GOVERNMENT OF HUNGARY

HUNGARY

NATIONAL REFORM PROGRAMME OF HUNGARY FOR THE YEAR 2023

April 2023

Contents

1. Introduction

The National Reform Programme for 2023 (NRP 2023) presents the Government's plans for Hungary's main economic and social reforms and its strategies for achieving the EU's macroeconomic goals in a comprehensive and strategic way. The NRP is one of the key documents of the European Semester, the EU's economic policy coordination. Accordingly, it has been prepared in line with the Convergence Programme and the now-adopted Recovery and Resilience Plan (RRP), which responds to the coronavirus pandemic and the related economic crisis, and reports on the progress of the latter.

The NRP reflects priorities determined by ministries responsible for specific policy reforms, which will take effect in 2022–2023. In the presentation of certain key policy measures, it also aims at showing correlations between various measures with main strategic objectives, and results achieved so far and those expected from new measures. The NRP prioritises the presentation of challenges arising from the coronavirus pandemic and the neighbouring war, national responses provided to the related crises, and measures bolstering recovery and resilience.

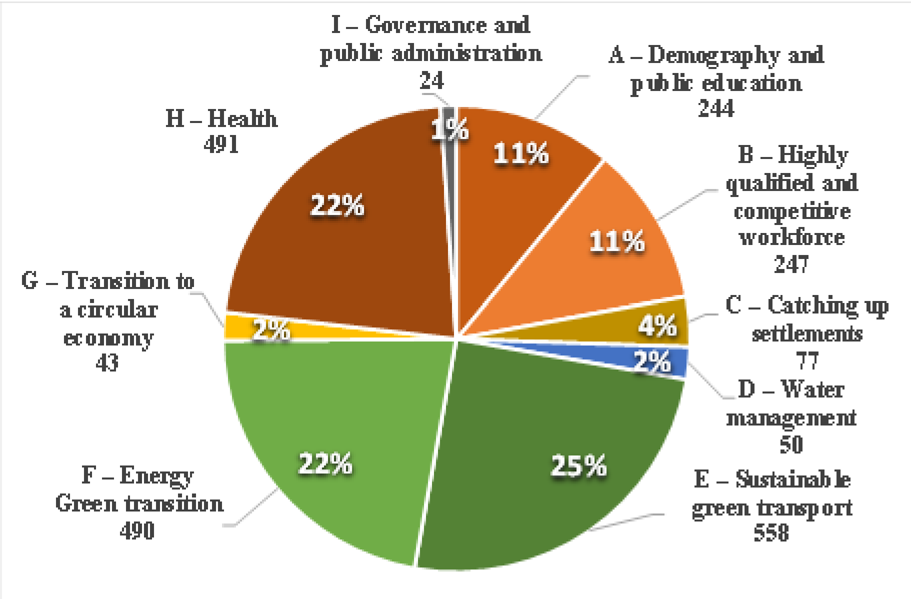
The National Reform Programme for 2023 provides a broad view of main policy programmes and key investments supporting both European goals and the long-term future of Hungary: steps supporting competitiveness and growth, improving the business environment and digitalisation, measures aimed at further increasing employment through job creation, education, family policies, and those supporting social inclusion and environmental sustainability.

In the face of these challenges, the Government's priority is maintaining stability. Investment, maintaining and increasing employment above the EU average, keeping the budget deficit and public debt on a declining path, and also bringing down inflation and increasing energy independence and efficiency, which are the most challenging, will all contribute significantly to long-term balanced growth in the period ahead.

Recovery and Resilience Plan of Hungary

The total amount of the Hungarian Recovery and Resilience Plan (hereafter: RRP) not to be reimbursed is EUR 5.811 million, or HUF 2.294 billion (HUF/EUR 394.83), which is divided into 9 components. According to EU rules, the focus of the developments in the RRP is on green and digital development. **The RRP's contribution to the green transition is 48.1 per cent of the total envelope**, well above the 37 per cent minimum required by the RRF Regulation[1]. **To promote digital transformation, the plan allocates 29.8 per cent of the budget**, which is also above the 20 per cent minimum required by the RRF regulation.

Distribution of RRP budget by component (HUF billion)



In the implementation of the measures, Hungary committed to meet a total of 270 milestones or targets by the end of Q2 2026, of which 101 are to be met by the end of Q2 2023. Milestones in the context of any action concerned are definable implementation steps, while targets are the quantifiable commitments ("indicators") to be achieved by the given action.

According to the payment schedule annexed to the Council Decision adopting the RRP, a total of 8 payment requests are planned to be submitted to the Commission by Hungary. In 2023, two payment requests are planned.

Technical Support Instrument

Under the European Commission's **Technical Support Instrument** (TSI) **2023 call**, which is the European Commission's support programme for structural reform providing technical expertise, Hungary has submitted **4 approved requests** to design and implement reforms in public administration, taxation, adult education, health, and growth promotion. The TSI programme also directly supports the implementation of the RRP in this cycle, through the project promoting the Do No Significant Harm (DNSH) principle. In addition, the National Tax and Customs Administration's (NAV) Office for the Prevention of Money Laundering and Terrorist Financing joined a shared project with 9 Member States, submitted by the Czech Republic, which holds the rotating Presidency of the

[1] REGULATION (EU) No 2021/241 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 12 February 2021 establishing the Recovery and Resilience Facility

EU Council, to promote a common interpretation of the law on the restrictive measures applied by the European Union against the Russian Federation following Russian aggression against Ukraine.

Approved TSI 2023 projects to support sustainable economic growth and competitiveness

The development questions of the training system concerned are assessed, and the obstacles they face and the barriers to employment are identified within the framework of the project in the subject matter of ***"Develop a single micro-credential system and standards to facilitate lifelong learning and rapid adaptation to changing labour market needs"****. A proposal is made to develop common Hungarian standards for quality and transparency, involving all stakeholders, and for the use of micro-certificates as digital certificates.*

The launched project entitled ***"Towards a semantically interoperable health system"*** *aims to establish a single digital national semantic background (professional, technological, and infrastructural) and institutional framework for digital health, based on existing European good practices and in line with EU recommendations.*

The call entitled ***"Enhancing the quality and use of tax information exchanged between Member States in the context of the Directive on Administrative Cooperation – Improving the automatic compliance processing of incoming DAC data at the National Tax and Customs Administration"*** *proposes a set of actions focusing on high-quality data, appropriate risk analysis and optimal use of internationally exchanged data. The call is part of a flagship project launched by the Commission, which targets Member States that want to improve the fight against cross-border tax fraud, evasion, and avoidance through better use of tax information exchanged between Member States under the DAC Directive.*

The project launched with the title ***"Integration of environmental dimensions in public finances – implementing the 'Do No Significant Harm' (DNSH) principle in public funding programme"*** *supports the development of the methodological and regulatory environment for the implementation period of the Do No Significant Harm (DNSH) principle, both in the area of implementation planning and in the area of the monitoring system to allow the monitoring of commitments.*

2. Macroeconomic outlook

2.1. Macroeconomic trends

This chapter contains a brief description of the medium-term macroeconomic outlook, which serves as a basis for Hungary's National Reform Programme.

It is important to emphasise that in line with the integrated approach of the European Semester, Hungary's National Reform Programme and Convergence Programme were drafted in close coordination, built on each other, and the two documents were submitted simultaneously to the European Commission. Taking into account that the macroeconomic path for the period 2023–2027 is detailed in the convergence programme, the medium-term macroeconomic outlook presented below only summarises the macroeconomic path detailed in the Convergence Programme.

This year's Convergence Programme is based on improving competitiveness, economic growth with a balanced structure and a programme of further convergence to the average level of European development. The Convergence Programme targets the long-term reduction of the deficit and government debt.

Table 1

Key indicators of the medium-term macroeconomic path

	2022	2023	2024	2025	2026	2027
	percentage, change in volume relative to the previous year					
Gross domestic product	6.4	1.5	4.0	4.3	4.5	4.2
Private consumption expenditure	6.5	-0.1	3.2	4.1	4.2	4.3
Gross fixed capital formation	1.2	-4.8	3.7	4.9	4.2	4.0
Exports	11.8	4.9	5.9	7.4	8.3	6.7
Imports	11.1	1.8	4.3	6.5	6.9	5.7
		percentage, annual average				
Unemployment rate (15–74)	3.6	3.9	3.5	3.2	3.0	2.9
Employment rate (20–64)	80.2	80.5	81.0	81.4	81.7	81.2
	percentage, proportionate to the gross domestic product					
External financing capacity/requirement	-5.8	-0.7	1.4	1.9	2.1	3.3
		percentage, annual average				
Consumer price index	15.3	15.0	6.0	3.0	3.0	3.0

Source: Hungarian Central Statistical Office, calculations by the Ministry of Finance

In the year since the Convergence Programme for 2022, the economic and social processes of both the European countries and Hungary have been greatly affected by the protracted Russian–Ukrainian war. The war and the far-reaching effects of sanctions on Russia posed serious challenges for EU countries. Skyrocketing energy prices and inflation, which hit decade highs, led to a sharp increase in the cost of living for households, soaring operating costs for the corporate sector and severe pressure on public finances. Monetary tightening to curb inflation also resulted in less favourable credit conditions, slowing economic growth across Europe.

These adverse developments had a particularly negative impact on Hungary, which relies heavily on energy imports. Soaring energy prices have led to a drastic current account deficit, and the domestic currency has depreciated significantly over the past year. Rising energy costs, high world food prices, and the summer drought caused domestic food prices to skyrocket. The combination of adverse factors led to a decline in purchasing power of incomes and, through this, a slowdown in household consumption in the second half of the year. Investment activity also slowed towards the end of the year, partly due to the postponement of public development projects, partly because of high borrowing rates and uncertainty.

Despite this, the Hungarian economy grew by 4.6 per cent last year, down from a record 7.2 per cent a year earlier. Economic growth in 2022 is significantly higher than the 4.3 per cent projected in last year's convergence programme. Last year's dynamic growth rate of 4.6 per cent is 1.1 percentage points higher than the EU average. Hungary's relative development continued to improve last year, rising to 78 per cent of the EU average. It is important to underline that Hungary achieved significant economic success in the last two years without having received EU recovery funds, which is a major competitive disadvantage.

Over the past year, domestic demand, consumption, and investment growth made a significant contribution to economic growth. Household consumption was supported by government measures that benefited households, the personal income tax refund for families with children, the payment of the 13th month pension and wage decompressions in certain segments of the public sector. In addition, the lowest utility bills in Europe, price -caps on certain foodstuffs and interest rate cap on mortgages also increase people's income security.

Although a significant amount of public investment was postponed maintaining the "utility protection", investment in the corporate sector and households increased. There was a record level of FDI investment in Hungary, while residential investment was driven by the expanded home creation programme. The investment rate is set to rise to 28.5 per cent by the end of 2022, the highest in the European Union.

In addition to supporting the population, the government also developed support programmes for the business sector to protect jobs and maintain investment activity. In addition to energy cost compensation and energy efficiency improvements for energy-intensive SMEs and a Factory Rescue Programme for large enterprises, the Baross Gábor Re-industrialisation Loan Programme injects HUF 1,000 billion into the economy through favourable interest rate loans. With an additional HUF 600 billion, the Baross Gábor Capital Programme provides adequate financing for economic actors in line with economic development objectives. The Széchenyi Card Programme provides SMEs with the opportunity of low, fixed-interest loans. In addition, the extension of the interest rate freeze to existing loans in the SME segment is a significant help.

The energy crisis that peaked over last summer and the high interest rate environment made it necessary to provide targeted support to the corporate sector, thus avoiding mass redundancies, which was helped by the ability of firms to adapt quickly. It can therefore be said that the Hungarian labour market proved resilient not only to the coronavirus crisis, but also to the energy shock. Employment stabilised at a high level and unemployment remains among the lowest in the EU. Despite high inflation, real wages could still rise in 2022.

The government's priority is to bring down inflation, maintain economic growth, protect families, pensioners, businesses, and jobs, while reducing public debt. However, the spillover effe cts of war, sanctions and the energy crisis put the budget under extreme pressure. To cover the increased spending due to soaring energy prices and inflation, expenditure was cut in addition to special taxes, resulting in postponements of several public investment projects and significant savings in the budget. As a result, the general government deficit in 2022 was at 6.2 per cent of GDP, 0.9 percentage point better than in the previous year. Government debt as a share of gross domestic product was reduced to 73.3 per cent at the end of last year, from 76.6 per cent in 2021. Looking ahead, continued fiscal discipline could result in a significant reduction in both the general government deficit and the debt ratio.

Over the forecast horizon, Hungary's economy is expected to grow by 1.5 per cent in 2023, followed by an acceleration in GDP growth to 4.0 per cent in 2024. Growth rests on several pillars. Firstly, employment stabilised at a high level, labour demand is strong and, with disinflation processes picking up, the increase in purchasing power of incomes, together with measures to support household income security, should push consumption towards a recovery from the second half of this year.

Second, the high rate of investment in European comparison—owing to both attractive business environment and government measures—can be maintained. In the coming years, investments to expand production capacity and technological developments to improve efficiency will continue to play a key role in strengthening Hungary's capacity for growth. In addition, the arrival of record-level EU funds for Hungary is also a major boost: the amount of approximately 50 billion euros available over the period 2021–2030 will on average correspond to 2.4 per cent of the GDP per year.

