more heterogeneous for taxpayers with children due to the family tax allowance on personal income tax).

Family tax allowance for earners with two children, which first increased in 2016, saw a new increase as of 1 January 2018 resulting in the reduction of the tax burden on private persons. The rate of family tax allowance for earners with two children will be further increased in 2019 (2.).

The tax and tax administration burden on small and medium-sized enterprises has significantly decreased in recent years due to the introduction of two simplified optional taxation forms designed to support small enterprises (lump-sum tax for small enterprises, small business tax). As of 1 January 2018, law firms are also eligible to choose the (lump-sum tax for small enterprises). In line with the reduction of the social contribution tax, the rate of small business tax decreased to 13% from 2018. It is also due to these measures that the number of businesses utilising these taxation forms has further increased: according to the figures of end of February, 27,251 business partnerships chose kiva (small business tax), and 260,150 taxpayers opted for kata (lump-sum tax for small enterprises).

The Government has introduced significant VAT transparency measures to increase VAT compliance and reduce VAT fraud. As a result, the VAT-gap dropped to 14% by 2015 (2012: 22%, 2014: 17%). The system of online cash registers and the Electronic Public Road Transport Control System (EKAER) have been set up. As of 1 July 2018, the scope of mandatory online data reporting to the National Tax and Customs Administration (NTCA) about turnover will be further extended (13.): as of the above specified date, only vending machines (27–28 thousand) equipped with a control unit forwarding online data to the National Tax and Customs Administration can be operated.

The online invoice data provision system (5.), which is currently running in test mode, provides real-time data to the National Tax and Customs Administration on the invoices issued with invoicing software including a VAT amount above HUF 100,000, which can help further cut back on VAT fraud. At the same time, the itemised VAT reporting obligation of the invoice issuer is fulfilled by issuing invoices using an invoicing software. As of 1 July 2018, online invoice data provision will be mandatory for businesses in case of invoices including more than HUF 100,000 VAT.

From 2017, the tax authority prepares a draft personal income tax return from available data, without request, for natural persons, which represents a significant decrease in tax-related administrative burdens on employed individuals (3.). From 2018, the NTCA prepares a draft personal income tax return for primary agricultural producers and for natural persons with VAT obligations as well, which means that the administrative burden of the personal income tax return has been almost completely eliminated for 5 million individuals (4.). As for employers, they are relieved of the administrative burden of preparing personal income tax assessments as of this year.

In order to cut the tax administration burden, from 1 January 2018, the NTCA prepares the draft excise tax return for 29,000 businesses relieving them of preparing 200,000 tax return forms annually.

The re-codification of the rules of tax procedures (6.) brings about transformation in the rules of taxation from 2018. As a result of the new act on tax administration procedures, audits and tax procedures performed by the NTCA become faster, while the new act on the rules of taxation transforms the NTCA into a service provider authority. The aims of the re-regulation were to create a possibly short, transparent, easy to comprehend and follow regulatory environment, to reinforce the service provider characteristic of the tax authority, to provide institutionalised support to voluntarily complying taxpayers in fulfilling their obligations, and to eliminate excessive and unjustified penalties by reviewing the system of sanctions. While reviewing procedural time limits and the rules of legal remedy, our aim was to create procedures which can be conducted within reasonable time.

Hungary participates in the fight against tax evasion extensively, including by supporting the development of the transposition of the different international (EU and OECD) legislative and non-legislative initiatives. As a member country of the OECD, we have actively contributed to the organisation's project against base erosion and profit shifting (BEPS). Hungary also supported the adoption of the Anti Tax Avoidance Directive (ATAD), and transposed into national legislation the rules pertaining to controlled foreign companies well before the deadline, and is going to transpose the rest of the provisions of the directive as well. Hungary supported the different amendments to the EU Directive aiming at enhancing administrative cooperation in the field of taxation (DAC), including the amendment which extends cooperation to the automatic exchange of financial account information. In addition, in terms of exchange of information, we are active participants of a much larger network of information exchange in the OECD. As for non-legislative measures, it is important to point out that we supported the work related to the listing of jurisdictions which do not cooperate in terms of taxation.

III.1.2. Stimulating the Productivity of Businesses

The perception of Hungary's business environment improved in 2017: Investments grew by 17% resulting in an investment rate exceeding the EU average. According to the flash survey of the German-Hungarian Chamber of Industry and Commerce (DUIHK) prepared in October 2017: "German businesses operating in Hungary consider their economic situation excellent. German and other foreign investors consider the economic situation and this year's outlook very favourable, even more favourable than the previous year. Investors' opinion improved concerning several aspects of the economic policy."

In order to ensure an institutionalised, professional forum for dialogue on the developments of competitiveness and the initiatives aiming to improve competitiveness, the Government decided in

2016 to set up the National Competitiveness Council (16.). The consultative body consisting of renowned members of scientific and economic life gives an opinion about initiatives relevant to the competitiveness of the Hungarian economy, and they also propose government interventions that aim to improve economic competitiveness. The National Competitiveness Council started to operate in March 2017 with the leadership of the Minister for National Economy. In the spring session, it discussed possible developments to the business environment which could improve competitiveness already in the short term, while in the autumn session, long-term issues were up for discussion: assessing the economic impacts of the six-year wage agreement, ways of ensuring qualified work force and re-integrating the inactive work force into the labour market, as well as development possibilities in digital government services.

As a result of the National Competitiveness Council's work, the Parliament has adopted several amendments to legislation which would make company formation easier. As far as local business tax and tourism tax are concerned, businesses are no longer obliged to register at the local government of the seat of the business (16.a), thus creating a one-stop-shop system. In order to simplify permit procedures related to construction investments, a digital land registry map and data service was introduced (16.b), which can be accessed free of charge. Connection to the public utilities takes less time (16.c): As of 1 July 2017, procedural time limits upon the submission of the application form were shortened in all three sectors of public utilities (gas, electricity, drinking water and waste water), while unnecessary rules resulting in protracted procedures were cut back.

Several on-going projects (17.) are helping to boost the productivity of the SME sector: trainings and mentor programmes (budget of HUF 4.3 billion), industry 4.0 developments (budget of HUF 7.35 billion) and the programme for developing incubation services for entrepreneurs (budget of HUF 3 billion). Grants announced for capacity-building investment in the amount of nearly HUF 400 billion ensure competitive background infrastructure and equipment. Integrating SMEs into (international) production chains and establishing long-term cooperation is facilitated by supplier-cluster cooperations, efficient marketing activity on foreign markets, and attendance at exhibitions and fairs (budget of HUF 24.4 billion).

Besides the on-going programmes, new domestically financed programmes and capital funds were set up in 2017. Domestically financed supplier programmes were announced in the amount of HUF 9 billion. The Industry 4.0 scheme provides financial support for business development from the state budget in the amount of HUF 1.5 billion, while capital funds set up from domestic grant funding in the amount of nearly HUF 80 billion widen the range of financial instruments available for SMEs.

It is a key Government objective to strengthen the information and communication technology (ICT) competencies of domestic SMEs and their participation in the digital economy (18.) through awareness raising and financial support, which would lead to better performance and increased competitiveness of the economy as a whole. In order to achieve this goal, the Government put together and launched a complex programme package containing the following measures: ICT motivational, awareness raising and competency development programme for SMEs; complex info-communications and mobile developments for businesses, supporting the spreading of cloud-based online business services; cloud-based (IaaS, PaaS, SaaS) corporate services; supporting the development of ICT solutions and their introduction into the market; high-degree of digitalisation of the activities of competitive businesses, capital fund for digitalisation.

In order to foster the productivity of the SME sector, the Government of Hungary and the OECD work in close cooperation on the draft revision of the SME strategy adopted in 2013 (17.a), taking into special account Hungarian circumstances, the regulatory environment and the specific corporate characteristics. The document examines one by one the problems and tasks that may arise at the formation of a business, in the growth stage, and finally in the so-called “mature” development stage. The strategy puts the main emphasis on promoting the productivity and competitiveness of Hungarian SMEs.

After extensive professional and public consultation, the Government Resolution 1456/2017 (VII. 19.) extended the Digital Welfare Programme and adopted the Digital Welfare Programme 2.0 (18.c). In addition to already running programmes (Digital Start-up Strategy, Digital Export Development Strategy, Digital Education Strategy), more than 20 new development programmes are included in the strategy which supports digitalisation in almost every area of development concerning the Hungarian economy, the functioning of the state and the digital development of the Hungarian society. The strategy includes the Superfast Internet Program, the 5G Coalition, the Digital Labour Force Programme, developing the Digital Agriculture Strategy, Digital health promotion, Digital trade and accessibility, creating the Digital Welfare Programme venture capital programme, network research (formal and informal networks in the digital ecosystem), analysing the social, physiological and environmental effects of digitalisation. As a remarkable measure, Hungary is the first in the EU to cut VAT on internet services to 5% as of 2018, and to introduce a Digital Welfare Basic Package.

In June 2017, the Government Resolution on the Digital Trade Development Strategy was adopted (18.b). A report was written to ensure the implementation of the strategy. The report focuses on developing the following areas of intervention: Facilitating the market entrance of new digital traders; promoting market expansion; facilitating the transformation of traditional traders into digital traders; supporting digital traders in info-communication technology purchases; improving legislation related to digital trade and improving compliance; encouraging the domestic population to buy from domestic digital traders; and increasing the turnover of domestic, local products in digital trade.

III.1.3. Improving the Efficiency of the Justice System and Public Administration

The Government has reviewed and modernised several comprehensive procedural rules (19.a) in order to improve legal competitiveness and the efficiency of procedures (19.), and to increase transparency in economic life. The major goal of the new act on civil procedures is to ensure procedural efficiency at a systemic level: the new arbitration act makes arbitration more appealing to the actors of economic life; the new act on attorneys-at-law makes attorneys’ activities more transparent and uniform; the new act on administrative proceedings provides a uniform and comprehensive regulation of attorneys’ activities directly related to such proceedings, as well as persons that are eligible to pursue such activities. These new, comprehensive acts were drafted following thorough preparation, discussion by a codification committee made up of public administration professionals, court delegates, prosecutors and colleagues of university departments, taking into consideration international and EU legal requirements and case law.