Thirdly, it is favourable that new capacities created through the realisation of large investments and the recovery of international freight transport and international tourism may ensure the continuing rise in exports. Moreover, the normalisation of energy prices makes a major contribution to improving the external balance in the period ahead.

2.2. Macroeconomic effects of economic policy measures

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

The measures announced since April 2022, together with the increased expenditures resulting from previous decisions, contribute to the growth of the GDP. The most significant of the new governmental measures are the minimum wage raise, the extension and expansion of the interest rate freeze and the credit moratorium and the government's wage raise programmes.

In the current economic situation, great emphasis is placed on investment and employment subsidies and preferential loan packages aimed at increasing energy efficiency and at financing domestic SMEs and large enterprises exposed to the negative economic impacts of the disturbances of international value chains. Through these programmes, the Government provides support to the corporate sector exceeding HUF 3,000 billion, which is approximately 3.9 per cent of the annual GDP.

The modelled economic policy measures support conjunctural processes mainly through the dynamic growth of investment activity. Capacity increases improve the growth potential of the economy in the long run as well, since from their implementation they stimulate GDP growth through additional channels, primarily through exports and labour incomes.

In terms of quantified effects, the government measures taken since April 2022 increase economic output by 0.8 per cent this year and by 1.6 per cent next year. The measures will have a lasting positive impact, boosting economic output by 0.5–1.7 per cent beyond 2024.

Table 2

Macroeconomic effect of measures

	2022	2023	2024	2025	2026	2027
GDP	0.2	0.8	1.6	1.7	0.6	0.5
Private consumption expenditure	-0.6	-0.7	-0.2	-0.3	-0.5	-0.7
Investments	0.6	4.9	6.1	5.6	1.3	0.8
Exports	1.5	6.8	7.9	7.8	4.0	3.8
Imports	1.3	5.4	7.8	7.6	3.4	3.2
Inflation	0.0	0.1	0.2	0.2	0.3	0.2
Employment in the private sector	0.0	-0.1	-0.1	0.2	0.1	0.1
Gross average salary in the private sector	0.0	0.1	0.3	0.6	0.8	0.7

Source: Calculation of the Ministry of Finance

** Percentage point difference compared to baseline scenario*

2.3. Achieving the medium-term budgetary objective

The medium-term budgetary objectives of the Government are described in more detail in the convergence programme.

As a result of fiscal consolidation implemented in recent years, the general government deficit was below 3 per cent from 2012 to 2019, and the government debt-to-GDP ratio accordingly decreased each year. The debt ratio fell from 80.3 per cent in 2011 to 65.5 per cent by the end of 2019. The budgetary reserves accrued in the years preceding the coronavirus pandemic provided substantial room for manoeuvre to address economic difficulties caused by the coronavirus pandemic and to relaunch the economy. As a result of the crisis response, the general government deficit, which temporarily increased in 2020, turned out 1 percentage point better in 2021 than a year earlier, and was further reduced in 2022 despite the energy crisis: the budget deficit as a share of GDP narrowed to 6.2 per cent. At the same time, the debt ratio also decreased: by the end of 2022, the debt-to-GDP ratio fell to 73.3 per cent, an improvement of 6.0 percentage points compared to 2020.

The spillover negative consequences of the Russian–Ukrainian war and the sanctions imposed by the European Union in response led to a significant increase in the fiscal burden, as well as a deterioration in financing conditions through inflationary effects and rising risks. Protecting jobs, the “utility protection”, supporting families, preserving the value of pensions, and maintaining peace and security in Hungary remain government priorities. In addition, the government has a prudent economic budget to further reduce the budget deficit and the debt ratio.

According to the convergence programme, the general government deficit is expected to fall to 3.9 per cent of GDP this year, while public debt is expected to fall below 70 per cent of GDP.

Fiscal consolidation could continue in the coming years, bringing the general government deficit to below 1 per cent of GDP by 2027 and the debt ratio to well below 60 per cent.

Table 3

The medium-term fiscal table (percentage of GDP)

	2022	2023	2024	2025	2026	2027
General government balance	-6.2	-3.9	-2.9	-1.9	-1.4	-0.9
Gross government debt	73.3	69.7	66.7	63.9	59.8	56.3

Source: *Hungarian Central Statistical Office, Magyar Nemzeti Bank (the central bank of Hungary), calculation of the Ministry of Finance*

3. Economic stimulus policies

3.1. Business development

Small and medium-sized enterprises (SMEs) have a significant presence in the Hungarian economy: 99 per cent of all domestic enterprises belong to this segment and employ more than 70 per cent of the workforce, making them a key contributor to the livelihoods of Hungarian families. The micro, small and medium-sized enterprise (SME) sector in Hungary comprises a diverse range of entrepreneurs of different sizes, operating in different sectors and market segments, representing a wide variety of life situations, visions, and attitudes towards the future. Therefore, it is crucial to provide targeted support to SMEs to help them overcome the challenges and create the necessary framework conditions for their development. All this contributes to the growth of the Hungarian economy as a whole.

The definition of the necessary directions is summarised in the strategy document entitled **"The Strategy for a Competitive SME Sector in Hungary 2019–2030"** (hereinafter: SME Strategy), which was adopted in 2019 in cooperation with the OECD and which is synergistically aligned with the directions set by the European Commission and the system of national strategies. In this way, the SME Strategy contributes to the EU's 2050 sustainability and climate neutrality goals, including the achievement of the dual transition. The Strategy is aimed at strengthening the capability of SMEs to create value, the technological shift, digitalisation, and improvement of productivity through innovation, establishment of adequate financing opportunities and support of entry to foreign markets.

Since 2020, in addition to structural challenges businesses have faced acute challenges every day: the pandemic situation and the neighbouring war transformed the economic ecosystem. Restarting, the transformation of value chains, the reorganisation of employment and the rise in energy prices created unforeseen difficulties for domestic businesses. It is therefore important to increase the crisis resilience of SMEs, to which entrepreneurial skills development and entrepreneurial knowledge broadening can make a major contribution.

The projects implemented and planned in the area of enterprise development contribute to the achievement of the above and the objectives set out in the country-specific recommendations.

Improvement of productivity

The development of Hungarian micro, small and medium-sized enterprises are carried out within the framework of the **Plus 1 priority axis of the Structural and Investments Funds' Economic Development and Innovation Operational Programme**, adopted in December 2022. Development funds will support the technological, organisational, and digital transformation of a wide range of SMEs. In order to increase growth potential and competitiveness, the priority is still to expand the range of businesses that are successful on the international market, based on cutting-edge technologies, and to strengthen these businesses, promote their technological change, develop their operations, organisation and management, and facilitate their growth leap. To provide services to develop the entrepreneurial ecosystem, we provide support to businesses through the agency model. The IFKA Iparfejlesztési Közhasznú Nonprofit Kft. *[IFKA Public Benefit Nonprofit Ltd]*, as the Government's general agency for enterprise development, coordinates the services to be provided by the related institutional system and available to enterprises. The aim of the measure is to help businesses to expand their knowledge and develop through targeted business development services and energy efficiency advice, in the form of non-financial support. **An evaluation of the schemes implemented under Priority 1 of the 2014-2020 Economic Development and Innovation Operational Programme (EDIOP)** is carried out with the involvement of the relevant organisations, and the results and lessons learned are fed into the planning process. Further schemes are being designed in line with the 2019-2022 country-specific recommendations, the EU objectives and the orientations set out in the SME Strategy.

In October 2022, the Hungarian Government decided to launch a **Factory Rescue Programme** as a support scheme under an individual government decision to ensure the more energy-efficient operation of large domestic companies and their increased energy self-sufficiency. The Factory Rescue Programme supports energy efficiency and energy production investments of large companies through grants, with a maximum aid intensity of 30 per cent in Budapest and 45 per cent in rural areas. Through the registration platform of the Factory Rescue Programme, 378 companies applied for support totalling HUF 419.3 billion, with the help of which investors intend to implement energy investments worth HUF 1,020 billion. The Government has so far allocated a total of HUF 150 billion for the programme. Applications for funding are assessed on an ongoing basis, in accordance with the formal applications received.

The **Competitiveness Enhancement Grant Schemes** were announced to mitigate the economic damage caused by the coronavirus pandemic. The HUF 300 billion of aid granted helped to save 287,000 jobs. The last two phases of the three rounds of programmes are currently being implemented.

Export incentives

The **Foreign Market Growth Aid**, announced in 2021 as part of the **National Export Protection Programme** with a budget of HUF 73 billion, helps Hungarian businesses to start new economic activities or develop or expand their previous investments abroad. The implementing agency, Hungarian Export Promotion Agency (HEPA), signed grant contracts with 44 companies currently under implementation until December 2022.

The Ministry of Foreign Affairs and Trade, in cooperation with CED Közép-európai Gazdaságfejlesztési Hálózat Nonprofit Kft. *[CED Central European Economic Development Network Nonprofit Ltd]*, launched a programme to support the cross-border expansion of Hungarian enterprises and their regionalisation in the Carpathian Basin, called the **Regional Economic Development Support Programme (REDSP)**. The REDSP replaced the Foreign Market Growth Aid (FMGA) for projects in the Carpathian Basin. Within the framework of the REDSP, 15 applicants have submitted detailed proposals so far and their evaluation is ongoing, with 2 of them being approved and 1 with conditional and reduced funding. For all three investment projects, grant agreements were signed, with a total funding requirement of HUF 5.95 billion at a 50 per cent aid intensity, and a total value of HUF 11.9 billion.

The HUF 22 billion Brexit Adjustment Reserve programme aims to provide support to Hungarian companies to offset the disadvantages they face as a result of Brexit. So far, decision has been made to grant support for 80 applications.

Financing

The Government's aim is to do everything possible to help Hungarian businesses to counter the effects of the energy crisis caused by the Russian–Ukrainian war and the sanctions imposed as a result of the war.

Within the framework of the **Baross Gábor Reindustrialisation Loan Programme** launched on 1 February 2023, the Government helps domestic SMEs and large companies to recover from the crisis and support further export growth through state-subsidised low-interest investment, working capital and green investment loans offered by Eximbank Zrt. The initial budget of the Loan Programme was HUF 700 billion, but in March 2023, in response to strong interest from businesses, the government increased this to HUF 1,000 billion. Under the programme, resident businesses can choose from a range of loan products with preferential interest rates (investment loan, working capital loan, green investment loan and leasing). The investment loan can be used for new or existing investments, or for the purchase of machinery and equipment. Working capital loans can be used by businesses to address their liquidity shortage and to finance their working capital needs. The green loan, an extended version of the previous factory rescue scheme, can be used by businesses for energy efficiency and renewable energy investments already underway or newly planned, or for technological upgrading as a complementary element of their energy investments.

The Government intends to provide adequate financing to economic operators through the **Baross Gábor Capital Programme**, which is the capital component of the Baross Gábor Reindustrialisation Loan Programme. The aim of the Capital Programme is to increase investment activity, improve energy efficiency, green developments, rapid implementation and transparent, efficient and responsible asset management through successful fund managers. In the current global economic climate, achieving energy security and independence is a key objective for all countries, including the Hungarian government, and the Capital Programme provides the means to achieve this. The Capital Programme consists of three pillars: Real estate and securities pillar; New capital funds pillar; "Raising" pillar. The indicative budget foreseen is HUF 600 billion.

The Real Estate and Securities Pillar, which launched on 1 March 2023, aims to increase investment activity, green development, and stock market liquidity through the recapitalisation of real estate and securities, with a planned amount of HUF 150 billion. The New Capital Funds pillar aims to create start-up capital funds. The pillar is further divided into two sub-programmes. One supports the creation of green-focused, primarily private equity funds, whereas the other supports the creation of start-up venture capital funds. The "Raising" pillar aims to stimulate the growth of the best performing private equity funds with governmental background in the Hungarian market by raising capital.

The **Széchenyi Card Programme** (SzCP) is a policy instrument that has been helping Hungarian small and medium-sized enterprises for two decades, which serves economic development, flexibly adapted at all times to market conditions even during a crisis, an ongoing war and the European energy crisis, and is capable of smoothly satisfying the given financing requirements of enterprises by adapting to their changing financing needs. It simultaneously fulfils policy objectives and facilitates the implementation of policy concepts relating to business development. Within the framework of the extended SzCP, micro, small and medium-sized enterprises are eligible to receive favourable financing with state interest subsidies, administrative expense subsidies, other cost subsidies and guarantee fee subsidies, depending on the type of transactions, to support job preservation and liquidity. Within the framework of the Széchenyi Card Programme, the range of products available so far was extended from January 2023 to include the **Széchenyi Green Investment Loan**, which supports energy efficiency and technological change. In 2022, more than 52,000 transactions were concluded under the SCP with a credit line of HUF 1,700 billion.

Loan guarantee schemes with state involvement are still available for domestic micro, small and medium-sized enterprises. The most important element of state involvement in the provision of loan guarantees is the provision of counter-guarantees, which share the risks between the bank, the guarantee institution, and the state, thus providing support to the enterprises receiving the loans. In addition to the counter-guarantee, the Hungarian State also helps SMEs to obtain surety by subsidising the surety fee.

The rise in electricity and natural gas prices due to the Russian-Ukrainian conflict, the sanctions imposed, and the measures taken against Russia means a significant increase in energy costs for the domestic corporate sector. The manufacturing sector, especially special sub-sectors producing goods at the end of the production chain, are particularly exposed to the negative consequences of rising energy costs. However, there is also a risk that the competitiveness of Hungarian SMEs in the supply chain could deteriorate in the short term. The Hungarian Government therefore decided to launch the **Manufacturing SME Energy Cost and Investment Support Programme** for domestic energy-intensive SMEs in autumn 2022 to mitigate the negative effects. The originally announced support period was for the three months from 1 October 2022 to 31 December 2022, but the Government extended this by three months until the end of March 2023 and also broadened the beneficiaries of the Programme to include the accommodation and hospitality sectors. Eligible firms can apply for direct grants to cover their energy cost increases and energy efficiency investments, complementing their own equity contribution. The government allocated a total of HUF 76 billion to run the programme.

3.2. Tourism

The development of tourism remains a top priority for the Hungarian Government. The overall framework for this is the **National Tourism Development Strategy 2030**, whose long-term goal is to increase the direct and indirect contribution of tourism to GDP from 13 per cent in 2019 to 16 per cent in 2030. The policy actions for the sector in 2022 were set out around the strategic objectives of data-driven sector management, targeted sales and marketing, and strengthening the income generating capacity of tourism.

After the connection of accommodation establishments, from 1 July 2023, the **mandatory registration and reporting of tourist attractions and hospitality establishments to the National Tourism Data Supply Centre** (NTDSC) will be implemented. Thanks to this, real and up-to-date data on the turnover and statistics of the entire sector are available. These allow the performance of a given municipality, tourism region or even the entire tourism sector to be accurately visible and measurable in a sectoral breakdown.

The Hungarian Tourism Quality Assurance Body is responsible for the **tourism trademark certification of accommodation facilities**, its certification criteria have already been developed. The aim of the measure is to establish certification and trademark systems that guarantee consistent quality in space and time and to create the currently missing tourism certification for attractions. There are plans to introduce voluntary certification of tourist attractions in 2023.

The marketing communication of the tourism country brand and the promotion of Hungary's tourism offer at home and abroad are continuously carried out in the form of marketing cooperation, online activities and related creative and production activities, in addition to regular media campaigns. The measure will contribute to the strategic objectives of targeted marketing and sales and strengthening the income generating capacity of tourism.

In order to strengthen tourism's revenue-generating capacity, tourism service providers operating in Hungary can receive support under the **Kisfaludy Tourism Development Programme** through various schemes, either through tenders or individually, for the development of attractions, hospitality facilities and infrastructure.

After several years of preparation, the **National Active Tourism Strategy** was presented for public debate in March 2023. The coronavirus pandemic led to an increase in the number of people seeking active tourism experiences, as indicated by the growing share of active tourism in tourism expenditure. The strategy aims to provide a framework for a coordinated, balanced, and sustainable development of the segment, contributing to a healthier and more environmentally conscious lifestyle for the population and supporting environmental education for young people.

3.3. Research, Development, and Innovation

The European Commission's 2019 country-specific recommendation calls for Hungary to pay particular attention to research and innovation activities and proposes to make it a key pillar of investment-oriented economic policy. The Commission's country report highlights the low number of patent, trademark and design sample applications, the low share of innovative enterprises and the low level of internationalisation of small and medium-sized enterprises, which hinders their participation in the global value chain. The 2020 country-specific recommendation states that research and innovation is a critical driver of long-term growth and competitiveness, and in the case of Hungary, the lack of highly skilled workers is cited as a key barrier to innovation, a factor also highlighted in the 2022 recommendation.

Hungary made significant progress in developing its innovation ecosystem, which led to a **dynamic increase in R&D expenditures in Hungary** in recent years, **both in absolute terms and as a share of GDP**. In 2021, Hungary spent HUF 907 billion[2] on R&D, **representing 1.65 per cent of GDP[3]**, the **highest level** since the Hungarian Central Statistical Office (HCSO) started publishing the statistics in 1990.

In 2022, Hungary moved up 1 place in the **European Innovation Scoreboard** (EIS), ranking **first in the group of emerging innovators**. It is important to highlight that, between 2015 and 2022 Hungary's performance in the Connections and Innovators indicator groups increased by 61.5 and 46.7 percentage points respectively, compared to the EU average[4].

The **Hungarian innovation ecosystem started to be organised around universities**, and in parallel with the change in the higher education model, Hungary doubled the amount of money spent on operational funding for higher education from 2022, significantly increasing the annual funding for universities, which can also be spent on wage increases and the development of research infrastructure. The Government has a strategic goal to increase the number of students enrolled in doctoral programmes, particularly in STEM (science, technology, engineering, and mathematics) fields.

[2] https://www.ksh.hu/stadat_files/tte/hu/tte0011.html
[3] https://www.ksh.hu/stadat_files/tte/hu/tte0022.html
[4] https://ec.europa.eu/assets/rtd/eis/2022/ec_rtd_eis-country-profile-hu.pdf

The **quality of publications has increased significantly** in recent years, especially for higher education institutions, with the proportion of publications in the top 10 per cent of the world's most cited publications in universities rising by more than 30 per cent by 2020 compared to 2018. From 2018 to 2022, total domestic output resulted in a 23 per cent increase in Q1 publications[5]. The number of **patent applications filed** nationally **increased from 19 in 2019 to 74** in 2021 in higher education institutions[6].

The **number of researchers (FTEs)** in Hungary **increased at a remarkable rate**, more than doubling between 2010 and 2021 (from 21,342 to 43,324 people), the second highest growth rate in the EU[7].

The share of SMEs introducing product innovation increased by 8.8[8]percentage points since 2014 in Hungary. The share of knowledge-intensive services exports increased from 47.9 per cent in 2013 to 55.3 per cent in 2020[9].

Introduction of R&D&I policy measures and programmes

The high-level strategic framework for RDI policy in Hungary is set out in Hungary's **Research, Development and Innovation Strategy** for the period 2021–2030 (hereinafter: **RDI Strategy**) and, closely related to it, the **National Smart Specialisation Strategy** for the period 2021–2027 (hereinafter: S3). In line with the relevant country-specific recommendations, the RDI Strategy aims to put research and innovation at the heart of investment-oriented economic policy and to strengthen investment in research and innovation.

In order to meet these objectives, Hungary launched and will continue to launch strong and targeted support programmes to continue linking universities and research institutions with the economy, to increase the innovation performance of Hungarian businesses and the number of innovative enterprises, to develop Hungary's research and technology infrastructures and to ensure a high-quality supply of researchers.

Main sources of funding

In its implementing decision of **22 December 2022**, the European Commission adopted the Partnership Agreement with Hungary and, as part of it, the Economic Development and Innovation Operational Programme Plus **(EDIOP Plus)**. The RDI priority envelope of EDIOP Plus 2 is EUR 1.61 billion.

The intervention logic of the EDIOP Plus Priority 2 indicates interventions according to the three pillars of the RDI strategy:

- Under "Support for Knowledge Production", research infrastructures are strengthened,
- The intervention "Stimulating knowledge transfer by supporting RDI collaborations" focuses on collaborations between knowledge intermediary organisations and economic actors, as well as on technology transfer (e.g. National Laboratories and Competence Centres),

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[5] Hungarian Scientific Bibliography Database (MTMT)
[6] Source: HIPO
[7] https://ec.europa.eu/eurostat/databrowser/view/RD_P_PERSOCC__custom_5159261/default/table?lang=en
[8] https://www.ksh.hu/stadat_files/tte/hu/tte0017.html
[9] https://research-and-innovation.ec.europa.eu/document/download/32524f38-b877-4bfd-b14a-0bc151eef419_en?filename=ec_rtd_eis-2022-eu-neighbours-database.xlsx

- The intervention “Strengthening knowledge utilisation by increasing corporate RDI activities” aims to support R&D and innovation in the corporate sector, in particular that of micro, small, and medium-sized enterprises.

In addition to EDIOP Plus, the **National Research, Development, and Innovation Fund** (NRDI Fund) is the main source of funding at national level. The annual budget of the NRDI Fund (usually between HUF 120–160 billion) provides continuous support for the implementation of scientific projects, the supply of new researchers, major public infrastructure developments (National Laboratories and Competence Centres) and corporate RDI activities.

Within the framework of *Investment 6* / Reform 3 of Component “B” of the **Recovery and Resilience Plan** (hereinafter: **RRP**), the **National Laboratories** and their corresponding organisations are formed.

Priority interventions

The **National Laboratories** aim to create focused domestic hubs that bring together the most outstanding and competent actors in the respective fields concerned, i.e. university knowledge bases, businesses, research institutions, and provide a dynamic and fertile environment for coordinated discovery and experimental research based on constructive collaboration. Domestic centres of the given thematic fields are concentrated in these scientific hubs, with the main objective of providing solutions from their activities to major socio-economic challenges, which can be used in both domestic and international contexts.

There are currently 26 National Laboratories, which were set up either individually or in consortia with higher education institutions, research institutes, companies, and other public administration institutions.

The National Laboratories Programme was implemented under the RRP, in the framework of the “RRF – Establishment and complex development of National Laboratories (RRF-2.3.1-2021)” call. The 14 National Laboratories supported by the RRP work in three major R&D areas, such as healthy living, green transition, and the digital transformation of the economy and society, including the fields of renewable energy, data-driven health, pharmaceutical research and development, water safety, artificial intelligence and autonomous systems. The grant agreements were signed in 2022 and the 14 National Laboratories were established by 30 June 2022, while the R&D activities and related indicator commitments planned under the projects are to be completed by the beginning of 2026. By 30 June 2026, the National Research, Development and Innovation Office shall prepare a report for the European Commission on the efficiency and effectiveness of the operation of the National Laboratories funded by the Recovery and Resilience Facility, and on the points for improvement of the Programme.

The National Laboratory programme received support from the RRP budget as well as from the national budget. Under the national (NRDI Fund) support, 12 laboratories received funding worth HUF 70.6 billion. The projects are currently under implementation and contribute to strengthening university-industry collaborations, and ensuring the supply of the next generation of researchers.

Support for **corporate RDI activities** is provided through grants for corporate R&D and SME innovation activities, both in the less developed regions and in Budapest, which is considered a developed region. Some schemes also support cooperation between companies and universities. In 2022, the **Fast Track programme, which aims to provide grant-type support to spin-off companies** mainly at universities and research institutions, entered a new implementation phase, with HUF 12.48 billion of domestic funding (NRDI Fund) to support research utilisation. Under EDIOP Plus, support for corporate RDI was launched in 2021 and projects are implemented from 2022/2023.

The Commission's 2019 Country Report identified support for inter-institutional links and cooperation between the actors involved in research/higher education and the business sector as a high priority investment need. The relationship between research/knowledge intermediary organisations, in particular universities, and the business sector needs to be further developed to ensure that the knowledge generated at universities/research institutes effectively supports the development of the domestic economy and that research focuses on practical solutions to real problems.

Competence Centres are knowledge centres that operate as matrix organisations in cooperation between research/knowledge intermediary organisations and companies. The centres respond to the needs of a local institutional network of partners, aiming to serve the R&D needs of collaborating partners and to develop competitive products and services through knowledge transfer between sectors. So far, 10 Competence Centres have started operating in Hungary with the support of calls launched by the NRDI Fund. The next phase of establishing Centres of Excellence can take place within the framework of priority 2 of the EDIOP Plus adopted in December 2022.

Within the RDI ecosystem, research infrastructures play an important role in both basic and exploratory research, contributing to increasing Hungary's economic performance through their scientific outputs. Research infrastructures are at the heart of the RDI ecosystem and play a key role in delivering scientific breakthroughs and driving innovation. Complex support for **domestic research infrastructures** is implemented and support is provided for the cooperation of domestic research infrastructures with research infrastructures included in the ESFRI Roadmap 2021. The support covers investment in equipment, improving the supply of new researchers and the expansion of international scientific relations.

Under the main EU programmes supporting research and innovation, national authorities are legally obliged to develop synergies. The **Seal of Excellence** is a qualification category introduced within the research and innovation framework programme of Horizon 2020 (2014–2020), which gradually became a key tool for creating synergies. The Seal of Excellence is awarded to project proposals submitted under the Horizon Europe call for proposals that are above a pre-defined quality threshold but which are not eligible for funding under Horizon Europe due to budgetary constraints. With this label the Commission recognises the value of project proposals and encourages other funding organisations to take advantage of the high quality of the Horizon Europe evaluation process. Hungary also recognised the benefits of the Seal of Excellence aid scheme and is committed to supporting innovative SMEs that were awarded the Seal of Excellence.

The fulfilment of the requirements for the proper management of the national or regional smart specialisation strategy, including the creation of S3 monitoring and evaluation tools to measure performance in achieving the objectives of the strategy, was stipulated as an eligibility condition for the EDIOP Plus adopted by the European Commission. The **S3 monitoring and evaluation system** is being developed on the basis of the above documents. The monitoring takes place by following-up on the development policy at area and priority level, using statistical outcome and context indicators. In 2023, the first monitoring report for the planning period 2021–2027 is about to be completed and the interim evaluation for 2024/2025 prepared. The monitoring system also includes a continuous assessment of research infrastructures. The S3 Methodology document is completed and data collection and synthesis for the planning period 2021–2027 has started.

The productivity and innovation activity of Hungarian SMEs is low, and the EIS data, which can be compared internationally, clearly show that SMEs' innovation indicators are one of the most important areas for improvement in the domestic RDI ecosystem. In the annex to its 2019 Country Report, the Commission identified as a high priority investment need to boost the growth and competitiveness of small and medium-sized enterprises by increasing productivity and the added value of the economy through increasing the number of innovative enterprises.