Within the framework of the programmes aimed at reducing public administration bureaucracy and state overheads (19.b), the Government implemented a comprehensive simplification to make administrative procedures faster, simpler, and more efficient. The bureaucracy reduction programme was implemented in four stages. The programme resulted in faster administrative procedures and

less administrative burden for citizens. Within the framework of rationalising the organisational structure of public administration, part of the tasks of central offices was transferred to the district level of administration, which is closer to citizens, thus enabling faster and more efficient administration, and also bringing administration closer to businesses' seat. As a result of the measure, 44 organs were eliminated coming into effect in multiple phases by 31 October 2017. In addition, complementary developments related to this restructuring were put in place to enhance organisational efficiency. The development of government office procedures and services following a service provider approach aims to increase client service convenience, promote the needs-based practice of service development, and provides the same high-standard administrative services across the country, thereby simplifying administration for local businesses and entrepreneurs.

Within the framework of its anti-corruption activity, the Government adopted the National Anti-corruption Programme (hereinafter NAP) for the 2015-2018 period. Tasks that still need to be carried out in order to fully implement the programme are included in the Action Plan in effect until 2018. The primary aim of the anti-corruption measures is to support the spreading of integrity-based attitudes and integrity management. To this end, the Government prepared a methodology guideline and recommendation for bodies which volunteered to introduce the integrity management system (e.g. law enforcements bodies), as well as for local governments to support their efforts in preventing corruption (22.).

Trainings were held for local governments and law enforcement professionals in order to inform them and raise awareness. Within this framework, altogether 32 national events were organised in 2017. The coordination and common development of training systems and measures of bodies not controlled by the Government (e.g. Public Procurement Authority) is in progress. Having completed the regulation of the integrated risk management system, and having reviewed experiences regarding its functioning, good practices that may serve as the basis for future measures can now be identified.

Within the framework of e-administration development (20.), the background infrastructure goes under comprehensive development. Large state registers and professional systems are interconnected with the help of the Central Government Service Bus (CGSB). While developing the National Telecommunications Backbone Network, government networks are consolidated and their capacities are increased. The aim is to establish a "basic utility", providing an infrastructural background for a service provider state so that unified services and a modern inter-institutional (G2G) data transfer would be available throughout the entire country. The extension of the ASP system to local governments entered into phase II in January 2018. As a result, 93% of local governments (nearly 3,000 out of 3,200) have joined the system. Phase III of the project begins in January 2019, ensuring access for the rest of the local governments to this uniform platform in providing e-administration services and contacting clients. The Customised Administrative Portal, which was installed in January 2018, provides a fully customisable, easy-to-use and modern portal for electronic administration, and besides offering various services, it also enables administration related to personal documents. Further developments are expected to be implemented by the end of 2018 in connection with the Customised Administrative Portal. The introduction of digital mailing systems providing a platform for sending out official notices to citizens and businesses (Business Gate) is a major innovation.

Hungary introduced stricter regulations with the Amendment of Act CXLIII of 2015 on Public Procurement, effective as of 1 January 2017, primarily aiming to increase transparency and competition (21.). The amendment is the outcome of wide-ranging social and professional consultations, and was based on the professional feedback concerning the implementations of the Public Procurement Act.

The Electronic Public Procurement system (hereinafter EKR) has been set up, and as of 15 April 2018, it is mandatory for every contracting authority to use it (21.a). Thereby, Hungary will introduce the compulsory use of electronic communication in each procurement procedure before the deadline of 18 October 2018 set by EU directives on public procurement.

In the first transition phase of the application of the EKR system, that is, from 15 November 2017 to 31 December 2017, contracting authorities could conduct public procurement procedures in the EKR system on a voluntary basis, on the provision that they also conducted the same procedures in print form concurrently (21.b). In the second transition phase, from 1 January 2018 to 15 April 2018, the use of e-procurement is still not compulsory, but every contracting authority may voluntarily choose to use the EKR system. In this phase, contracting authorities may decide to conduct public procurement procedures exclusively in the EKR system, without recording the procedure in print form.

In order to ensure adequate preparation, the e-procurement system has been continuously presented and taught since November 2017. The Prime Minister's Office supports implementers by organizing practical training across the country. In addition, a user manual describing in detail the functions and operation of the EKR system was prepared. The application of the e-procurement system results in simpler procedures (21.c).

The Directorate-General for Regional and Urban Policy of the European Commission invited member states to take part in an initiative which would allow for the sharing of best practices in public procurement. The Commission offered to assist member states in transposing existing good practices of law implementation in the EU. Hungary accepted the Commission's support with respect to the transposition of good practices relevant to two legal instruments: lifecycle costing tools and preliminary market consultation; and is examining the possibility of transposing good practices into the Hungarian law environment.

The Commission's recommendation concerning the professionalisation of public procurement, which is part of the Public Procurement Package adopted by the European Commission on 3 October 2017, aims to improve the general level of professional skills and competencies, as well as the knowledge and experience of people who are involved in or in charge of public procurement tasks. Within the framework of the measure aimed at enhancing the professionalisation of public procurement in Hungary, a regulation stipulates that in order to be registered as an accredited public procurement consultant, which is a requirement for pursuing this activity, consultants shall participate in compulsory professional training. These trainings disseminate advanced level professional knowledge that go beyond the basic knowledge laid down in the Public Procurement Act in effect and which is expected from responsible accredited public procurement consultants. Educators at these trainings have higher education qualifications and possess extensive experience in professional fields related to public procurement.

III.2. Programmes Developing Human Resources

III.2.1. Increasing Employment and the Efficiency of the Labour Market

The main challenges of employment policy currently include labour shortage and imbalances between supply and demand, which are partly due to the discrepancies between qualifications required by the labour market and those possessed by jobseekers, and partly due to territorial imbalances. The Government wishes to address these challenges by strengthening active labour market instruments, promoting employment in the open labour market, promoting transition from public works to the private sector, transforming the system of public works, improving mobility of employees and increasing the job-creation ability of businesses.

According to the labour force survey's data collected by the Hungarian Central Statistical Office in 2017, the number of people employed in the age group 15-74 reached 4,421,000, which significantly exceeds the number of people in employment before the financial crisis (nearly 3.9 million people), while the number of unemployed people decreased to 192,000. The majority of the annual expansion of employment (76,500 people) occurred in the domestic primary labour market, while the number of people employed outside of Hungary (less than a year, commuter) decreased by 6,800. The number of people employed in public works fell by 26,900 to 194,000. In the year 2017 as a whole, the employment rate of the age group 15-64 increased to 68.2%, while the employment rate of the age group 20-64 reached 73.3% exceeding the EU level and showing a significant approach to the EU2020 target.

Despite the increase of employment, the economy still faces labour shortage. According to the short-term labour market forecast prepared by the Hungarian Chamber of Commerce and Industry at the end of 2017, 35.1% (2016: 33.1%) of the companies were facing recruiting difficulties. According to the data of the Hungarian Central Statistical Office, the average number of vacancies in 2017 was 68,000 (2016: 55,000). The reasons for labour shortage can be traced back to qualitative as well as geographical and demographic reasons. The tightening of the supply (primarily because of the growing shortage of skilled labour) and the growing number of vacant jobs show disproportionate territorial distribution.

The labour market measures of the past years – including the continuous and predictable increase in minimum wage, and the multi-year programme of general reduction in contributions (see chapter on taxation) – will ensure that the qualification structure of the labour force supply would develop in a way as to meet labour market demands in the coming years. The average net wage of people employed showed a considerable increase: the yearly net wage increase in 2017 reached 12.9%, which represents a higher than 10% real wage increase (2.4% inflation rate). Since 2012 real wages increased by 31% at a national level (4.7% periodic inflation rate – the harmonised index of consumer prices is used as inflation in calculations). Real wages grew by nearly 30% by 2017 in comparison to the pre-crisis level, which actively contributes to quality labour force supply as well as to labour market activity.

In order to reinforce active labour market policies, a Government decision adopted in 2016 doubled the budget of the “Road to the Labour Market” (23.) programme, launched in autumn 2015, to over HUF 230 billion in 2017, and maintained the budget at the same level in 2018. The programme primarily aims to improve the employability of jobseekers above 25 years of age, inactive people and people with low qualifications in particular, to facilitate their employment in the open labour market,

and also to promote their transition from public works to the private sector. The programme is expected to reduce the number of registered jobseekers by supporting more than 188,000 jobseekers or inactive people by the end of 2021; it also contributes to the increase of employment in the open labour market by providing trainings, wage subsidies and customised labour market services. By the end of March 2018, more than 105,000 people were involved in the programme.

Active labour market policies are also supported by three programmes which are implemented within the framework of the Youth Guarantee System (active labour market programme, programme supporting youth to become entrepreneurs, traineeship programme). The budget available for these programmes was increased in 2018 to nearly HUF 250 billion. By the end of 2021, these programmes are expected to support almost 180,000 young people in finding employment or in acquiring marketable qualifications. By the end of March 2018, the number of people involved in the YG programme was close to 84,000 (details in the EU-2020 employment chapter).

In order to make active labour market programmes better-targeted and more efficient, in the second half of 2017, we involved external experts to prepare the first complex assessment of the profiling system (24.a) of jobseekers launched in 2016, based on which the calculation methodology will be fine-tuned. In addition, to ensure efficient client services, the central information portal of the National Employment Service (NES) is currently being renewed, and the creation of a new and unified image for NES and the development of its communications campaign are also under way. In order to increase the range of services available for jobseekers, the services of non-governmental organisations, and the labour market activity and capacity of social partners are also being developed. Besides traditional services, NGOs will also provide standardised services including personalised exploration of employment opportunities and placement, counselling on becoming an entrepreneur, provision of social information, and support in integrating into the new work environment after finding an employment (24.b).

In order to reduce the proportion of public works and to promote transition from public works to the open labour market, in line with the recommendation of the Commission, several measures are introduced and continued in 2018. The programme “From Public Works to the Business Sphere” encourages people in public works to get a job in the primary labour market by granting incentive bonuses, which are equivalent to the monthly amount of the employment substitution support, for the period being absent from public works (27.a). Also, within the framework of the programme, district offices (metropolitan district offices) provide labour market information and job placement services in the interest of the most optimal placement. The programme “Road to the Labour Market” (23.), applying active labour market tools, provides wage subsidies in order to facilitate the employment of its primary target group (i.e. people transitioning from public works) in the primary labour market. Besides the system of wage subsidies, transition from public works is also encouraged by a widening wage gap between the minimum wage and public works wage, which results from the fact that while the minimum wage saw an increase, the public works wage remained unchanged in 2018. The bigger wage gap may also increase local mobility.