With the support of the NRDI Fund, the **Startup Programme to strengthen the startup ecosystem in Hungary** was launched, with the aim of making the ecosystem self-sustaining in the long term and delivering positive results that are meaningful at the national economic level. The aim of the project is to contribute to the development of scientifically substantiated, priority elements of the Hungarian startup ecosystem through public programmes. The intended impact of the project is to contribute to the development of the Hungarian innovation ecosystem, to the densification of its network of contacts, to the increase in the number of innovations implemented and to have an indirect positive impact on the cultural mindset of the Hungarian entrepreneurial scene.

3.4. Digitalisation

Digitalisation is no longer a matter of choice: all countries and all sectors must take decisive action in this area. This is particularly justified by the crisis situation created by the coronavirus pandemic, for the handling of which digitalisation is a key factor, regardless whether it is about any aspect of life, society or any area of the economy, in each sector, even in the case of the smallest businesses, in any part of the country. In Hungary, the **National Digitisation Strategy** provides the strategic policy framework for the period 2021–2030. It is a comprehensive strategy that groups, clarifies and in some cases complements the measures contained in various other strategy documents.

The European Commission's Digital Economy and Society Index (DESI) measures the level of digitalisation of Member States along four dimensions, including human resources, internet access, the business sector, and the public sector. According to this indicator, Hungary ranks 22nd of 27 Member States. The rate of improvement in digitalisation in recent years has been broadly in line with the EU average. Among the different areas, Hungary performs particularly well in **internet access** (broadband subscriptions, 5G spectrum), but lags significantly behind the EU average in other dimensions. The **digitalisation of the public sector** is mixed, with Hungary ranking 21st in the EU. The country has an above EU average share of eGovernment service users, but online services are already below average (although catching up in recent years) and the development of domestic open data services is particularly weak. The country ranks 23rd in terms of **human capital**, mainly due to low digital skills among the population and a low share of ICT professionals. Hungarian businesses use digital technology only to a limited extent (and the smaller the business, the less digital technology is used, and most Hungarian businesses are micro-enterprises). As a result, Hungary ranks only 25th among the Member States in terms of the **digitalisation of the economy**. Despite improving data in recent years, the majority of businesses are not exploiting the potential of digital technologies, either in basic technologies (e.g. ERP software, information sharing) or in advanced technologies (e.g. AI, big data).

Digitisation development of the economy and enterprises (SMEs)

The Hungarian Government recognised the importance of digital transformation: businesses should be supported in their digitalisation, and it is important to support processes in all economic sectors with the highest possible level of ICT. The Government's explicit intention is to **further enhance the digital development** of the SME sector and to support the digitalisation of enterprises at the basic and industry 4.0 (advanced) level.

Already in the 2020 country-specific recommendations (CSR3), it appeared that Hungary should promote private business investment in the digital transformation to help the economy recover. The measures taken by the Hungarian Government are in line with this, as the Government encouraged and intends to continue to encourage the digitalisation developments of businesses (especially SMEs).

The Hungarian **Recovery and Resilience Plan (RRP) does not focus on these goals**, it does not include any component, measure or investment for the digitalisation of the economy. However, the adopted 2021–2027 national **Operational Programmes** (primarily DROP Plus, secondarily EDIOP Plus) place a strong emphasis on this issue.

The enhancement of the digital competence and transition of enterprises, the **improvement** of the integration of digital technology, the promotion of the development and spread of innovative infocommunications solutions in all sectors throughout Hungary continue to be government priorities. To this end, among the targeted government digital economic development measures launched earlier (in the programme period 2014–2020), the **Modern Enterprises Programme** supported almost 16,000 Hungarian SMEs with HUF 6.6 billion (other related IT business schemes were also available). These will continue in an expanded and renewed form, with new elements and schemes, with a focus on advanced, cutting-edge new technologies, in particular artificial intelligence (AI) and the data economy, supported by DROP Plus, EDIOP Plus and the Digital Europe Programme (DIGITAL).

The main schemes envisaged within the framework of **DROP Plus** include the development of digital solutions for enterprises, the integration of new technologies into their business processes, the development of models applicable to sectoral problems, support for the digitalisation of micro-enterprises and SMEs, the adaptation of advanced technologies (AI, big data) into the business processes of enterprises, and the development of services to ensure the usability of national data assets in the economy. The total planned budget for these programmes reaches HUF 100 billion, with the first phase of the programmes to be launched in the second half of 2023 at the earliest. In addition to the above, new Industry 4.0 programme(s) (EDIOP Plus, possibly DROP Plus, with domestic budget funding) are also expected in the near future.

With regard to the planned schemes, workshops and consultations will be held before their launch with the involvement of the most affected professional organisations. In addition, a public consultation will take place on the official application site (palyazat.gov.hu) in accordance with Government Decree 256/2021 (V.18.) on the Rules for the Use of Certain EU Funds in the Programming Period 2021–2027. Professional consultations will also be held regularly in the implementation phase of programmes.

Digitalisation in the public sector – infrastructure improvements

The provision of IT tools and software necessary for providing public services (outside the scope of National Infocommunications Services Company Ltd *[NISZ Nemzeti Infokommunikációs Szolgáltató Zrt.]*) by organisations (e.g. public education, healthcare, and social institutions) is a continuous and large-scale task. The experience of the COVID-19 pandemic once again proved that the availability of modern, well-maintained IT tools is a key factor in the resilience of public services, helping to successfully prepare for and manage current and future epidemics, and to speed up and make the implementation of economic reconstruction more efficient.

In order to ensure this in the future, the Government plans to extend the current IT asset supply mechanism with a **national IT asset management programme**, so that the individual IT asset management of the organisations concerned is complemented by asset lifecycle management outside the organisation, which is interpreted at national level by providing a secondary or even tertiary lifecycle. The planned asset management ecosystem aims to establish a comprehensive single register by creating a legislative environment that supports purposeful and sustainable asset management. The planned system must have a flexible, cost-effective supply mechanism that supports procurement management, resulting in significant savings, and continuously provides public services with the necessary state-of-the-art IT tools and solutions, as well as any related services within this framework (maintenance, audits, replacement, replenishment, disposal, etc.). The **total cost** of the measure is HUF 17.6 billion, of which the planned **RRP aid** is HUF 14.8 billion.

Of the adopted national **operational programmes** for 2021–2027, the **Digital Renewal Operational Programme Plus** (DROP Plus) is the main one to address the area in the next period. DROP Plus priorities include:

- Creating a more consolidated digital public services space and a true digital citizenship, with new solutions based on advanced technologies or significantly improved solutions (planned budget: HUF 224.4 billion).
- The development of a high-capacity and high-quality electronic communications network infrastructure is essential for the development of the digital economy, the provision of advanced digital services and the well-being of citizens through digital services (planned budget: HUF 91.9 billion).
- Developing entry-level digital competences among disadvantaged target groups, basic and advanced digital literacy development for the general public, ICT literacy development for public service workers, and support for the development of more specific competences for younger age groups (planned budget: HUF 114.8 billion).

A proposal for a regulation of the European Parliament and of the Council on the digitalisation of judicial cooperation and access to justice in cross-border civil, commercial and criminal matters, and amending certain acts in the field of judicial cooperation, including the relevant draft Directive, are currently under discussion (hereinafter: “recommendations for the digitalisation of justice”) and are expected to be adopted in summer 2023, which target **the digitalisation of access to justice and cross-border judicial cooperation between Member States**. The use of e-CODEX-based electronic applications ensuring interoperability between Member States’ systems for cross-border civil and criminal proceedings, as defined in the annex to the Regulation on the digitalisation of justice, will be launched in several phases over the next few years. In order to achieve this domestically, it is necessary to develop a decentralised IT system for cross-border justice and to improve the domestic electronic justice systems as necessary.

In the field of digitalisation, the government has launched further measures in a number of areas in recent years, which are described in the chapters on the individual areas. Thus, further details on the other priorities and programmes of DROP Plus can be found in the chapters on each of the areas.

4. Business environment, regulation

4.1. Tax system

Competitive taxation

The taxation policy objectives of the Government have not been overwritten either by the coronavirus pandemic or the neighbouring war; **the principal objective of** Hungarian **tax policy remains the retention and bolstering of the competitive tax structure**. The Government's objectives include building a **tax system that is work-friendly** and **simple, while raising employment levels and reducing tax burdens**.

In order to ensure a competitive tax structure, from January 2022, **employers' contributions were reduced by 4 percentage points** to 13 per cent. The reduction is owed partly to the decrease of the social contribution tax (2.5 percentage points) and partly to the abolishment of the vocational training contribution (1.5 percent). The benefits related to the vocational training contribution were integrated in the social contribution tax. In line with this, the **small business tax rate was reduced from 11 per cent to 10 per cent** from January 2022.

Following the amendment of the small taxpayers' itemised lump-sum tax in September 2022, the upper limit for the amount of income exempt from additional tax increased to HUF 18 million and only self-employed people operating in the B2C sector can be taxed under the rules of the small taxpayers' itemised lump-sum tax ("KATA").

Maintaining a balance of the central budget

In July 2022, in order to maintain the balance of the central budget, the rate of the simplified employment tax was valorised and linked to the current minimum wage.

From 1 July 2022, the rate of duty on certain products subject to excise duty (tobacco, certain alcohol and energy products) increased, and the burden of the public health product tax on alcoholic beverages was included in the excise duty on alcohol products.

Company car tax rates increased by an average of 83 per cent from July 2022, given that the tax rate is itemised and was unchanged for 12 years, and that company cars became a specific salary replacement benefit, partly due to the depreciation of the tax.

The upper limit of transaction duty on general and postal transactions (payment operations) was raised from HUF 6 thousand to HUF 10 thousand. A financial transaction levy on securities transactions was introduced and fintech companies (foreign financial service providers serving customers in Hungary) became subject to the transaction levy in order to eliminate the distortion of competition between domestic and foreign service providers' tax obligations.

In order to maintain a balanced budget, from 1 July 2022, a contribution has to be paid by the ground handling service providers in aviation. Until 31 December 2022, the contribution was HUF 3,900 per passenger flying within Europe and HUF 9,750 per passenger flying outside Europe. From 1 January 2023, the contribution rate was adapted to take account of environmental considerations, with HUF 2,700, 3,900, or 5,100 per passenger for European destinations, depending on emissions, and HUF 6,800, 9,750, or 12,700 for destinations outside Europe. From 1 March 2023, the tax rates were further differentiated according to carbon dioxide emissions, with HUF 1,600, 3,900, or 6,200 per passenger in consideration of emission for European destinations and HUF 3,900, 9,750, or 15,600 for non-European destinations.

Temporarily, insurers must pay a special tax for 2022 and 2023 as, unlike previous regulations stipulated, the fee of life insurances will also be subject to taxation.

For telecoms taxpayers, the government decree on extra-profit taxes also sets out the additional telecoms tax liability for 2022 and 2023.

Credit institutions and financial undertakings are subject to a special tax on extra profits for the tax years 2022 and 2023. The special tax is based on interest income and income from fees. No exemptions or discounts are available. The special tax rate is 10 per cent in 2022 and 8 per cent in 2023.

For pharmaceutical manufacturers, a new revenue-based tax was introduced with banded rates for the tax years 2022 and 2023.

A new, temporary special tax obligation on oil refining is also introduced. The tax liability applies to the tax years 2022 and 2023. The special tax on petroleum product producers is based on the difference between the world market price of crude oil multiplied by the monthly volume of crude oil purchased in barrels from the Russian Federation, if positive. No discounts or exemptions are available. The tax rate was 25 per cent until 31 July 2022. The tax rate increased from 25 per cent to 40 per cent from 1 August, and a 95 per cent rate came into force on 8 December.

In the tax years of 2022 and 2023, producers of bioethanol, starch and sunflower oil will be included in the scope of energy suppliers' income tax.

The income tax rate for energy suppliers was increased from 31 per cent to 41 per cent for all taxpayers for tax year 2023.

A new, temporary special tax obligation was introduced for the 2022 and 2023 tax years for electricity producers that are excluded (or do not opt in) of the sales under the mandatory electricity off-take scheme or the premium-type support (KÁT, i.e. mandatory off-take and METÁR, i.e. METÁR renewable scheme) in the 2022 or 2023 tax years and whose production exceeds 0.5 MW. The tax is based on the excess of the free market price above the subsidised price. The tax rate is 65 per cent. Producers are exempted for electricity produced from solid biomass.

In 2022 and 2023, the provision of balancing control capacity acquired by the TSO will be subject to a surtax. The tax is levied on the balancing regulatory service provider. The tax is based on the revenue received in exchange for the balancing control capacity service. The tax base is determined on a cash flow basis, i.e. on the basis of the income realised during the period. The tax rate is 13 per cent in 2022 and 10 per cent in 2023.

The top rate for retail tax for companies with retail sales revenues of more than HUF 100 billion was increased from 2.5 per cent to 2.7 per cent from 1 February 2022. The retail tax increases significantly for fiscal years 2022 and 2023. For the tax year commenced in 2022, 80 per cent of the tax declared in 2021 must be paid as a one-off special tax, for the tax year commenced in 2023, the payable tax will be established with the help of a new calculation table containing higher rates. This ensures the expected additional revenue already by 2022 while avoiding the risk of retroactive taxation. According to the new rate table applicable to 2023, the rate remains 0 per cent up to a tax base of HUF 500 million, the rate applicable above this amount is 0.15 per cent instead of 0.1 per cent for the tax base up to HUF 30 billion, 1 per cent instead of 0.4 per cent for the tax base in the HUF 30–100 billion band, and 4.1 per cent instead of 2.7 per cent for the tax base above HUF 100 billion band.

Increasing employment

To boost employment, a personal income tax exemption for workers under 25 was introduced in 2022. The scope of beneficiaries was extended from January 2023; mothers under 30 years of age are also exempted from paying income tax on their earnings up to the level of the average wage.

To support businesses, the tourism development contribution was suspended between 1 October 2022 and 31 March 2023.

Targeted support

Family support measures were further enhanced with the introduction of a higher family allowance, also in January 2023, for children with long-term illness or severe disabilities.

From 1 February 2022 until the end of 2022, small petrol stations could claim a reduction in social contribution tax and small business tax for 4 employees and were exempt from paying the rehabilitation contribution.

In order to support petrol stations, the excise duty rate on non-premium petrol and diesel is reduced by HUF 5 per litre for both from 28 February 2022, and by another HUF 20 for both from 10 March 2022. The measure was superseded by the Government on 6 December 2022, from which date the rates under the Excise Act apply again.

As of 1 January 2021, within the framework of the Family Housing Subsidy Scheme, purchase of a dwelling has been exempted from duty and, in case of new dwellings, refunding of the value-added tax has been introduced. Due to the nature of the measure, the first significant budgetary impact was in 2022.

Combating tax avoidance

Hungary signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting in 2017. According to the 4th country-specific recommendation, Hungary needs to strengthen the tax system against the risk of aggressive tax planning. The Multilateral Convention sets out rules against tax avoidance that contribute to fulfilment of this objective. The bill containing the announcement of the Convention was adopted as Act III of 2021 in the spring of 2021. Provisions of the Convention applicable from 1 January 2022 modify bilateral tax conventions within its scope. As of 1 January 2023, as a result of the notification procedure under the Convention, further **bilateral tax treaties** concluded by Hungary **were amended** to take account of the Multilateral Convention. The revised bilateral tax treaties reduce the scope for tax evasion.

Reforming international tax regulations in the "two-pillar approach", within the framework of **further action against tax avoidance and aggressive tax planning** is being developed by OECD since 2019. Decision-making relating to the proposals of Pillar 1—reforming the taxation of digital large companies—and Pillar 2—introducing the global minimum tax—took place at a political level in 2021; detailed arrangements continued to be drawn up in 2021 and 2022. The Pillar 1 proposal continues to be negotiated by the OECD in 2023, with a related multilateral agreement to be developed and adopted by the end of the first half of 2023. In the context of the Pillar 2 proposal, the OECD Model Rules were adopted in December 2021 and the EU Directive on Ensuring a Global Minimum Level of

Taxation was adopted in December 2022 on the basis of the OECD Model Rules. Member States have time until 31 December 2023 to implement the EU Directive in order to make it applicable in practice from 1 January 2024.

Legislative work in Hungary started in 2023 to carry out the EU Directive implementing the Pillar 2 regulation by 31 December 2023 and to adapt to the global minimum tax regime. **The related legislative proposals are expected to be put forward in 2023**. In order to ensure that the domestic introduction of the global minimum tax has the least impact on Hungary's competitiveness, the system of tax relief for large companies needs to be reviewed. In addition, Hungary may have an interest in introducing a domestic surtax to ensure that the differential surtax is not levied by other countries on the companies concerned that do not reach the minimum tax level of 15 per cent. The expected date of the application of the new rules: 2024. At the same time, Hungary participates in the ongoing OECD work on the implementation of the global minimum tax, which remains an active debate in 2023.

Through an independent expert report, the Government also set a target to map, by the end of Q4 2025, the effectiveness of domestic rules on shell entities with aggressive tax planning and on outbound royalty and interest payments to countries that are on the EU list of non-cooperative countries and territories or are designated as zero or low tax jurisdictions.

4.2. Public administration

The continuous improvement of public administration is a vital requirement for maintaining and increasing competitiveness. The current development directions of the Hungarian public administration are determined by the commitments set out in the Recovery and Resilience Plan adopted by the European Commission, in addition to the objectives set out in the Public Administration and Public Services Development Strategy (2014–2020) and the National Digitalisation Strategy (2022-2030).

The directions set by the Public Administration and Public Services Development Strategy 2014–2020 are as follows: (I) establishment of the organisational conditions for service-providing public administration, (II) development of human resource management in public administration, (III) improvement of the quality of public services, (IV) implementation of the Digital State.

Actions taking place under the RRP

The **legal mandate for the implementation, audit and control of the Recovery and Resilience Plan** was fulfilled by the Government through Government Decree 373/2022 (IX. 30.) on the rules and responsible institutions of implementing Hungary's Recovery and Resilience Plan and Government Decree 463/2022 (XI.15.).

The action "**Supporting data-driven decision making and the legislative process** (RRF-9.6.1)" aims to make greater use of data analytics and artificial intelligence solutions for political, policy and administrative decision-making, and for providing information about this process. In 2023, a data platform system for data analysis and data visualisation to increase the efficiency and transparency of the legislative process will be completed and an accredited training system for its use is being set up. Staff directly involved in the legislative process, as well as staff from the competent ministries, government institutions and organisations typically involved in decision making, receive training in data analysis methods and the use of the data platform.

The **Enhanced Transparency of Public Expenditure** reform measure aims to increase the transparency of public expenditure by removing barriers to access to public information, making it mandatory for all public bodies to proactively publish a pre-defined range of information on the use of public funds in a central register that is publicly accessible. According to the recital (54) of Council Implementing Decision (EU) 2022/2506, Hungary fulfilled the required key implementation steps by adopting Act XL of 2022 and subsequently Act XLIV of 2022. However, the Council Implementing Decision also records that, on the basis of the Commission's assessment updated on 9 December 2022, weaknesses in the regulatory framework that undermine its effectiveness remain, in particular regarding the lack of information disclosure obligations for all contracting authorities, if data on the "responsible body" for public expenditure, the contracting authority, and the service providers, suppliers and capacity providers is not available in the minimum set of data to be uploaded to the central register. The Central Information Public Data Registry is available on the https://kif.gov.hu/ website, and data on public expenditure exceeding HUF 5 million is continuously being uploaded.

The measure called **improving the efficiency of public spending** aims to examine and improve the quality and social impact of public spending, so that improvements are made with a view to strengthen economic growth and the sustainability of public finances and debt in the medium term. The reform is designed to develop effective, sustainable budgetary responses to the changing social and economic environment and to help build them into annual budgets. In order to achieve this, the coordination unit responsible for reviewing the efficiency of public spending is being set up, and the Ministry of Finance is expected to adopt and publish the amendments to the Ministry's Organisational and Operational Regulations shortly. The development of legal and organisational regulations for the review of public expenditure has started. The governance structure for the public expenditure reviews is two-tier, based on OECD guidance and EU Member States' practice, and consists of a Steering Board at Secretary of State level providing strategic guidance and expert working groups responsible for the practical implementation of the reviews. The inaugural meeting of the Steering Board takes place in April 2023, with the task of preparing a Government Decision as agreed in the commitment. There is an ongoing professional relationship with the relevant department of the European Commission and the task is on schedule.

Hungary submitted **4 approved applications in the 2023 tender period of the Technical Support Instrument (TSI),** the European Commission's Structural Reform Support programme, for the planning and implementation of its public administration, taxation, adult education, healthcare, and growth stimulus reforms. The TSI programme is also supporting the implementation of the RRP in this cycle, 1 out of the 4 Hungarian applications supports the implementation of the DNSH principle in the framework of the RRP.

Efficient, digital public administration

In terms of digital public services, Hungary ranks 21st among EU Member States according to the DESI 2022 indicator (2021 data). The National Digitalisation Strategy (2022–2030), adopted in December 2022, sets ambitious specific targets in its Digital State pillar, to be achieved by 2030 to improve the country's ranking in the relevant DESI components.

In line with the objectives of the digital state, developments continued last year to improve the quality and accessibility of public services, simplify administration, and reduce administrative burdens for citizens and businesses.

Developments on local government level

The **Integrated Public Services Information System (IPSIS) of** local governments has been operational since May 2018 with 16 specialised systems. The government decision[10] published on 21 September 2021 provided an opportunity for the further development of IPSIS, which is currently being implemented in the framework of a project under the professional leadership of the Ministry of Interior. The project will be developed with HUF 4 billion of EU funding and is planned to be completed by the end of June 2023. The aim of the improvements is to increase the number of sectoral databases connected to the system, so that local government users of IPSIS can benefit from a wider range of analytical tools for the organisation of local public services. In addition, automated reports are created to ensure that the benefits of digitalisation are also available to municipal and sectoral professionals who are less competent in the use of state-of-the-art information technology solutions. The infrastructure for running IPSIS will also be improved. IPSIS currently has 1328 registered local government users, with more local governments planned to join. The development also includes a citizen module to provide citizens with the most important statistical information on their place of residence or other municipalities.

In September 2022, the implementation of the project **"Local government public finance development and municipal capacity building in Hungary"** started, which was selected under the European Commission's Technical Support Instrument. The implementation of the project awarded by the National Federation of Municipal Governments (NFMG) is managed by the Council of Europe's Centre of Expertise on Good Governance. The aim of the project is to strengthen the administrative and financial capacity of local governments, to support efficient public spending, quality service delivery, sound financial management and sustainable integrated development planning at local level. The project builds and supports the capacity of local officials, introduces an effective benchmarking system for local government practices and develops an online platform to measure local government performance against agreed indicators, including local finance, public ethics, and good governance benchmarks. The project tasks will be completed by the end of August 2024.

Improvements to support the workflows within the Government Offices

The measures described below were financed by EU cohesion policy funds. Most of them were completed by the end of last year and some are to be completed this year, in June 2023.

[10] Government Decision 1647/2021 (IX.21.) on Increasing Support for Certain Projects under the Operational Programme for the Development of Public Administration and Public Services

A **single government office network architecture** was established; from the second half of 2022, all professional systems used by government offices became accessible at the workstations operating as endpoints of the government office network, and the workstations operating in the virtual networks of professional systems taken over for operation from former regional state administration bodies (then from specialised administrative bodies) by certain metropolitan and county government offices and ministries can be operated in the future as endpoints of the government office network.

A **Government Office Integrated Management Support System** was developed, within which (I) a fully electronic management system covering all processes related to the management of government offices was developed in the Management Subsystem, enabling internal operation, and furthermore, a unified accounting framework policy was developed for government offices; (II) a government office data warehouse was created in the Business Intelligence and Analytics System, ensuring the processability and analysability of data.

By the further development of the **Central Appointment Reservation Application of Government Offices**, the system enabling online appointment booking was expanded with cases falling within the scope of the transport authorities, and relating to health insurance and the land registry from the second half of 2022.

By the establishment of the **National Commercial Register**, a single electronically accessible, uniform, and aggregated national register, replacing records managed in the past in various forms by municipalities, contains data on 10 commercial activities and services. By using the electronic public register, businesses and citizens can conveniently and promptly obtain public data relating to commercial stores and merchants, markets, farmers' markets, fairs, shopping centres, real estate brokers and condominium managers. With the introduction of NCR, activities that had been previously separately registered, subject to notification and authorisation, became traceable for citizens, authorities and competent organisations in a nationally uniform, transparent and efficient system.

The **Register of Public Administrative Sanctions** was established to apply the principle of gradual enforcement of public administrative sanctions; it contains perpetrators of administrative offences and the public administrative sanctions enforced against them by authorities. The authentic public register contains data on clients, the acting authorities, decisions determining the sanctions and type of sanctions, thereby assisting acting authorities in selecting legal consequences in line with the sanctions of other authorities.

The Single Central Electronic Document Management System (SCEDMS) was implemented to support 30 new workflows for territorial administrative procedures, 5 of which are automatic decision-making procedures. The latter means that, for 5 types of cases, submitting submissions on forms and workflow support was complemented with a single administrative interface and automated decision-making support, where government administrators can assess submissions in a simplified way, and the system can generate case closing decisions and documents (e.g. resolutions) without any intervention from the administrator, speeding up case management.

A **Single Administrative Support System for Social Benefits (SASSSB)** has been established, which will be used in metropolitan and county government offices from the second half of 2022, to manage social, child protection and military personnel benefits administered within a single IT system. The new application provides case management support for the following benefits and allowances: (i) employment substitution support; (ii) health impairment or full-time parenting benefit; (iii) entitlement to healthcare services; (iv) assistance to war veterans; (v) old-age allowance; (vi) public medical card system; (vii) nursing allowance; (viii) child home care allowance; (ix) family housing subsidy; (x) advance child support.

Developments supporting electronic administration options of businesses and citizens

According to the European Commission's DESI 2022 assessment, significant progress was made in recent years in terms of using eGovernment services: In 2021, 81 per cent of internet users used online public services (above the EU average of 65 per cent), compared to 70 per cent in 2020 and 64 per cent in 2019. At the end of 2021, more than 3,000 public services were available online, almost double the number a year earlier, of which 439 are provided through embedded online smart forms (iFORM) with automatic pre-filling of personal data (a 70 per cent increase in one year). From 1 January 2018, state and local authorities must provide e-government services and certain clients must use it.