On 20 March 2017, the Government adopted a comprehensive package of measures in order to reduce the proportion of public works (26.). The monthly average maximum number of people employed in public works shall be decreased gradually to 150,000 by 2020, from 224,000 in 2016, and from nearly 180,000 in 2017. In order to achieve this target, 160,000 people may be employed in public works on an annual average in 2018. In order to further strengthen active labour market

policies, also in line with the recommendation of the Commission, HUF 40 billion is reallocated in 2017 from the budget of public works to the appropriation of active labour market policies, while financial resources supporting the successful transition from public works will also be available in the following years. As a result of the legislative change, travelling costs arising in connection with measures initiated by a national employment service will be reimbursed to people in public works utilising labour market services, and the job placement function of the NES is also strengthened. Further legislative changes support people participating in the system of public works (such as the increase of participation time in labour market services to 15 days, compulsory participation in training, and the application of Labour Code regulations in the case of public employer legal succession).

The public works system will be still available for those who are not able to find a job in the primary labour market. Better targeting of public works is supported by model programmes (27.), and the Focus programme (29.) of locally operating social enterprises and social associations (market-based) aiming to help strengthen the self-sustainability of social economy. A new element in the latter programme is a 3-year subsidy of beneficiaries, which contributes to social associations' becoming self-sustainable.

The Government is also continuing its training programme in 2018 for public workers and low-qualified employees (28.), which is planned to ensure the training of at least 85,000 people by the end of 2018, with an overall budget of HUF 30 billion. As part of the programme, the goal is to hold trainings that contribute to developing competencies necessary for starting vocational training, inclusion, and acquiring qualifications that correspond to labour market demand. The objective of the mentor service is to complete the training successfully, to keep people in training and to prevent them from dropping out. The majority of participants take part in National Qualification Register (NQR) trainings, which provide better chances for public workers to find employment in the open labour market. A significant part of the trainings focuses on professions high in demand, including professions in the field of industry and construction industry (e.g. hydraulic machining, mason, tiler, carpenter, shuttering carpenter) and other qualifications in great demand (e.g. cook, social caretaker and nurse, producer of meat products, gardener). By the end of February 2018, 95.8% of people involved in the projects, that is 67,297 people, received mentor service, and the drop-out rate is only 6.2%.

Further measures planned and implemented by the employment policy are included in the chapter on EU2020 employment targets.

III.2.2. Enhancing Quality Education

In order to ensure access to inclusive, yet quality education to as many children as possible and as early as possible, as well as to reduce the drop-out rate to a minimum, the Government introduced comprehensive and systemic measures into the public education system. In September 2015, mandatory kindergarten education for children above the age of 3 was introduced in order to enhance the success of school education. As a result, the participation rate in public education of 3-year old children grew from 80.3% in the school year 2014/2015 to 84.4% in 2017/2018, the participation rate of 4-year olds went up from 94.7% to 95.1%, and that of 5-year olds increased from 95.1% to 95.8%. In Hungary, 91% of Roma children attend kindergarten, which is close to the participation rate of non-Roma children, and is the highest rate in the region. Unlike PISA, TIMSS

measures knowledge taught in the curriculum. It measures how well students in grade 4 and 8 have mastered curriculum content common across participating countries. Question types used in this assessment are the most similar to those used in the school. In the 2015 assessment, Hungarian students in grade 4 and 8 achieved excellent results in science and mathematics. Our students performed significantly better in both disciplines and in both grades than the scale average of 500 points.

In education policy, the Government is committed to improving accessibility to opportunity-creating, quality education, and to enforcing requirements of equal treatment. The amendment to the Act on Equal Treatment, which entered into force on 1 July 2017, facilitates the enforcement of these principles. With the adoption of this amendment, the Government introduced further guarantee requirements aimed at preventing segregation in every education organisational form. In order to prevent selections, a further guarantee element was included in the Act CXC of 2011 on National Public Education: as of January 2017, the educational district centre exercises the right of consent regarding the assignment of primary school admission districts by the government office, whereby the Government strengthens the enforcement of the principle of subsidiarity. The EU programme including desegregation measures (30.) was launched with the participation of 300 primary schools (selection was based on segregation index and risk of early school leaving). By December 2017, situation analyses and desegregation plans were drawn up for the 300 schools. The professional content of the complex and differentiated institution development framework supporting the prevention of early school leaving (hereinafter PESL) and applying new training methodology, will be elaborated in 2018.

Several targeted measures aim to foster the educational success of vulnerable, disadvantaged and multiply disadvantaged students – including Roma –, and inclusive and integrated education (31.; 33.). Based on the experiences of previous years, these programmes and scholarships improve students' results in their further studies and reduce the risk of early school leaving; therefore, these programmes and scholarships continue and are announced in the school year 2017/2018 as well. The "Tanoda" (Hungarian archaic word for "school") network (33.b) applies extracurricular tools and complex development to foster the educational convergence of disadvantaged students, including Roma. The "Tanoda" programmes will be implemented by 289 schools in 19 counties by December 2018, with the number of schools growing by 8 as compared to the previous year. About 8,500 disadvantaged students participated in the projects. The "On the Road" (Útravaló) Scholarship Programme (33.a) in the school year 2017/2018 provides efficient support to students who are the most disadvantaged from a social aspect using public education tools (half of Roma students receiving scholarship in grade 8 and 26% of secondary school students receiving scholarship are supported through this programme). The four sub-programmes extend scholarship and mentoring support from primary school to obtaining a degree. More than 13,000 students participate in the programme, half of whom are Roma. The Arany János Programmes (33.f) continue to promote the educational progress of secondary school students in need in a complex way. In the 2017/2018 school year, in the Arany János Talent Fostering Programme 559 students, in the Arany János Boarding Facility Programme 225 students, and in the Arany János Boarding Facility and Vocational School Programme 187 students started their studies in grade 9. Altogether more than 4,000 disadvantaged students are participating in the programmes. The inclusive education of students with special educational needs is promoted by the drawing up of a textbook development plan. Based on the textbook development plan, educational material will be available in modern, digital

form as well, which provides teachers and students a new way of learning both in and outside the classroom. This development contributes to improving equal opportunities for students in education.

Another major group of measures focuses on promoting quality education. In line with the teachers' career advancement system, the Government launched a multi-stage wage increase programme for teachers and their colleagues assisting their work. The last stage of general wage increase was completed in 2017. The teachers' advancement system and the related wage increase programme contribute to boosting teachers' motivation and performance, and thereby to the improvement of quality education. The Klebelsberg Teacher Training Scholarship provides financial support for higher education studies and makes teacher training attractive to applicants. The primary aim of the scholarship is to ensure the recruitment of adequately qualified teachers who are committed and have gained professional experience, which could improve the recruitment level of qualified teachers in public education in disadvantaged regions as well. Students majoring in special needs education may also apply for scholarships announced in September 2017. Since 2013 when the scholarship was first launched, the number of students signing a contract has increased to 64% in the 2017/2018 school year.

The development of digital competence (32.) is another element of quality yet fair public education. The project (Development of digital competence) supported by the ESF contributes to increasing the number of lessons supported by ICT, developing teacher training related to the use of ICT tools, and thus developing students' digital competence to a level expected by the labour market. The project fits into the Digital Education Strategy, which was adopted in 2015 as part of the Digital Welfare Programme. The primary aim of the strategy is to create the possibility of spreading digital literacy at every level of the education system, in line with sectoral strategies and professional objectives.

III.2.3. Strengthening the Healthcare System

In Hungary, both average life expectancy at birth and healthy life expectancy are continuously growing, to an extent above the European average. The proportion of preventable and avoidable deaths is also improving. The Hungarian Government has among its priority goals to maintain this improving trend in the future, and is taking a number of measures to attain this.

One of the key pillars of healthcare is prevention, and this is why the Government has launched prevention programmes (On-site Screening Test programme (34.), nationwide extension of organised targeted colorectal screening, complex programme for the prevention of vascular diseases (35.)). The prevention capacities of the healthcare system are also strengthened by the establishment of the new Health Promoting Offices (HPOs) (37.). The HPOs involve those referred to them or contacting them on their own in lifestyle changing programmes, perform a risk assessment for them, and encourage them to participate in health screening. In addition to the existing ones, the new HPOs have a new function as well: they carry out mental health improvement. In addition, the existing HPOs are further developed to have a mental health improvement function.

The Government is further improving primary health care, decreasing the number of those on waiting lists, and increasing the proportion of the participants in one-day care. In the framework of primary health care development focusing on public health (38.), new praxis communities have been established, the range of benefits has widened, and infrastructural developments have been realised. The number of patients on hospital waiting lists is decreasing in Hungary. While in 2012, there were 70,000 persons on waiting lists, by January 2017 this number has dropped to 28,000. The

Government aims to increase the cases covered by ambulatory care. The proportion of cases covered by ambulatory care is continuously growing: back in 2010, this ratio was 6%, while in 2017, this number was 16%.

The Government has adopted the concept of the “Healthy Budapest Programme” (HBP), which envisages the modernisation of several existing health care institutions in the capital and Pest county in the coming years, thanks to growing funds. As part of the programme, the fragmentation of the institutions in Budapest is decreasing. The largest hospital development in the history of Budapest continues, with the renewal of the ambulance fleet in addition to the procurement of new medical technology and information technology tools.

Retaining healthcare workers is a key priority, and therefore the Government has significantly increased their wage. Between September 2016 and January 2018, the average wages of skilled workers grew by 53%. Beyond that, the Resident Support Programme helps residents start their career, contributes to strengthening their professional appreciation and supports their employment in the Hungarian healthcare system. Between 2011 and 2017 the government granted the application of 4,405 persons, while in 2012, 70%, and in 2016, 96% of those entering the vocational training used this opportunity. The programme proves to be efficient in ensuring that the young generation of doctors undertakes work in Hungary. In order to support vocational healthcare training, a nurse scholarship was also introduced in 2017 and, from September 2017, it provides scholarships to the nurses accepted to the university during the time of their education.