Projects implemented from Structural and Investment Funds

In 2022, several IT developments were carried out at the Ministry of Finance, aiming to simplify and speed up the administration of public affairs, and to introduce digital solutions instead of paper-based administration. The changes affect several registration-related administrative procedures, so from this year onwards, clients are able to deal more easily and quickly with the administrative procedures for accountants, internal auditors, tax advisers, tax consultants, chartered accountants, customs advisers and customs administrators. Thanks to the development of the PASOP project **"Integrating the Ministry of Finance into the administrative space"**, clients who already have client gate registration will be able to use an online form on www.magyarorszag.hu, a so-called IForm, instead of the previous paper form, to initiate registrations or notification processes regarding changes in their data. Another important element of the development is the possibility to pay the administrative service fee online. A new IT system is introduced at the same time as the IForms, which allows faster processing of applications received online. The new specialised system also simplifies communication between the client and the authority, as the client receives notifications and decisions on cases started online on the Client Gate's connected storage space. In addition to the administration of natural persons, the launch of credit score validation procedures were also simplified for training organisations, for which also IForms and online payment option are provided.

With the introduction of **Data Change Management Service** (e-Reporting), as of February 2022, administration of changes in data of natural persons has become simpler, and utility transfer procedures have also been digitalised and simplified for utility providers joining the new system. Within the new system, the State provides free single window electronic administration of procedures necessary in various life situations of clients (moving, making available for use, rental, death) for transferring utilities. The change notification service allows service providers that have a contractual relationship with the natural person concerned to be notified of changes to the data of natural persons stored in public registers. From 1 January 2023, district heating suppliers, electricity suppliers, natural gas suppliers and water suppliers have to be connected to the service, and from 1 July 2023, electronic communications providers also have to be connected.

The improvement of the **sample signature based document authentication system** enabled the development and broad introduction of the new, currently the most widespread form electronic authentication based on signatures by hand at all government office customer service points during the administration of 35 types of cases. In this process, a new electronic authentication method applicable at government office customer services was developed, where representations are authenticated on the basis of biometric data of traditional signatures provided in electronic form. Introduction of the system will also enable back office types of administration based purely on electronic documents. The project is expected to end in June 2023.

The project **"Support for the preparation of an electronic Employer Information Programme (eEIP) to reduce the administrative burden on employers"** was successfully completed in 2022 within the framework of the European Commission's TSI Expert Support Programme. The project, led by the Ministry of Finance and the competent offices under the expert guidance of Ernst & Young, aimed to lay the foundations for a transaction-based, single-channel reporting method to replace the costly and time-consuming system for employers, which requires excessive control by public administrations and involves multiple, unrelated data elements. The system to be set up supports the improvement of public service procedures, the reduction of administrative burdens for institutions and businesses, and the adequacy of revenue collection.

Improving the human resources of public administrations

The availability of highly qualified officials is essential for the modern and efficient operation of the organisations in government administration, and the Government is committed to the professional development of its staff. Pursuant to Act CXXV of 2018 on Government Administration and Government Decree 338/2019 (XII.23.) on the Mandatory Training, Refresher Training, Retraining and Public Administration Leadership Training of Government Officials in Government Administrative Bodies, government (central and local) officials are required to attend annual refresher training. Unless otherwise provided by law, the training is provided by the National University of Public Service through its central educational information platform (Probono) in online, in person or blended forms.

Competency development of territorial state administration bodies

The national PASOP priority project **"Development of human resources of territorial state administration bodies"** was completed, in which the competency development of 23 thousand government officials from the capital and counties was completed with HUF 8 billion. The main goal of the project was to improve the quality of administration and increase staff and customer satisfaction by developing the human resources of the regional public administration. During the implementation of the project, after the needs assessment, curriculum development, internal trainings and methodological preparation of the staff involved in the training were carried out. The project also included training programmes to support staff commitment and mental health, and other human development activities.

Pursuant to the regulations governing the training and refresher training of staff of the capital and county government offices,[11] the total number of **persons obliged to undergo refresher training at the capital and county government offices** in 2022 was 30,229 (90.6 % of the total number of staff), of which the total number of persons meeting this obligation was 28,773. The training was completed through the ProBono refresher training system run by the National University of Public Service. In addition, 56 additional internal refresher training courses were organised in government offices in 2022, with a total of 12,974 officials participating.

The share of officials with tertiary education in the staff of the capital and county government offices is 73 per cent. In government agencies, the **proportion of female managers** as a percentage of total

[11] Government Decree 273/2012 (IX.28.), Government Decree 568/2022 (XII.23.)

managers is 60.3 percent, i.e. the number of female managers in government agencies significantly exceeds the number of male managers. The percentage of female managers in the higher managerial position of Director-General as a professional leader is 52.6 per cent, while the percentage of male managers is significantly higher in the case of Capital and County Government Commissioners (95 %).

4.3. Regulation

The Government introduced (and extended) a number of emergency measures to mitigate the effects of the coronavirus pandemic and the subsequent Russian–Ukrainian war on energy and food markets, to preserve the purchasing power of the population and to help businesses in difficulty.

Price caps

The Government introduced a temporary price cap on **certain essential foods** in autumn 2021. The food price freeze lasts until 30 June 2023. The price of these products cannot be higher than the price on 15 October 2021: granulated sugar, wheat flour (BL 55), refined sunflower oil, domestic pork legs, chicken breast, chicken back and tail, chicken back, chicken tail, chicken wing tips, ultra-high temperature treated cow's milk with 2.8 per cent fat. The price of hen's eggs and table potatoes (excluding new potatoes) must not be higher than the price on 30 September 2022.

In order to control fuel prices and inflation, the Government set the maximum possible price of 95 octane petrol and diesel oil at HUF 480 per litre from 15 November 2021. The measure was ended by the Government on 7 December 2022. The price caps could reduce inflation by 3.4-4.6 percentage points in the second half of 2022.

Loan repayment moratorium – agriculture

In Government Decree 292/2022 (VIII.8.), the Government grants a moratorium on instalment payments of **credit, loan, and financial leasing contracts of agricultural farmers** between 1 September 2022 and 31 December 2023. The moratorium was open to opt in until 15 September 2022.

The purpose of the moratorium on instalment payments of loans is to help farmers (agribusiness, freelancers and primary agricultural producers) in financial difficulty.

According to the data provided by financial institutions, the moratorium-affected stock of customers entering the agricultural moratorium amounts to HUF 286.6 billion, which relates to 7,414 contracts (the number of affected customers is lower because one customer may have several contracts). Out of the total loans, HUF 88.35 billion is receivables from freelancers, family farmers and primary producers, and the number of loan contracts related to these self-employed persons is 4,266. In addition, 2,874 loans to agricultural entrepreneurs were also subject to the moratorium, amounting to HUF 196.06 billion.

Interest rate freezes

The interest rate freeze measure fixed the interest rates on certain bank loans at a certain level. In this framework, first (from 1 January 2022), the interest rate on **residential mortgage loans** with an interest period of up to one year was fixed, and then the measure was extended **to non-subsidised mortgage loans with an interest period of up to five years** from 1 November 2022, and from 15 November 2022 to variable-rate, non-overdraft, HUF-based credit and loan contracts and financial leasing contracts of

small and medium-sized enterprises. From 1 January 2023, the interest rate freeze also applies to **student loans**, for which the interest rate is fixed at 4.99 per cent.

Under the interest rate freeze measure, the reference interest rate applied to residential mortgage loans between 1 January 2022 and 30 June 2023 cannot be higher than the reference rate in force on 27 October 2021. For non-subsidised mortgage loans with an interest period of more than one year but up to 5 years, between 1 November 2022 and 30 June 2023, the reference rate used to calculate the interest rate variation index shall not be higher than the reference rate in force on 27 October 2021. In the case of loans for entrepreneurs, the reference rate to be taken into account is the BUBOR as of 28 June 2022.

The interest rate freeze measure for households affects a total of nearly 350,000 retail contracts. Savings for households reached HUF 80 billion in 2022 and more than HUF 60 billion in the first half of 2023, leaving a total of HUF 140 billion in the pockets of households. Thanks to the interest rate freeze, a family can save HUF 282,000 in 2022 and HUF 174,000 in the first half of 2023. Without the measure, the average repayment rate for the affected variable-rate residential mortgages would be 64 per cent higher in June 2023, and 15 per cent higher for fixed-rate residential mortgages.

At the time of the announcement, the interest rate freeze for enterprises affects around HUF 1,200 billion of loans, or 36 000 businesses. The measure saves small and medium-sized enterprises a total of around HUF 60 billion by 30 June 2023.

Amendment of the Central Bank Act

The Act on the Magyar Nemzeti Bank was amended in several sections at the end of 2022. The amended legislation includes a number of technical clarifications and updates, as well as rules on cash logistics and the macro-prudential toolkit related to the functioning of the financial system.

In Hungary, cash holdings have been growing steadily, driven not only by the material payment habits of the population, but also by the recent coronavirus and the economic and social uncertainties of the Russian–Ukrainian war thereafter. At the same time, the cash infrastructure in Hungary is not adapted to the high cash demand, increasing the risk of insufficient cash supply, which can easily lead to panic, resulting in a number of negative spillovers in terms of confidence. The MNB's **regulatory powers**[12] **were extended** under an amendment to the law, which **may address the shortcomings of the cash infrastructure network**. In addition to the operators' business policy perspective, the MNB's efforts in terms of security of supply, area coverage and network optimisation may be given greater emphasis in the future.

Keeping the banks' loan portfolio and household indebtedness within a sustainable and healthy framework is supported by **the extension of the MNB's new debt brake regulation options**. Among the debt brake rules that were already in place, the limit on the debt-service-coverage ratio (DSCR) was intended to ensure that the maximum monthly repayment could not exceed a certain percentage of the debtor's income. The loan-to-value ratio (LTV) limit maximises the amount that can be claimed under a mortgage or motor vehicle-backed loan based on the value of the property or motor vehicle taken as collateral. Debt brakes serve as a lower regulatory limit for lenders, i.e. institutions could decide on tighter limits based on their individual lending policies.

[12] Section 23/A of Act CXXXIX of 2013 on the Magyar Nemzeti Bank

To prevent over-indebtedness of borrowers, the possibility of introducing a third debt brake instrument by the MNB was decided[13]. **The new debt brake ratio in proportion of income set a limit on the maximum amount of credit that can be borrowed based on net income.** With the introduction of the new debt brake, Hungary's macroprudential toolkit for debtor protection became among the front-runners, as in Europe typically one or at most two instruments protect borrowers and the household sector as a whole against excessive indebtedness. In the future, the introduction of the new requirement by the MNB may primarily prevent over-indebtedness of borrowers who wish to comply with the DSCR limit by choosing riskier credit parameters (e.g. longer maturity, shorter interest rate fixation).

Reform measures under the Technical Support Instrument programme

The Magyar Nemzeti Bank was awarded support under the 2021 cycle of the Technical Support Instrument for the implementation of the project **"Developing a methodology for the analysis of cyber threats in the financial sector and the preparation of a threat landscape"**. Ernst & Young Consulting Ltd. was selected by the Commission to provide expert support and implementation of the project. The aim of the project is to develop a methodology to provide an adequate picture of cyber-attacks, incidents, and major threats to the financial sector, taking into account existing and emerging EU and national legislative requirements and international best practices, and to subsequently prepare a cyber threat assessment of the Hungarian financial sector. The project was launched in August 2021, the threat landscape report was completed and published in 2022 in Hungarian and English, and the developed methodology is to be adopted this year.

In September 2022, the TSI expert support project **"Developing a Supervisory Framework for Financial Risks Stemming from Biodiversity-related Losses"**, awarded to the Magyar Nemzeti Bank, was launched, and the European Commission entrusted the OECD international organisation with its implementation. The aim of the project is to map the financial risks arising from biodiversity loss in the domestic financial system and, based on this, to develop a financial supervision methodology that can be integrated into the core supervisory activities of the Magyar Nemzeti Bank. The first, theoretical-methodological phase is currently being completed, which culminates in the publication of the methodological framework and an international workshop in June this year. The next stage covers modelling and data analysis tasks. The project is expected to end in June 2024.

Also in September 2022, work started on a project initiated by the Insurance and Pension Funds Supervision Directorate of the MNB, with the technical support of EIOPA, with a dual objective. One of the objectives is to develop **a methodology for insurance product "mystery shopping"** adapted to today's market conditions, and then to incorporate it into supervisory practice and the inspection toolkit. The other objective of the project is to develop a data-driven **risk assessment framework**, complementing the existing MNB methodology, to be applied across not only the institutional but the **entire, market-wide product structure**. The operational work on the current project is expected to last until the end of 2023, with the final document due in early 2024.

The project **"Professional services to strengthen competitiveness"**, with the professional support of Deloitte Zrt., was funded in the TSI 2021 call cycle. The project aims to deregulate and possibly re-regulate professions and groups of professions regulated in Hungary, which are economically important and can contribute to the competitiveness of Hungarian businesses by reducing

[13] Section 32(2) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank.

administrative and financial burdens. Within the scope of implementation of the project, more in-depth review of the regulation of notaries, lawyers, tax advisers, accountants, and auditors takes place, following the shortlisting of the more than 400 regulated professions. The project tasks are coordinated by the Ministry of Economic Development and implementation is expected to be completed in autumn 2023.

Strengthening transparency on the use of EU funding by public interest asset management foundations fulfilling public function

In line with the commitments made in the corrective measure taken against Hungary under the procedure initiated under Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council on a general regime of conditionality for the protection of the Union budget (hereinafter the "conditionality mechanism"), the amendment to Act CXLIII of 2015 on Public Procurement, which entered into force on 13 October 2022, stipulates that public interest asset management foundations fulfilling public functions are subject to the scope of the Act. Also on 13 October 2022, the amending provisions of the law entered into force, which ensure, in line with the commitment made by the Hungarian Government, that all persons holding office in or employed by public interest asset management foundation fulfilling public functions and all persons holding office in or employed by legal persons established or maintained by them are subject to conflict of interest rules in line with the rules laid down in Article 61 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council on the financial rules applicable to the general budget of the European Union (EU, Euratom) (EU Financial Regulation). The Hungarian Government is currently in discussion with the European Commission in order to address the shortcomings in the horizontal eligibility criteria laid down in Council Implementing Decision (EU) 2022/2506, as well as in the horizontal eligibility criteria in relation to academic freedom in the context of certain operational programmes, put forth by the Commission.

4.4. Public procurement

Measures aimed at increasing competition in public procurement procedures

Hungary committed to a number of measures in its Recovery and Resilience Plan (hereafter: RRP), adopted by the Council in December 2022. Such a commitment, which is also of particular importance for increasing competition in public procurement, is the reduction of the share of single-bid procurements to less than 15 per cent by 2024, both for EU-funded procurements and procurements carried out with domestic funding.

The Government adopted Government Decree 63/2022 (28.II.) on measures to reduce the number of single-bid public procurements, which entered into force on 15 March 2022. Based on a predefined methodology, the minister continuously monitors the level of competition in public procurements and the number of single-bid procurements and prepares an analysis each year of the share of single-bid procurements in procedures. Hungary committed in both the conditionality mechanism and the RRP to reduce the proportion of public procurement procedures closed with a single bid, *financed in full or in part by EU funds*, to below 15 per cent by 31 December 2022, calculated according to the Single Market Scoreboard methodology. On 31 December 2022, this ratio was 13.3 per cent. This commitment was deemed fulfilled by Council Implementing Decision (EU) 2022/2506. Hungary also committed to gradually reduce the proportion of public procurement procedures closed with a single bid in a calendar year and *financed from the national budget*, calculated according to the Single Market Scoreboard, to below 15 per cent by 31 December 2024. The annual commitments are as follows for procurement procedures financed from the national budget: Reduction to below 32 per cent in 2022, below 24 per cent in 2023 and below 15 per cent in 2024. On 31 December 2022, this ratio was 31.3 per cent, which means that Hungary met its commitment for 2022.

The Government developed **a performance measurement framework to assess the efficiency and cost-effectiveness of public procurements**. The purpose of the establishment and operation of the performance measurement framework is to help underpin actions to achieve legal policy objectives: increasing the efficiency, transparency and economy of public procurements, reducing the number of single-bid public procurements and increasing the level of competition, and promoting the participation of micro, small and medium-sized enterprises in public procurements. The tasks related to the establishment of the framework are set out in Government Decision 1425/2022 (IX.5.) on the development of a performance measurement framework assessing the cost effectiveness of public procurements. Based on the indicators defined in the framework, the results were published for the first time on 28 February 2023. Thereafter, the results are published annually.

By 31 March 2023, the Government **adopted a comprehensive Action Plan** and made it publicly available to enhance competition in public procurement. The Action Plan is also integral part of other commitments made in the conditionality mechanism, the effective implementation of which should be facilitated by the measures set out in the Action Plan. The actions in the Action Plan are based on: domestic and international good practices to promote competition in public procurement; the first results of the performance measurement framework that became operational in December 2022 and the findings of the analysis of the framework published on 28 February 2023; and the findings and recommendations of the Integrity Authority's Anti-Corruption Task Force relevant to enhancing the level of competition in the public procurement area.

The Action Plan sets specific and measurable objectives, identifies the actions needed to achieve them, sets precise deadlines for their implementation and assigns to each action appropriate indicators to monitor its progress. The plan also identifies the authority or institution responsible for implementing each action, establishes a monitoring mechanism to assess progress towards the objectives of the action plan, includes a specific provision for the annual review of the action plan, ensures that the annual status of implementation of the measures in the Action Plan or any amendments to it is made public without delay. As one of the measures in the Action Plan, cooperation with the Organisation for Economic Co-operation and Development (OECD) was established to assess the causes of single-bid procurements and to improve the measurement of the effectiveness of public procurements.

Act XXVII of 2022 on the control of the use of European Union budget funds established the **Integrity Authority**, which has significant powers in relation to public procurements. The legislation established the **Anti-Corruption Task Force** and lays down the basic and detailed rules concerning its legal status, organisation, functioning, tasks, and powers. The Act was adopted by the Parliament on 4 October 2022 and entered into force on 10 October 2022.

Development of the Electronic Public Procurement System (EPPS) to increase transparency

Certain developments of the Electronic Public Procurement System (EPPS) were to improve transparency in public procurement. The EPPS website provides a regularly updated, machine-processable database containing, in an organised format, all the information on the results of public procurement procedures, including all the notices of the results of public procurement procedures. The database contains data on all consortium members and subcontractors. The database has been **available to the public** from 30 September 2022. Data on subcontractors have been available in a structured format from 30 November 2022. The data on subcontractors are available and searchable in free text for procedures launched before 30 November 2022 and in structured format for procedures launched after that date.

Training and support scheme to increase participation in public procurements

The RRP sets up a training and support system to help **micro, small and medium-sized enterprises** to participate in public procurement procedures. The aim of the measure is to facilitate the participation of micro, small and medium-sized enterprises (focusing on micro and small enterprises) in public procurement procedures. The training scheme is expected to be launched in the second quarter of 2023. The support scheme to encourage SMEs to participate in public procurements was launched, the call for proposals was published at the end of March 2023.

4.5. Fight against corruption

Anti-Corruption Actions, National Anti-Corruption Strategy and Action Plan

The Complex Set of Actions Relating to Corruption Prevention (2020–2022) provides for the training of bodies involved in combating corruption, ensuring an appropriate legislative background for combating corruption, and furthering the digitisation of the public administration. In addition, the existing **National Anti-Corruption Strategy** addresses the criminalisation of informal payment, anti-corruption trainings, the development of an automated decision support system, the conceptualisation of an IT system to support the uniform management of process models and sharing them between authorities, the development of a case register for corruption offences, the mapping of jobs with a high risk of corruption and integrity, the compilation of a collection of organisation type specific guidelines and model regulations in the context of integrity management models. Furthermore, the training of integrity staff and integrity officers, training, education, and development of media content for communication purposes. Hungary implements the current strategy until 30 June 2023, after which it evaluates its results. In parallel with the implementation, the **preparation of the new National Anti-Corruption Strategy** for the period between 1 July 2023 and 31 December 2025 **and the Action Plan for its implementation are underway**.

The reform aims to strengthen the anti-corruption framework by ensuring the implementation of the current National Anti-Corruption Strategy and Action Plan, and by developing a new National Anti-Corruption Strategy and Action Plan, which aims to improve mechanisms to ensure effective prevention, detection and correction of fraud and corruption (including in the public procurement system) and to strengthen the system for managing conflict of interest risks.

The strengthening of the anti-corruption framework in Hungary is achieved through the evaluation of the effective implementation of the measures of the new National Anti-Corruption Strategy and the related Action Plan.

The National Anti-Corruption Strategy and Action Plan for the period between 1 July 2023 and 31 December 2025 shall be adopted by the Government by the end of June 2023, and the implementation of the related Action Plan begins. The National Anti-Corruption Strategy and Action Plan is regularly reviewed, taking into account the content of the reports of the **Anti-Corruption Task Force** and the Integrity Authority and their work.

Implementing cohesion policy funds, setting up new procedures and institutions

The use of the ARACHNE risk assessment system entered into force on 30 September 2022, pursuant to Government Decree 272/2014 (XI.5.) and Government Decree 256/2021 (V.18.). Legally defined data related to the protection of the financial interests of the European Union in the use of EU funds are uploaded to the ARACHNE system every two months for each programming period, and a systematic, regular, and effective follow-up of the risk assessment generated by the ARACHNE system is ensured in order to effectively prevent and detect conflicts of interest, fraud, corruption, double financing and other irregularities.

Act XXVIII of 2022 amending certain acts related to the control of the use of EU budgetary resources established the Directorate of Internal Audit and Integrity (DIAI), which is an organisational unit within the working organisation of the Minister responsible for the use of EU funds, i.e. the Prime Minister's Office, and started its activities on 13 October 2022. Its competence covers all actors in the development policy institutional system involved in the implementation of the EU budget. The Council Implementing Decision (EU) 2022/2506 considered the commitments made in the conditionality mechanism for the establishment of the DIAI as duly fulfilled.

The Integrity Authority was established by Act XXVII of 2022 on the control of the use of European Union budget funds, which started its activities on 19 November 2022. The Integrity Authority is an autonomous state administration body with a broad mandate to intervene in cases where it considers that an entity with responsibilities and powers in relation to the use or control of EU funds did not take the necessary steps to prevent, detect and correct fraud, conflict of interest, corruption and other irregularities or infringements affecting the effective and sound financial management of the EU budget or the protection of the financial interests of the European Union, or where there is a serious risk of such an occurrence. If the Integrity Authority's investigation reveals a suspected irregularity, it has the right to initiate an irregularity procedure under the provisions of the legislation governing the use of EU funds with the competent managing authority or, in the case of a project financed by the Recovery and Resilience Facility, with the national authority.

Anti-fraud and corruption strategy for the use of EU funds

The strategies set out the responsibilities of the actors involved in the implementation of EU financial assistance to prevent, detect, and correct fraud, conflict of interest and corruption. The strategies include an analysis of the main risks, factors and practices related to fraud, conflicts of interest and corruption. The various EU funds and financial support instruments have detailed strategies in their documents.

The Prime Minister's Office, the ministry designated to assist the Minister responsible for the use of EU funds, in cooperation with the actors of the development policy institutional system, drew up an anti-fraud and anti-corruption strategy for EU funds, which was adopted by the Government by Government Decision 1540/2022 (XI.15.) and published on www.palyazat.gov.hu.

The strategy covers all EU funding, so in addition to the Operational Programmes for the 2021–2027 programming period and the Recovery and Resilience Plan, also includes information on the programming period 2014–2020, the Brexit Fund, Cross-border Interreg programmes and the Common Agricultural Policy.

Strengthening cooperation with OLAF (for all EU funding)

In line with the commitment made in the conditionality mechanism, on 4 October 2022, Parliament adopted Act XXIX of 2022, which designated the National Tax and Customs Administration as the national authority assisting OLAF and amended the provisions of Act XXIX of 2004 on certain legislative amendments with regards to the accession to the European Union, repealing legislative provisions and laying down certain statutory regulations, introducing a financial sanction with a deterrent effect in the event of a refusal by an economic operator to cooperate with OLAF. The provisions entered into force on 26 October 2022.

Strengthening conflict of interest rules

With the amendment published on 30 September 2022, it is confirmed that the conflict-of-interest rules governing the use of EU funds are applied in accordance with Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council (EU Financial Regulation) and Commission Notice Guidance on the avoidance and management of conflicts of interest under the Financial Regulation 2021/C 121/01. The relevant legislation did not only become stricter but was also clarified in a number of areas regarding the interpretation of the objective existence of a risk or appearance of a conflict of interest.

Strengthening rules on declaration of assets and liabilities

In order to implement the commitments made in the conditionality mechanism, the rules on the declaration of assets and liabilities of Members of Parliament, senior political leaders and their dependants living in the same household were amended with effect from 1 November 2022. The Council Implementing Decision (EU) 2022/2506 identified some shortcomings, which the Hungarian Government is in discussion with the European Commission to address. Based on the Government's commitments, discussions are also underway to create a searchable database that is accessible to the public, free of charge and without registration.

4.6. Justice system, public consultation

A legislative package to adjust the judicial system

The implementation of the commitments made in milestones 213–216 of the RRP provides for the full implementation of the recommendations addressed to Hungary on the judicial system in the Hungarian chapter of the European Commission's 2022 Rule of Law Report.

The final vote on the draft legislation implementing the commitments, which was agreed with the European Commission in advance, is held on 3 May 2023. Under the draft, **the powers of the National Judicial Council (NJC)** shall be significantly **strengthened**, primarily by giving binding opinions and exercising the right of consent on a number of specific decisions and regulations to be issued by the President of the National Office for the Judiciary (NOJ). The NJC also gives a binding opinion on the suitability of candidates on the basis of the confirmed eligibility criteria in the selection procedure for the President and Vice-Presidents of the NOJ and the Curia. The NJC becomes an autonomous central budgetary institution and has access to all documents, information and data relating to the administration of the courts. In order to counterbalance the powers of the President of the Curia and his discretionary powers, the judicial bodies involved in the administration of the Curia and, in certain cases, the NJC are given additional powers in relation to administrative decisions concerning the Curia and the curia judges. According to the draft, the case distribution system of the Curia becomes automatic. With the adoption and entry into force of the law, members of the Constitutional Court of Hungary may only be appointed as curia judges as a result of the ordinary procedure. The possibility for the Curia to review the legality of the judges' decision to refer a request for a preliminary ruling to the Court of Justice of the European Union is abolished. The possibility for the authorities to challenge final and valid court decisions before the Constitutional Court is abolished.