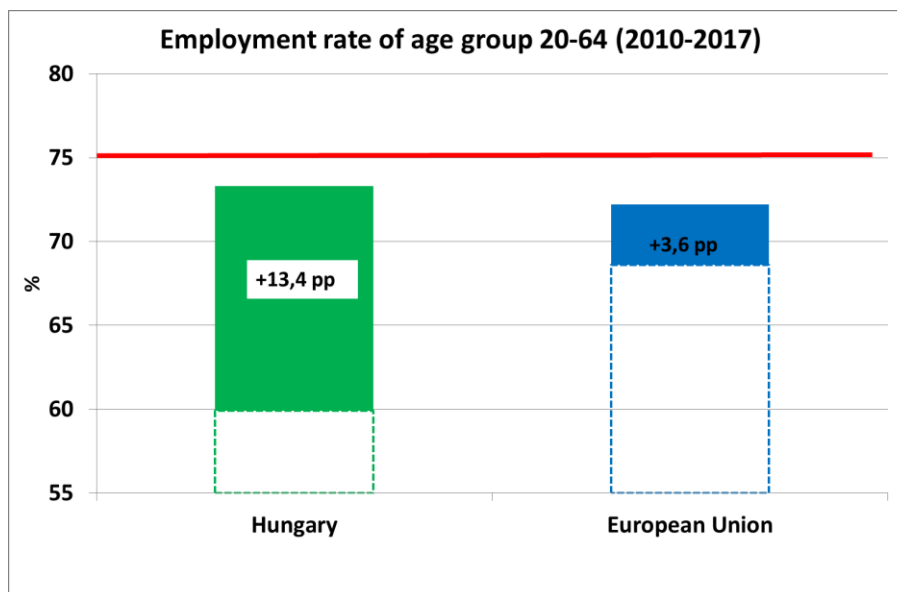
The European Commission started to implement the Structural Reform Support Programme (SRSP) in the spring 2017, in the framework of which the European Structural Reform Support Service (SRSS) provides professional support to member states in preparing and implementing institutional, administrative and structural reforms. Two of the projects to be implemented under the Commission’s decision contributes to the development and implementation of efficient policy steps in the field of healthcare, namely in the area of the primary healthcare system and the improvement of ambulatory care (40.; 41.).

IV. ACHIEVING THE EUROPE 2020 TARGETS

IV.1. Increasing Employment

As part of the Europe 2020 targets aimed at improving its level of employment, Hungary aims to increase its employment rate to 75% in the population aged 20 to 64 by 2020.

The employment rate increased to 73.9% in the age group of 20-64 in the last quarter of 2017, which significantly exceeds the EU level, and shows a significant approach to the EU2020 target. The average value for men exceeded the EU average by more than 3 percentage points in Q3 2017 (81.7%), while the employment rate of women (66.1%), after a significant increase, only falls short of the EU average by less than 1 percentage point in the 20-64 age group.



Source: Eurostat

In addition to the measures aiming at the implementation of the Country Specific Recommendations (Chapter III.2.1) the following measures also contribute to the fulfilment of the employment target.

In order to further improve the employment situation of young people below the age of 25, the programmes targeting this age group are continuing – in addition to the benefits available in the Job Protection Action since 2013 –, including the Youth Guarantee Programme (42.), which was introduced with a wide variety of instruments (back to education, training, wage subsidies, support to become an entrepreneur, labour market services, mobility support, mentoring) at the beginning of 2015. In addition to this programme, the Youth Guarantee System is complemented with the Youth Entrepreneurship programme and the Traineeship programme promoting the acquisition of work experience. Within the Youth Guarantee System, the objective is to involve nearly 180,000 persons during the whole period. About 84,000 persons took part in the Youth Guarantee Labour Market programme until the end of March 2018, out of whom more than 55,000 have found subsidised employment. It is an important condition that people under 25 years of age can be involved in public works programmes only if the Youth Guarantee or other active measures cannot offer any other real job opportunities to them.

The labour market integration of disadvantaged jobseekers is also facilitated with programmes aiming at the development of social enterprises (29.b). These programmes are open for applications until September 2018, and allow for the long-term employment of this target group through the dynamisation and stabilisation of social enterprises.

In addition to the active labour market measures, housing benefits and benefits for short-distance travel and carriage of passengers, the mitigation of labour shortages and labour force mobility have been promoted by the support of workers' accommodation construction, and by increases in the minimum wage as well as the reduction of social contributions (43.).

Programmes introduced to incentivize establishing flexible employment and a family-friendly work environment support the employability of women and parents with small children (44.). By the end of March 2017, 832 enterprises planning to introduce flexible employment had been screened and their restructuring plan elaborated. Out of these, 542 organisations are already in the phase of

implementation, and the measures affect more than 35,000 employees (44.a). In addition to the measures aimed at employees (44.b), in order to support the placement of children the targeted improvement of day care services is in progress (44.c), within the framework of which, from 1 January 2017, every municipality where the number of children under the age of 3 exceeds 40 or at least 5 parents indicate a demand for services, has to organise nursery care. Workplaces can still tender for the establishment of workplace nurseries until March 2019. Using the available framework budget of HUF 6 billion, up to 2,250 new places can be established, supporting the employment and work-life balance of women with small children. The available non-refundable subsidy of HUF 8–100 million per tender can also be used for the establishment of workplace nursery sites, the acquisition of instruments necessary for care, and, in addition to the resources in staff (by considering the state subsidy regulations), for the training and competency development of parents with small children returning to work. The extension and improvement of the services affects more than 4,500 new and 10,000 existing nursery care places, and 3,500 new and 58,000 existing kindergarten places.

IV.1.1. Ensuring Qualified Labour Force

In addition to the trainings implemented within the framework of the employment services, certain programmes are organised by enterprises, covering all sizes of businesses (“Supporting on-the-job training for employees of micro-, small- and medium-sized enterprises”, “Supporting on-the-job trainings for employees of corporations”). The framework budget for these training programmes is HUF 40.5 billion, with 40% of the trainings aimed at the development of professional competencies (NQR, or other specialised trainings) and one-fifth of the trainings can be implemented as internal training.

The programme supporting the prevention of early school leaving from VET (45.), which can be highlighted among the measures taken until 2018, aims to develop students’ basic skills, to make vocational training more effective, to increase school performance and to make students capable of lifelong learning. The supporting programme for the institutional implementation is in progress.

The restructuring of the school-based vocational training continues with the renewal of the institutional system, the management structure and the trainings (48.). In 2018, 44 vocational training centres operate nationwide, and 380 vocational training institutions have been integrated under them. (The number of the vocational training enterprises is not included in it.) The content renewal of the school-based vocational trainings offered is a continuous process; its primary aim is that the basic competencies and literacy necessary for lifelong learning are attained. Relevant skill competencies are provided for young people by various vocational training programmes, and more people are attracted to vocational training. The statutory foundation for this has already been established: the upper age limit of the participation in full-time vocational training has been raised from 21 to 25, and within the framework of adult education the adult population can obtain a second vocational qualification free of charge (since its introduction in September 2015, this opportunity has increased the number of participants in adult education by 44,000). Since September 2016, vocational school – called vocational secondary school – has become a school of five-year commitment, and the students can automatically continue their studies in the preparation year for the school leaving exam. The interoperability between vocational training and higher education is further increased by the fact that the practice gained in vocational training and any specialised training completed can be recognised for 50 credits in the BA programmes.

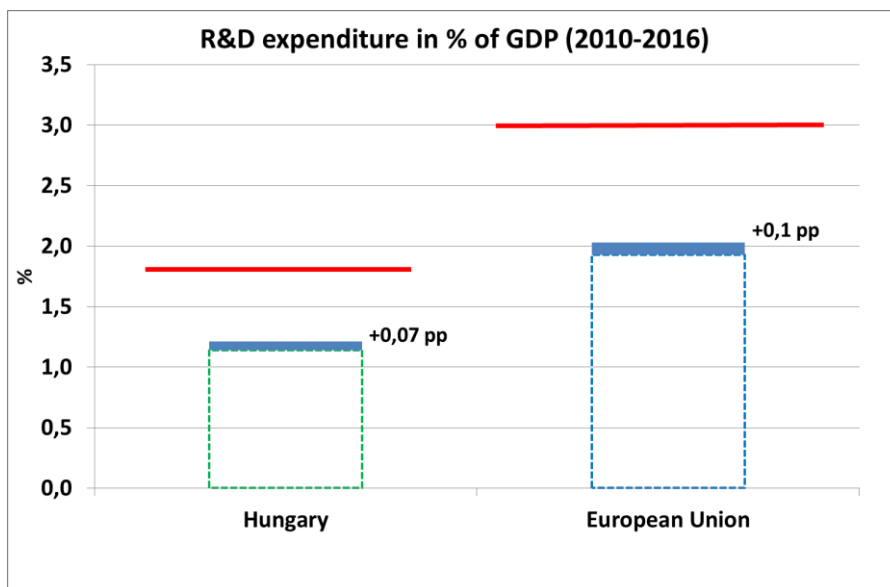
Further changes to vocational and adult training are under planning and elaboration. They will aim at creating the possibility for effective and fast interventions, considering the characteristics of the system at the same time. Thereby the intensity of companies' competitiveness can be ensured through the continuous, on-the-spot training of the labour force, and a school-based vocational training based on corporate interest and targeting labour force recruitment can be established. All in all, vocational training will shift from the previous supply-driven training system towards the demand-driven skill and training system. In line with that, the following changes are expected to take place in the vocational and adult training policy in the near future:

1. Making adult training regulations more flexible so as to increase efficiency without impairing quality (*e.g. easier access to NQR partial contents in adult training*);
2. Continued adult training shall become an integrated part of working life (*launching and enhancing on-the-spot training systems with a budget of HUF 45 billion from EU funds*);
3. The role of employers shall increase in the fulfilment of training tasks, new sectoral cooperation shall be made (*the establishment of the so-called sectoral skill councils shall be promoted on the basis of EU model*);
4. The development of training contents; competencies necessary for successful employment shall be focused on (*NQR reform by establishing vocational skills providing basic sectoral skills, by the reduction in the number of vocational skills by a merger thereof; content development with the competencies demanded by workplaces*);
5. Ensuring labour force recruitment with the help of a quality vocational training reform (*providing more flexible student paths; further development of the dual student contract system, the establishment of career tracking system*).

IV.2. Raising the Importance of Research, Development and Innovation

As part of the Europe 2020 Strategy, Hungary is committed to increasing the level of research and development expenses to 1.8% of the gross domestic product by 2020.

The R&D spending relative to GDP has decreased to 1.22% in 2016 as compared to the peak in 2013 (1.4%). The R&D performance of enterprises has grown significantly in recent years, but the budgetary sector was not able to keep pace, which shows in the headcount of researchers as well.



Source: Eurostat

The **National Research, Development and Innovation Office** (NRDI Office) is responsible for setting the R&D&I policy framework in Hungary. The NRDI Office reviewed the progress of the National Smart Specialisation Strategy in 2017, improved its monitoring system, and reviewed and revised the National R&D&I Strategy in early 2018 (49.).

Research, technology development and innovation are primarily supported by the Economic Development and Innovation Operational Programme (EDIOP), the related Competitive Central Hungary Operational Programme (CCHOP), and the domestic sources of the National Research, Development and Innovation Fund (NRDIF).

Companies' R&D&I activities, the development of prototypes, and industrial property right protection are encouraged by grant schemes (50.), but cross-sectoral networking is also supported (51.). The creation of excellent R&D capacities is supported by various grant schemes. International bi- or multilateral R&D&I co-operations help joint fundamental research, industrial applied research and innovation activities, and there are several measures assisting Hungarian participation in the EU Horizon 2020 initiative and the related joint programmes (53.).

The key grant programmes, the majority of which has already been announced in 2018, are the following: supporting the individual R&D&I activities of companies (HUF 20 billion), supporting the innovation activities of micro and small enterprises (HUF 10 billion), competitiveness and excellence cooperation programmes (HUF 26 billion), National Excellence Programme (HUF 5 billion), thematic research grants initiated by researchers (HUF 9.4 billion), "Forefront" – Researchers' Excellence Programme (HUF 3 billion).

In the case of **innovation-related** programmes, business rationale and potential are also important aspects in decisions. In the awarding process, the project proposals of non-mass nature can be approved by the Managing Authority (EDIOP) only with the supporting policy opinion of the NRDI Office, which is based on the content evaluation of the expert circle organised for the particular tender.

The **R&D tax incentives** are still important elements of domestic support policy. The direct costs of R&D activities carried out in their own entrepreneurial scope have long reduced the base of

corporate tax, sole proprietors' personal income tax, local business tax and innovation contribution. Those paying corporate tax claimed HUF 202 billion in 2016 in this line of their tax report. Since 2016 municipalities have had the right to allow enterprises to reduce the amount of their local business tax by 10% of the direct costs of R&D (taxpayers have reported a relief of nearly HUF 0.5 billion so far). The tax relief extended to the researchers who participated in doctoral programmes was used by approximately a thousand researchers and PhD students in 2017, in the amount of HUF 1.3 billion. The amount of the social contribution tax relief available in relation to the research and development activities launched during 2016 was HUF 0.3 billion in 2017. From late 2017, the companies supporting early-stage enterprises have been eligible for tax base reduction on the basis of their share in startups (55.). The tax incentives are supplemented with an R&D certification system (56.).

The **certification procedure of research and development activities** by the Hungarian Intellectual Property Office (HIPO), plays an important part in the use of R&D tax reliefs and the efficient allocation of direct R&D subsidies. In December 2017, the certification system has been further extended with the so-called project group procedure which, in addition to the certification of individual projects- used so far, also allows companies with large R&D capacities to have all of their R&D projects implemented in a given tax year certified in one procedure.

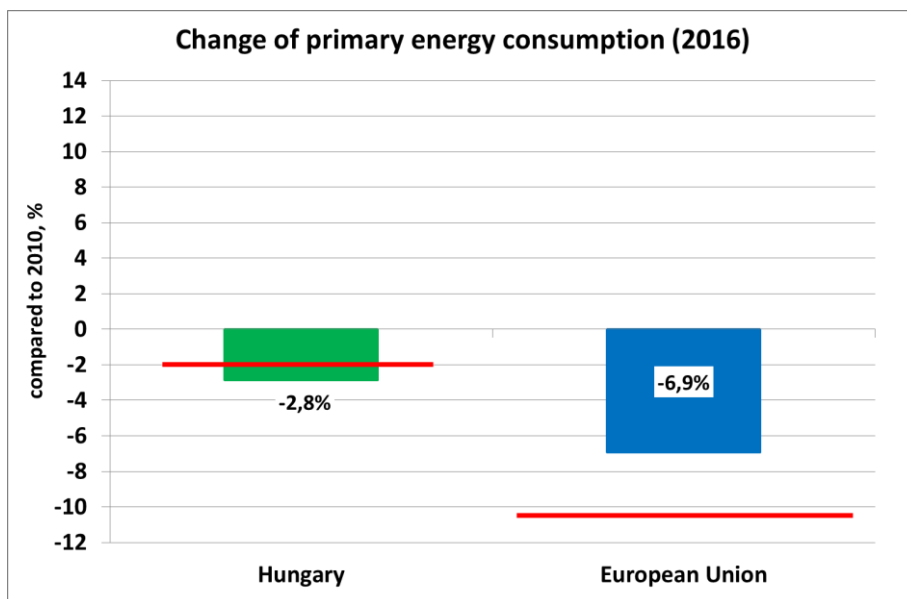
The renewal of doctoral training along with the – already mentioned – New National Excellence Programme that supports students and young professors and researchers aims at securing **researcher supply**. The purpose of the Excellence Programme of Higher Education Institutions is to achieve that researchers stay in their field and new researchers can be recruited (*please see the chapter on higher education for the detailed description of the measures*).

In 2017 22 new **HAS-Momentum research groups** were established (so far a total of 143). The Hungarian Academy of Sciences allocated a total of HUF 3.57 billion to support the Momentum research groups in 2017 (the same amount of subsidy as in 2016). In addition to the support of Momentum and research groups the HAS operates smaller grant schemes as well.

IV.3. Transforming Energy Production and Usage

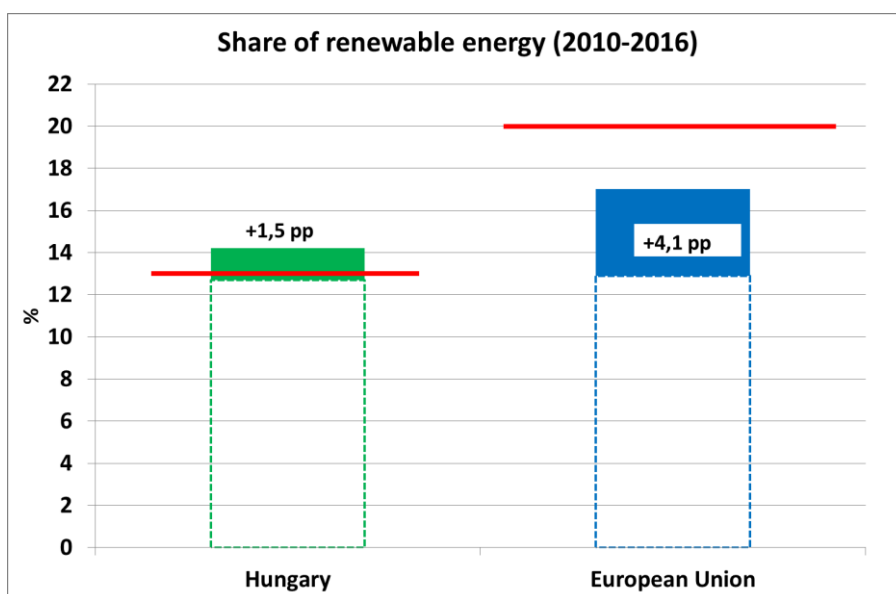
As part of the Europe 2020 Strategy aimed at energy and climate policy, Hungary is committed to increasing its rate of renewable energy sources consumed to 14.65%, and keeping the increase in greenhouse gas emissions below the level of maximum 10% (as compared to 2005) by 2020 relative to the base value of 2005 in the sectors outside of the scope of the EU Emissions Trading Scheme. As for primary energy consumption, it set a savings target value of 92 PJ, which, taking the year 1990 as a basis, is a 16.2% saving.

In the sectors not falling under the EU Emission Trade System (EU ETS), Hungary performed at 87.7% of the 2005 basis year in 2016 in the area of greenhouse gas emission. The share of renewable energy in 2016 was 14.2% in the gross final energy consumption, exceeding the target of 9.3% originally set for that year. Primary energy consumption grew from the 23.3 million tonnes of oil equivalent (mtoe) in 2015 to 23.9, while final energy consumption grew from 17.4 mtoe to 17.9.



Source: Eurostat

Based on the updating of the National Energy Strategy forecasts, revised in 2018, the review of the National Renewable Energy Action Plan of Hungary is also in progress (57.). The action plan aims to determine the method for meeting the obligations of 2020 defined by the Renewable Energy Directive, and to put forward sector objectives and measures based on the updated energy consumption forecasts. Given that the complete volume of energy use is expected to be lower in 2020 than earlier planned and forecasted, the commitment of the share of 14.65% will be realised with a lower amount of renewable energy. At the revision of the NREAP, from now on the 2020 energy prognosis values revised in the National Energy Strategy – and soon to be approved by the National Assembly – have to be taken into account. According to Eurostat data, the mandatory EU 2020 target value for renewables share (13%) has already been met in Hungary.



Source: Eurostat

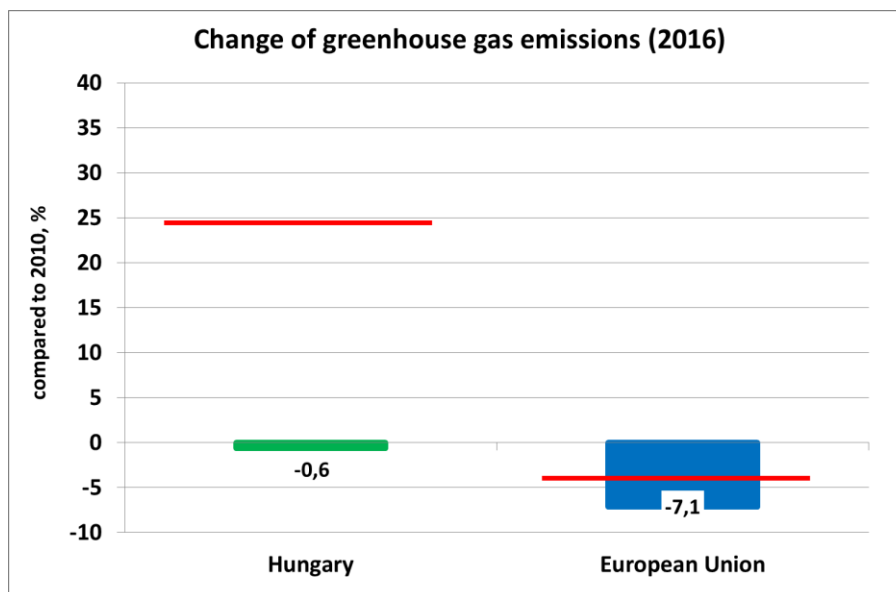
The programmes facilitating the use of renewable energy sources and the enhancement of energy efficiency still continue. Between 2014 and 2017, funds amounting to approximately HUF 31 billion were used to modernise 200,000 households in the framework of the “Warmth of Home” Programme (58.), which was financed from the quota revenues collected in the European Emissions Trading Scheme. In 2017 three sub-programmes were announced (for the modernisation of heating systems, the replacement of household appliances, and those of gas convectors), which are expected to produce 263 MWh in energy savings on annual level. In addition to that, increasing the role of renewable energy sources and the energy-efficiency targets play a major role in the use of the available EU funds in the 2014-2020 period as well – a total of HUF 760 billion can be used for this purpose in the various operational programmes. From the beginning of 2018, interest-free credits aimed at enhancing the energy efficiency of residential buildings and increasing their use of renewables can be applied for under more favourable conditions and simpler.

The laws related to the surcharges in the new system of operational subsidies provided to the production of electricity from renewables (Premium scheme of electric power and heat produced from renewable and alternative energy resources, “METÁR”), launched in January 2017, were adopted in October 2017 and will enter into force in summer 2018 (59.). The purpose of the concept is to ensure that the new power plants to be constructed in the future can operate sustainably and in line with the aspects of national economy on the long term.

Last year several new energy efficiency programmes (60.) were launched and new measures were adopted (corporate income tax relief, network of programme officers, National network of energy councilors); this year, the first results of these are being assessed and, if necessary based on the experiences, proposals elaborated.

The elaboration of the Energy Industry Development and R&D&I Action Plan has been completed (67.). This aims at orienting the players of the Hungarian energy industry and providing those with policy support in order that investments and R&D&I activities can be created, harmonised and stimulated in line with the objectives of the National Energy Strategy. Given that the reasonable and responsible management of minerals in state ownership is a common interest of the state, the economy and society, the Mineral Resources Action Plan has been elaborated (68.) so that it ameliorates the place occupied by mining and the energy industry based thereon in economy and society, by taking account of the present and expectable technological, environmental and economic tendencies. The key finding of the re-assessment of exploitable reserves was that all of the mineral raw materials examined as well as the geothermal energy potential have realistic utilisation possibilities. Professional consultations about the District Heating Action Plan (69.) have also commenced. The overall goal of this plan is to maintain the competitiveness and to improve the social image of district heat supply by creating a stable regulatory and financial background, by awareness raising programmes and increasing the technical-technological level. All three plans are expected to be announced in the second half of 2018.

Beyond all this, the National Energy and Climate Plan (NECP) (70.) will be created for the period between 2021 and 2030 on the basis of the Energy Union’s governance system, containing the decarbonisation, renewable energy production, energy efficiency, energy security and internal energy market, innovation and competitiveness objectives to be realised in the next decade. The planned deadline for the preparation of the plan is the end of 2019.



Source: Eurostat

The adoption and implementation of the Climate Change Action Plan (63.), that is being elaborated at present, contributes to the realisation of the objectives set out in the second National Climate Change Strategy and which have been developed in line with the Paris Agreement. The creation of the National Greenhouse Gas Database is in progress (64.), with the key objective of installing the IT system supporting the drafting of EU and international reports relating to climate change, policy decisions and EU reform procedures. The model to be developed as a result of the project allows for the creation of forecasts that will be more accurate than the currently applied models. It will also help improve the quality of reports to better forecast greenhouse gas emissions, and will allow for the better quantification of the effects expected from mitigation policies and measures. The methodology and capacity development project connected with the elaboration of the Climate Gas Database (66.) serves the purpose of creating such a background for the inspection and supervision of activities related to fluorinated greenhouse gas emissions that complies with the EU regulations. The Agricultural Harmful Emission Research and Data Collection Programme has been launched to strengthen the more sustainable practices of the agricultural sector and to comply with the directive on the reduction of harmful emissions (65.).

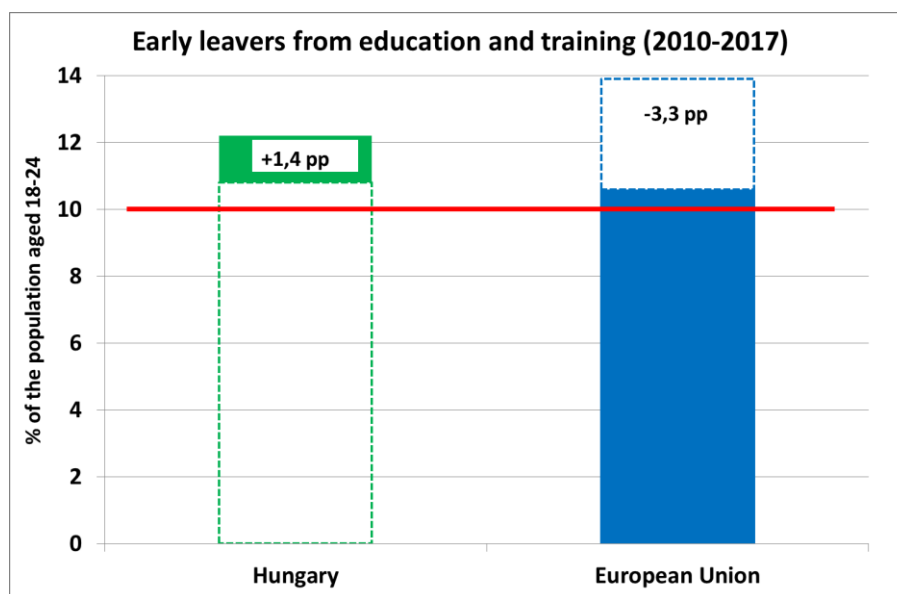
IV.4. Enhancing Education

As part of the Europe 2020 Strategy regarding the improvement of qualification level, Hungary is committed to increasing the rate (aged 30-34) of those having tertiary or equivalent qualifications to 34% and reducing the rate (aged 18-24) of early school leavers to 10% by 2020.

IV.4.1. Reducing Early School Leaving

As part of the Europe 2020 targets for the improvement of qualification level, Hungary is committed to reducing the share of early school leavers to 10% by 2020. In 2017 the preliminary estimated rate of early school leavers was 12.23%, higher than the EU-28 average (10.6%) but lower than the 12.5 % rate in 2016. Hungary's most important goal is to prevent drop-outs in order to reduce the rate of

non-qualified school leavers, to promote the school success of student groups jeopardised by leaving school without qualification, and helping those leaving formal education early obtain a qualification.



Source: Eurostat

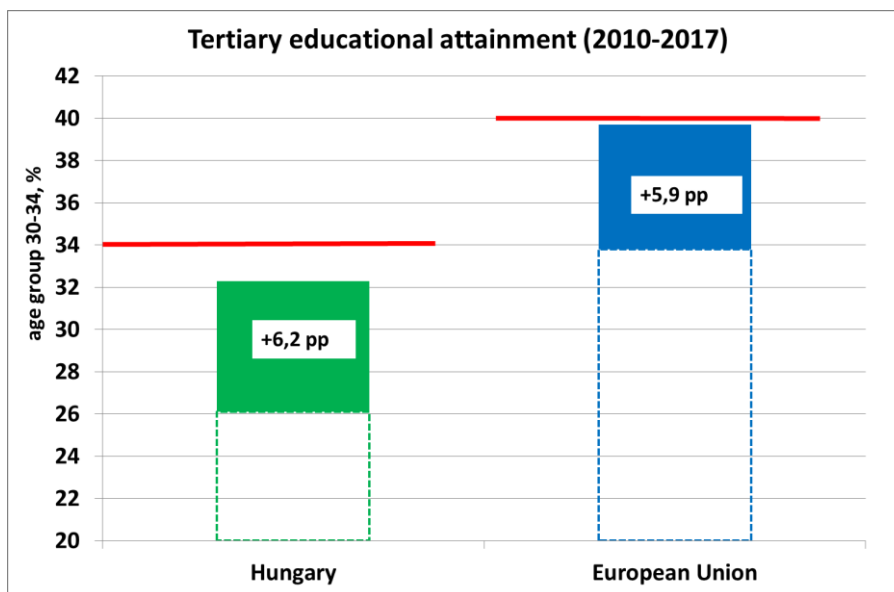
The medium-term strategy action plan to prevent early school leaving was adopted by the Government in November 2016. One of the most important systemic measures of the action plan is the early warning and pedagogical support system (71.) to prevent drop-outs, which was introduced in November 2016. The early warning system with diagnostic aims promotes the early intervention reacting to individual needs of students facing problems which prevent progress, and provides methodological help for teachers and institutional management with the provision of pedagogical professional support. The system also includes pedagogical professional service which provides support to pedagogues in this work. The early warning and pedagogical support system aims to draw attention to situations and areas in need of development which could help prevent drop-outs. Institutional professional support is being reinforced in 2018 based on the warning system.

The third type of the measure group of the action plan aims at the students' key competency development and making the educational structure more interoperable, which supports the targeted development of key competencies and provides the support of individual and alternative learning methods. The objectives are supported by the non-formal and informal learning programmes promoting public education and lifelong learning implemented in cultural institutions (72.).

The development and implementation of the local actions plans supporting the reduction of early school leaving of VET school students has been started from the appropriate EU programmes, complemented with institutional and pedagogical-methodological training.

Analyses show that the most jeopardised groups of early school-leaving are the disadvantaged and multiply disadvantaged, including Roma, students. Thus, the measures introduced in Chapter III.5 (chapter including the introduction of the measures taken for the implementation of the Country Specific Recommendations) also contribute to the reduction in early school leaving.

IV.4.2. Restructuring Higher Education



Source: Eurostat

The Government aims at establishing and operating a higher education system that is highly positioned in the international education and research space, quickly reacts to social challenges, profoundly determines the economic success of the country, and the keywords of which are: competition, quality, performance and success. Due to the increasingly tightening resources, globalisation, rapid technological changes, demographic trends and changing social needs, higher education systems face serious challenges throughout the world. In the recent period the Government has been striving for laying the foundations for a higher education system that is more planned and organised, is able to fight global challenges and is in line even with longer-term economic and social goals. The restructuring of higher education is a complex task; the system needs to adjust to economic and labour market demands, the expectations of an ageing society, as well as to the processes of research, development and innovation at once. Thanks to the Government's efforts, a performance-focused system providing higher quality and better matching the needs of economic actors has been created in the past period through the better allocation of resources, increasing of efficiency and by bearing in mind value creation and preservation.

In the area of higher education, Hungary performs well in meeting its EU2020 commitment: it achieved its target committed to in 2010 (30.3%) already in 2013, so it modified the target to be achieved by 2020 to 34% in the National Reform Programme of 2015. According to the 2017 preliminary data, the target indicator i.e. the rate of those with tertiary qualification was 32.3% in the age group of 30-34, which shows a slight decrease compared to the 33% in 2016; this can be explained with demographic reasons.

The strategic document of "A change of pace in higher education" adopted by the Government in December 2014 aims to establish a performance-based tertiary education system providing higher quality as a sectoral goal, in addition to the efficient use of resources. The strategy was revised in 2016 in compliance with the ex-ante conditions pertaining to structural funds. The Government approved the action plan of the strategy in its Resolution no. 1359/2017. (VI.12.). The action plan lays down specific measures, and designates the responsible persons and implementation deadlines for the 2017-2020 period. The strategy handles the following areas as priority: education and training;

research and development; the development of the management and financing of institutions; the development of key educational areas. The strategy will be implemented from European Union and domestic budgetary funds.

In 2017 the Government launched the Excellence Programme of Higher Education Institutions (73.a) which aims to keep researchers in the profession and provide for the recruitment of researchers, as well as to increase spending on R&D as a share of GDP through ensuring the long-term international competitiveness of Hungarian higher education R&D&I. The programme supporting institutional research in topics of excellence, built on interdisciplinary areas with a focus on innovation aims, among others, to put in place a differentiated wage settlement for teachers and researchers involved in higher education research having great importance from the point of view of the national economy.

The supporting of scientific workshops and programmes of higher education students has been launched with the participation of 6 higher education institutions (73.b). The programme includes the development of the standard and quality of doctoral training, research up-skilling, and the involvement of talented students in research.

The relationship between tertiary education and the business sphere continues to be strengthened first of all through the improvement and expansion of dual education (74.). 24 higher education institutions launched dual training in the 2016/2017 school year in 6 different fields (agriculture, technology, economic sciences, IT, social sciences, natural sciences), offering dual training in 49 different courses.

In order to mitigate the lately emerged shortage of professionals in the STEM fields, the senior students' career guidance is continuous in the public education institutions (75.). Within the framework of the project, careers in mathematics, science, information technology and technology are promoted, and the related competencies are developed.

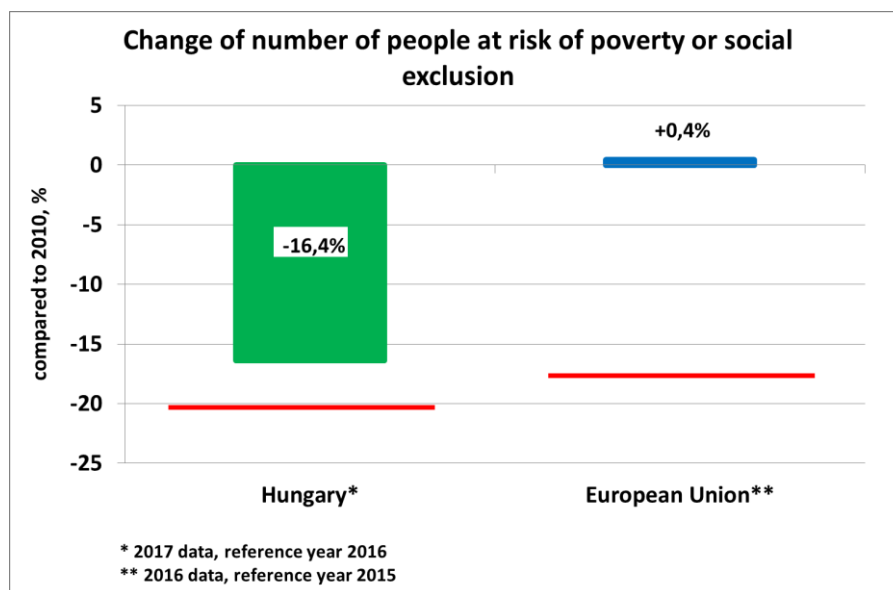
In 2017, to increase the accessibility of tertiary education and to decrease drop-outs, a complex development programme was launched (76.), including activities like tutoring, mentoring and up-skilling. As a result of the measure, disadvantaged students and potential drop-outs have higher chances to obtain a degree. The project also extends to the elaboration of the system of competence measurements and drop-out-monitoring.

The increase in the number of Roma students with a qualification, their academic success and the incentive for their social engagement, using the "Support of Roma Colleges for Advanced Studies" are of primary importance for the Government (77.). There are altogether 11 Roma colleges for Advanced Studies in Hungary, which help several hundreds of young Roma with university or college studies. The number of students in special colleges is expected to grow to 351 in the 2018 school year.

IV.5. Reducing Poverty

As part of the poverty targets of the Europe 2020 Strategy, Hungary is committed to reducing the poverty rate of families with children, the total number of people living in severe material deprivation, and those living in households with low work intensity by 20%, respectively, by 2020; by filtering out the overlaps of the population covered by these three indicators, the equivalent of 450,000 people will be lifted out of poverty.

Hungarian poverty statistics show a continuous and significant improvement: according to the latest data by the HCSO issued in 2017 (concerning 2016) the rate of those exposed to the risk of poverty or social exclusion decreased by 76,000 (i.e. in 2016, a total of 2,465,000 persons were affected by at least one dimension of poverty, which equalled 25.6% of the whole population). The number of those in extreme poverty i.e. those endangered by all three dimensions decreased by 71,000 persons (38.4%) by 2016. The number of those living from an income below the poverty line, i.e. HUF 77,680, was 105,000 less in 2016 than in 2015. The biggest improvement has occurred among people under the age of 18, as the proportion of those affected by income poverty is currently 14.8% in this target group, following a decrease of about 5%. In addition to the permanent reduction in overhead and the resolution to the fx-loan debtors' situation, the effects of the wage increase, the employment policy tools and the family-friendly measures also contribute to the improvement of poverty indicators.



Source: Eurostat

The directions of the developments aimed to help disadvantaged people, including the Roma, have been designated in the Hungarian National Social Inclusion Strategy. The measures for social inclusion will primarily have their effects on the medium and long term; therefore it is necessary to build them on each other by taking into consideration the continuity between the measures as well as the experiences.

The developments from the earliest possible age involving the parents and considering regional disadvantages provide for the increase in opportunities for children, through which social integration is strengthened by the involvement in kindergarten, school, labour markets and local society (80.). Parents' competencies are strengthened and the recurrence of poverty can be broken in the case of the affected children. The so-called Chances for Children complex programmes operating in the most disadvantaged (MD) small regions provide the facilities to improve the situation of families with children in difficult conditions in the 23 small regions, through the development of local services and cooperation to increase the opportunities for children. Between 2014 and 2020, the continuation of the "Integrated regional child programme" will be extended to 31 districts, and will more heavily focus on the small regions with service shortages than they did previously. In addition to the 113 Sure Start Children's Houses already in operation, 130 will start to operate until the end of the year.

Increasing employment is a key factor of social inclusion. Those farthest from the labour market are given a chance in the Actively for Knowledge priority project, in the implementation of which 7,459 persons were involved until the end of March 2017, and the basic competencies development projects have also been launched in the convergence regions. To facilitate the labour market entry of Roma women, the "Growing Chance" schemes are continued, thanks to which 687 persons became employed until January 2018 and further 213 are expected to find employment until the middle of March.

The complex settlement programmes, including human and infrastructure elements built upon each other (supporting the access to training, employment, healthcare, social and other services) are aimed at contributing to housing integration of those living in segregated residential areas and in extreme poverty (81.e). Within the framework, complex programmes are going to be launched in at least 110 segregated settlements involving at least 6,000 persons.

The "Endless Opportunities" pilot programme, affecting 104 settlements in five districts, covering about one hundred thousand persons, continues. The measure facilitates the inclusion of the most disadvantaged regions (78.). In order to achieve this, adaptable interventions, procedures, innovative tools filling the system gap and operational methods based on cooperation are modelled in practice, which are followed by process evaluation so that good practices (for the purpose of their sustainability) can later be incorporated in the social care system (services, trainings of professionals). In the framework of the programme, the Hungarian Charity Service of the Order of Malta starts work in the Kunhegyes, the Hungarian Reformed Church Aid in the Cigánd, the Hungarian Interchurch Aid in the Gönc, the Hungarian Baptist Aid in the Baktalórántháza, and Caritas Hungary in the Sellye district.

The elaboration of the National Rehabilitation Concept (NRC) will start to support people with disabilities (79.). The implementation of the concept developed as a result of the measure will significantly improve the participation of the target groups in need of rehabilitation in the open labour market, as well as their social inclusion and acceptance.

V. THE USE OF EUROPEAN UNION FUNDS IN THE 2014-2020 PROGRAMMING PERIOD

During the planning procedure of the 2014-2020 programming period, operational programmes (OPs) complying with the country specific recommendations and the Europe 2020 Strategy targets was of primary importance for Hungary. This is evidenced by the fact that the planning and public consultation of the operational programmes commenced in 2014 and the first programme was approved by the European Commission at the end of 2014. The implementation of country specific recommendations and the Europe 2020 Strategy in Hungary is currently supported by ten adopted and approved thematic operational programmes. These efficiently contribute to the fulfilment of objectives primarily in the fields of client-friendly public administration, modern, transparent and electronic government, business environment supporting small and medium sized enterprises, as well as employment, education and social inclusion. The Operational Programme Supporting Socially Disadvantaged Persons (RSZTOP) and the Hungarian Fisheries Operational Programme (MAHOP) are not indicated in the summary.

The calls for proposals have been published covering the total budget in spring 2017, subsequently, there have been minor reallocations as induced by the applications. The possible reallocations in the near future will provide sufficient room for adapting country specific recommendations and new goals; however, according to the plans, the full budget will be committed this year. Data serving as the base for the currently presented allocations are contained in the annual development frameworks in effect as of 31 March 2018.

Framework budget of programmes contributing to the country specific recommendations and the Europe 2020 Strategy (HUF billion)

CSR	EU2020 target	PADOP	HDOP	EDIOP	TSDOP	CCHOP	EEEOP	ITOP	RDP
CSR1	Budgetary objectives								
CSR2	E-governance and transparent public services	274.0		3.9					
	Strengthening the competitiveness of SMEs			804.7					
CSR3	EU2020-1 Employment		85.5	690.6	188.4	47.8			55.2
	EU2020-4, Education		531.9	20.3		6.73			
	EU2020-5, Social inclusion		302.7		76.1	17.5			
	CSR3 total		920.1	710.9	264.5	72.03			55.2
	EU2020-2, R&D			671.0		48.1			25.0
	EU2020-3, Energy and climate			226.7	494.2	38.3	324.1	184.9	73.6
Total		274	920.1	2,417.2	758.7	158.43	324.1	184.9	153.8

In the areas of **country specific recommendation No. 2** not requiring direct legal amendments, operational programmes play an active role. Priority No. 2 of the PADOP focuses on the ethical

operation of public service and the strengthening service provider approach, and together with programmes co-financed by CCHOP or targeted in the 3rd priority, supports the transparency of the use of public funds, the development of e-governance and new, transparent, client-friendly state services, as well as the strengthening of the anti-corruption framework with a total budget of HUF 274 billion. The improvement of electronic governance services is supported by EDIOP in the value of HUF 3.9 billion. Focusing on micro, small and medium sized enterprises, the strengthening of competition also appears in the EDIOP calls for proposals, supported with a total amount of HUF 804.7 billion by the complex development programmes for enterprises – the share of its non-refundable resources is HUF 474.6 billion, from which some priority calls with countrywide scope are co-financed by CCHOP.

Priority No. 8 of EDIOP on financial instruments is worth highlighting, as it contains refundable resources well above the EU average, efficiently strengthening the competitiveness of enterprises. The wide range of financial instruments, in addition to strengthening the competition, plays a significant role also in the areas of research and development, energy and employment targets.

The elements of **country specific recommendation No. 3**, especially employment, educational and – more pronounced in this year’s recommendation – social objectives determine mostly the priorities of HDOP, EDIOP, TSDOP and CCHOP. The total budget of tenders contributing to the implementation of the country specific recommendation No. 3 in HDOP exceeds HUF 920 billion, most of which, HUF 532 billion, is aiming at the improvement of educational conditions and outcomes. There are several tenders aimed at the inclusion of disadvantaged groups, for instance the “On the Road” (Útravaló) scholarship programme, providing participation and mentoring for at least 9,000 disadvantaged persons, primarily Roma students.

Programmes targeting the improvement of social assistance are mostly included in HDOP, with a total budget of more than HUF 300 billion, however, TSDOP and CCHOP together deploys also nearly HUF 100 billion in this area. In 2017, e.g. a new mid-term element was added to the social deinstitutionalisation programme of HUF 78 billion already, intended to improve the quality of life of people with disabilities, psychiatric diseases and addictions by community-based services. In addition, several programmes have been developed to jointly implement qualification, employment and social goals, such as “Actively for Knowledge” with the aim to increase the qualification level and the employment chances of disadvantaged people aged 18-55, including Roma.

A total budget of more than HUF 710 billion is available in EDIOP for the objectives of recommendation No. 3, nearly all of which (more than HUF 690 billion) contributes primarily to boosting employment; a part of this budget with more than HUF 100 billion also contributes to improving the qualification of labour force in the context of priority No. 6. The priority axes of EDIOP are also organised in accordance with these objectives: priority No. 5 expressly concerns employment, priority No. 6 concerns competitive labour force, while priority No. 8 provides financial instruments. Certain countrywide calls for proposals in EDIOP are co-financed by CCHOP.

With a HUF 72 billion budget, CCHOP contains the developments of Central Hungarian Region with the main emphasis on developing human resources, partly co-financed by HDOP and by EDIOP. Within TSDOP, targeting the less developed Hungarian regions, in a similar proportion, nearly HUF 265 billion is provided mainly for improving employment. Key areas include development of family-friendly institutions and public services easing transitions into work, development of transport encouraging labour force mobility and support of employment agreements at county and local levels.

There are several operational programmes contributing to the **five headline targets of Europe 2020**, while the employment, education and poverty/social inclusion targets of the EU 2020 Strategy is here fully complied with country specific recommendation No. 3.

Every active labour market policy tool established in recommendation No. 3 contributes to employment **target of the Europe 2020 Strategy (target no.1)**, while passive labour market policies primarily appear in country specific recommendation No. 5 aiming at the mitigation of poverty. Consequently tenders primarily focusing on increasing employment rate have been included in the already mentioned HDOP, EDIOP, TSDOP and CCHOP, with a budget of HUF 86 billion, HUF 691 billion, HUF 188 billion and HUF 48 billion, respectively. In addition, several programmes with social or educational priority highlight the preparation for the labour market as their secondary objective.

Target No. 2 on research and development is supported by EDIOP priority No. 2 on research, development and innovation with an amount of nearly HUF 671 billion, a significant part of that with more than HUF 182 billion is available in the form of financial instruments. CCHOP provides HUF 48 billion for research and development in priority No. 2. HDOP tenders like Smart Specialisation institutional developments and Thematic research network cooperation, with a total amount of HUF 26 billion, also deserve attention (not indicated in the table), as well as the tender supporting the establishment of RDP agricultural and innovation groups and the implementation of innovation projects in a value of HUF 25 billion.

Target No. 3 on energy is emphasised in the environmental and energy-efficiency programme. Priority No. 5 of EEEOP on the increase of energy efficiency and the utilisation of renewable energy provides more than HUF 324 billion, primarily for the support of the green electricity production and modernisation of district heating, investments in building energy efficiency, including buildings with almost zero energy demand, and the propagation of local and solar energy resources. The protection of renewable energy sources and the reduction of emission are provided by EEEOP priority No. 3: improvement of waste management and application of a separate collection system indirectly contribute to the energy targets with further HUF 136.5 billion (not indicated in the table). ITOP supports the reduction of energy usage and emission by programmes expanding the passenger transport network by rail and directly favouring public transport with a budget of HUF 185 billion. EDIOP encourages the implementation of energy policy target with financial products exceeding HUF 167.28 billion, mainly through building energy developments in the retail and SME sector relying on energy efficiency and renewable energy. In the EDIOP, a further amount of HUF 59.45 billion provides non-refundable subsidies for the building energy developments of the SME sector. TSDOP, CCHOP and RDP allocate indirectly further HUF 494 billion, HUF 38 billion and HUF 74 billion, respectively, for energy and renewable energy investments, where TSDOP covers sustainable transport development, brownfield rehabilitation and green city programmes as well.

Target No. 4 on education cannot be sharply separated from programmes already presented at country specific recommendation No. 3. The most important education development programmes have been announced by HDOP with a budget of nearly HUF 532 billion well above last year's budget (infrastructure development, teaching material development, further professional training, thematic cooperation). The direct education budget of CCHOP amounting to HUF 6.7 billion provides the operation of "On the Road" (Útravaló) scholarship programme supporting, among others, Roma colleges for advanced studies and disadvantaged people, in addition to the modernisation of public

education, while CCHOP appears as the co-financier of several HDOP tenders. The EDIOP contributes to the education targets directly with the amount of HUF 20 billion, but several programmes support trainings in targeted areas and the development of digital knowledge as their secondary objective. These, beyond school-based trainings yet having an impact thereon, strengthen the basic competencies necessary for the labour market and lifelong learning and contribute to the reduction of early school leavers.

Target No. 5 on poverty emerges as a social background for several programmes, while certain elements of HDOP, CCHOP and TSDOP target directly the mitigation of relative poverty and social exclusion with their programmes strengthening labour market integration and providing a qualification. The largest budget directly targeting the reduction of poverty is provided by HDOP with a budget of more than HUF 300 billion, supporting the elimination of segregated situations and the integration of disadvantaged people as a priority while “Housing First”, “Chance at Home” and “Sure Start Children’s House” programmes also included here. CCHOP, with an amount of HUF 17.5 billion, and TSDOP, with HUF 76 billion, contribute to the improvement of the living conditions of the population falling behind the rest of the society regarding income or culture.

VI. INVOLVING SOCIAL PARTNERS

In line with previous years’ practice, during the public consultations on the National Reform Programme of 2018 primarily the ministries responsible for the measures involve their own partners in the preparation and planning of the specific laws, programmes and other measures. The forms thereof vary depending on the nature of the measures of the field and the practices evolved. Parts of the measures included in the National Reform Programme of 2018 are independent strategies or pieces of legislation, which were preceded by public consultation stipulated by law. In line with the EU grant procedure, regarding measures adopted in connection with EU programmes, public consultations have taken place both in the planning and the selection processes.

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

- In order to handle labour force shortages, several local governments have expressed their intention to establish hostels for workers by reconstructing their real properties or constructing new ones based on the needs of the businesses operating in their territory, and that they would like to use state subsidies for that.
- The launching of the National Model Programme for the Public Employment of the Homeless was preceded by professional consultations with the involvement of territorially affected government offices, as well as civil society organisations and churches.
- In the framework of the Tendering Mirror Forum, various events have been held with the participation of about 200 partners in the field of both blue-sky research and applied research. The Innovation Board collaborates in the development of the R&D&I strategy, the value-creating use of R&D&I resources, in the development of incentive programmes and the assessment of policies. The review and renewal of the R&D Strategy have been supervised by the Advisory Body for the Renewal of the National R&D&I Strategy.
- The professional field consulted with market actors about the system of surcharges in the METÁR system, and has sent the draft law for public consultation.

To ensure public consultation regarding the EU projects and tenders, the managing authority makes available the call for proposals for public consultation on the www.szechenyi2020.hu website by ensuring a 10-day deadline. The managing authority sends the call for proposals finalised during the public consultation for opinions to the minister responsible for the use of European Union funds electronically at least 30 days prior to the announcement date determined in the annual development framework. After the electronic sending, the social and professional organisations affected by the subject matter of the call are asked to provide their opinion. Social partners, civil society organisations and non-governmental organisations as well appoint members to the monitoring committee of operational programmes. Thus, social partners and civil society organisations monitor the process throughout the selection and assessment of the projects.

The consultation concerning legislation (e.g. Act on Public Procurement, acts on certain taxes) was typically carried out on the basis of the provisions of Act CXXXI of 2010 on Social Participation in the Drafting of Legislation. The forms of public consultation are the provision of opinions through the contact points specified on the website (general consultation) and direct consultation by the persons, institutions and organisations involved by the minister responsible for the preparation of the piece of legislation (direct consultation). General consultation is mandatory in each case. Regarding the EU programmes the Monitoring Committees of certain operational programmes, in addition to their publishing, give a preliminary opinion and approval to the annual development budget, in which external actors can also be involved. (Examples of such involvements are the “Support of the development of logistic service centres”, or the “Establishment of industrial incubation service centres” programmes.) They were designed and modified on the basis of the proposals submitted by interested representatives and cluster management organisations, or in cases of measures for social inclusion civil society organisations and churches may provide their opinions on the tenders for operational programmes.