Strengthening public consultation in the preparation of legislation and facilitating impact assessments

With the entry into force on 26 October 2022, the rules on public consultation in the legislative process were amended, thus increasing the quality and transparency of legislation. Pursuant to Act CXXXI of 2010 on social participation in the drafting of legislation (hereinafter: Jet.), the Government is responsible for ensuring that 90 per cent of the laws, government decrees and ministerial decrees published in the Hungarian Gazette that fall under the scope of Jet are disclosed for public consultation. The Government Control Office (GCO) must publish a public report on this data by 31 January each year. The achievement of the 90 per cent rate is certified by the Directorate General for Audit of European Funds (DGAEF) in an annual report issued by 31 March of the year following the year concerned.

Under the rules, not having public consultation on a draft may only be possible in duly justified cases and only in a limited number of cases, and a summary of the preliminary impact assessment of any draft subject to public consultation must be published with the draft. Pursuant to the amendment, when a public consultation is omitted, it is not possible to justify this by overriding reasons of public interest relating to the urgent adoption of the legislation.

Under the law, anyone can submit their views during the consultation on the government website, which must be open for at least eight days. At least five days must be allowed for the substantive consideration of the opinions and proposals received.

In the event of non-compliance with the Jet. requirements, the GCO must impose fines ranging from one million to one hundred million forints. It is also provided that the Central Statistical Office shall assist in the preparation of the legislation by providing official statistical data for the preliminary impact assessment when the legislation is drafted, and the ex-post impact assessment after its promulgation.

The GCO published its first audit report in February 2023, in which it found that 373 of the 405 pieces of legislation audited had been promulgated after public consultation. The other 32 pieces of legislation could not be submitted for public consultation under the provisions of the Jet (consultation would jeopardise the protection of Hungary's particularly important interests in the fields of defence, national security, finance, foreign affairs, nature conservation, environmental protection or heritage protection) or were not required to be submitted for public consultation (e.g. in the case of draft legislation on the state budget, state aid, announcement of international treaties). The GCO found that 92 per cent of the laws, government decrees and ministerial decrees covered by the Jet were promulgated after public consultation, and the exceptions under the Jet were justified. In the context of the investigation of other legislative obligations related to draft laws submitted for public consultation, the GCO imposed fines on nine ministries for failure to comply with deadlines for considering comments received, failure to publish the summary of the preliminary impact assessment and failure to publish the consolidated text in the case of major legislative amendments.

5. Employment policy

In the past decade, Hungary has been a top performer in the EU in increasing employment: based on Hungarian Central Statistical Office's data, the employment rate of people aged between 20–64 years grew by 18 percentage points between 2010 and 2022. **The employment rate was 80.2 per cent for the whole of 2022**, resulting in fulfilment of the 75 per cent employment target set in the EU 2020 strategy. Moreover, the employment rate for both women and men surpasses the EU level. In 2022, the number of employed increased (in the 15–74 age group) by 61 thousand people to 4 million 696 thousand. The number of workers on the primary labour market increased by 60 thousand, while the number of public employees fell by 12 thousand. The number of people working abroad was 13,000 higher than in 2021, but still 25,000 below the level before the pandemic. The **employment objective** of the Government of Hungary is to **achieve** an employment rate of **85 per cent by 2030** among 20–64-year-olds (EU target: 78 percent). The Government plans to achieve this goal by reducing the share of young people not in employment, education or training (NEET), bolstering the Youth Guarantee, narrowing the employment gap between the sexes, i.e. by the introduction and spread of flexible forms of employment facilitating the participation of women (particularly women with toddlers and nursing relatives) on the labour market.

The measures coordinated by the employment policymakers aim to achieve the strategic objectives of the area to balance flexibility and security in the labour market, to promote inclusiveness and to strengthen the institutional capacity of the social partners, supporting Pillars 4 *(Active support to employment*), 5 *(Secure and adaptable employment*) and 6 *(Wages*) of the European Pillars of Social Rights.

Active labour market instruments to support employment

In Hungary, the **focus of employment support changed in line with the economic situation**, with measures in 2020 addressing the labour market consequences of the coronavirus pandemic, protecting jobs, and then complementing and later replacing this by job creation support. Until autumn 2021, the priority was to restore and stabilise the labour market and safeguard jobs, but later on, we made these support measures more targeted, with an increasing focus on disadvantaged businesses and jobseekers. Gradually, the **focus shifted back to job creation, meeting the labour needs of businesses, and developing the workforce**.

Programmes co-financed by the EU, which provide complex aid instruments, supporting the integration of disadvantaged workers on the labour market, continue to play an important role among labour market measures. The grants are implemented in the priority projects "Road to the Labour Market" (EDIOP 5.1.1-15-/VEKOP 8.1.1-15-2015) and "Youth Guarantee" (EDIOP 5.2.1-14-2015/VEKOP 8.2.1-15-2015), which have been running since 2015. In order to ensure job creation, the **Enterprise Workforce Support Programme** was launched in October 2020, complemented by a 90-day wage subsidy for young people, disadvantaged people, and people with low educational qualifications to gain **work experience**. From its launch in October 2020 until 14 December 2022, the programme contributed to the employment of 60.2 thousand jobseekers, with a total budget of HUF 42.4 billion. In the less developed regions, the **Enterprise Workforce Regional Support Programme** was available between 15 August and 14 December 2022, helping 11.9 thousand jobseekers with nearly HUF 9 billion. As of 15 December 2022, the **Enterprise Workforce Support Programme** and two types of work experience supports were made available again under a nationally uniform scheme to help young skilled workers and disadvantaged jobseekers find employment. From the start of the support scheme until 24 February 2023, the programme contributed to the employment of 4,897 people, with a total budget of HUF 4.7 billion.

Among the **active labour market instruments supporting employment with domestic funding**, the **labour market programme "Development of workers' accommodations"** aims to promote the geographical mobility of the workforce and improve the possibilities of labour mobility by workers' accommodation with a capacity of at least 80 persons. In relation to the first six calls of the programme ongoing since 2017, the Government funded the creation of 8,603 places at 62 workers' accommodation establishments across Hungary in the value of HUF 24.4 billion. The aim of the **"We act immediately"** programme is to ensure the continued employment of the workforce, to provide the qualified human resources needed for the sustainable growth of enterprises and to encourage enterprises to expand their workforce by supporting the employment of workers affected by collective reduction of staff and the disadvantaged with training and targeted wage subsidies. The total envelope of the programme since its launch in 2015 is 13.7 billion HUF, with 1.3 billion HUF in 2022 to support nearly 1,000 people. The aim of the **Labour Intensity Enhancing Programme** is to support capacity-intensive and technology-intensive investments (e.g. asset purchase, real estate investment) by SMEs, to increase the qualification of workers to apply new technology, which also has a positive impact on wages. The **Innovative Capacity Building Programme** aims to promote the competitiveness and productivity of micro, small and medium-sized enterprises by supporting innovative and complex capacity building investments (purchase of equipment and real estate investments) and to stimulate employment growth. The two programmes have a total budget of HUF 4.8 billion and HUF 7.2 billion respectively, supporting nearly 130 applications. The **Summer Student Work Programme**, which has been launched every year since 2013, provides 75–100 per cent of the wages of participating full-time students aged 16–25 years old for a maximum period of 2 months, as a wage subsidy to local governments and employers in the agriculture, tourism, and hospitality sectors. In 2022, the Government supported the employment of around 26.5 thousand students with more than HUF 2.9 billion in subsidies.

The skills of the human labour force have the effect of economic stimulus, and thus a long-term policy objective is to ensure that **labour market actors can adapt quickly to constantly changing circumstances,** one means of which could be to train workers and improve their competencies, and to facilitate access to lifelong learning opportunities. The Workforce Development and Training Programme **("Improving adaptability and productivity of workers and enterprises through workforce development")** provides enterprises with support for training costs and wage subsidies to compensate for lost working time during the training of workers, and helps to develop labour market skills, adult learning, and provides opportunities to enter the labour market, as well as integration opportunities for both employers and employees. In 2022, more than 16,000 people were enrolled in training and more than 31,000 received wage subsidies (42,000 persons received wage subsidies in 2021–2022).

The labour market programme, which is implemented in the framework of the **development of local level employment and economic development cooperation**, aims to provide labour in line with the demand in accordance with the agreements, to **improve the employability of disadvantaged job-seeking and inactive people** who want to work in the given region, to support their integration into the open labour market, and to facilitate the transition from public work scheme to the open labour market. Since the start of the project in 2016, the total amount actually disbursed is HUF 61.7 billion, and the total number of people involved in the project is 74,559. The former programme is complemented by the **"County Employment-Economic Development Cooperation"** programme, announced in November 2021, for which applications for support were evaluated in 19 counties in 2022. The aim of the project is to match labour supply and demand at county level and to improve the employability of disadvantaged and inactive jobseekers. Thanks to the programmes, with a budget of HUF 73 billion, the labour market position of nearly 40 thousand jobseekers and inactive people can improve. The target group nationally is jobseekers and inactive people over 30.

A programme to promote self-employment with domestic support is the **Entrepreneurship Support Programme**. Last year, 472 people were enrolled in the programme. The programme was successfully completed by 402 people, 390 submitted applications for support. 370 people met the conditions for the grant, resulting in 820 million HUF in grants amounting to six months' wages, and 444 million HUF in investment grants.

In parallel with strengthened active instruments and programmes enhancing the efficiency of the institution system, in line with trends of previous years, the weight of **public work scheme** has further **diminished**. The number of people involved in 2022 was 76.2 thousand, 13.4 per cent lower than in 2021 and 28.3 per cent below the average for 2019. The planned annual budget of public work scheme for 2023 is HUF 117.8 billion, which allows for the employment of 70 thousand public workers. From the beginning of 2023, the **public employment wage increased at a rate** similar to the minimum wage: the increase was 16 percent, whereas 14 per cent in skilled occupations; the target remains to increase the level of public employment wages to 50 per cent of the minimum wage. In 2022, targeted measures continued to support the transition of people from public employment and the training of public workers. Under the **From Public Work to the Private Sector** programme, 501 public sector workers were allocated a placement allowance in 2022, which is still available in 2023. So far, from a budget of more than HUF 4 billion, the programme has supported the employment of 20 thousand public workers on the primary labour market. The **priority training programme for low-qualified persons and public workers** provides training opportunities until the end of 2023 with a budget of HUF 34.9 billion. Since its launch, the programme has enrolled more than 110,000 people, with nearly 5,000 in 2022, and the number of successful graduates exceeds 100,000. A total of 93 municipalities received support under Phases I–III of the **Regional Economic Stimulus Programme**, which started in 2019. The developments from the programmes launched and to be launched are implemented from 17.9 billion forints in disadvantaged settlements with high unemployment, based on the productive capacities created through public work scheme, supporting local economic initiatives (development of accommodation and kitchens, construction, purchase of equipment for agricultural services, creation of small food businesses).

In order to facilitate the employment in Hungary of persons with Ukrainian citizenship or dual Ukrainian–Hungarian citizenship who have arrived in Hungary from Ukraine since 24 February 2022 and are **fleeing the armed conflict in Ukraine,** the Government provides, upon application of a business entity or a budgetary institution acting as controlling authority, 50 per cent of the housing and travel expenses.

6. Demography

6.1. Family and youth policy

This year, the Government reaffirmed its commitment to family support by introducing an income tax exemption for women under 30 who have children. The Government's key objective is to ensure that every desired child is born in Hungary. Until a sustainable level of children is achieved, new decisions on family assistance are expected to be taken every year.

The family-friendly turnaround started in 2010 also made an expected turnaround on the European birth map: despite the COVID-19 epidemic, the number of children per woman of childbearing years in Hungary continued to rise in 2020, exceeding the European average for the first time in a long time.

The main objective of the Hungarian government's current family policy is to support young people to start a family as soon as possible, in a responsible manner. This is facilitated by the personal income tax exemption for mothers giving birth to children under 30, extended by the exemption from student loan repayments.

Women who have children before the age of 30 **are exempt from personal income tax**. The exemption is up to the amount of the tax on average earnings, from the first month after age 25 at the earliest to age 30 at the latest, in the case of a family allowance eligibility for a foetus of at least 12 weeks of age, or a biological or an adopted child. Single, married mothers or mothers living with a partner are also eligible from 1 January 2023.

Mothers with a student loan have a 3-year repayment break after the birth of the first child, then the Student Loan Centre waives half of the debt after the birth of their second child and the full amount after the birth of their third child. As an extension of this benefit available since 2018, mothers under 30 years of age may apply for child support from 1 January 2023 on the form provided by the Student Loan Centre **within 60 days of the birth of the child or, in the case of an adopted child, of the final adoption decision**, if they give birth to or adopt a child during higher education studies or within 2 years of graduation. Debt relief is also available for stillborn foetuses.

Another important objective is to **increase the financial security of families with children**. This is linked to the **extension of the prenatal baby support** and the **rural Family Housing Subsidy Scheme (FHSS)** for home ownership and the extended **tax rebate for housing**.

More than 200,000 young families took out the most popular element of the 2019 Family Protection Action Plan, the prenatal baby support, by the end of 2022, so the Government decided to extend it for young married couples until the end of 2024, in order to preserve a predictable family policy in the long term. By the end of 2022, more than 35,000 families had made use of the Rural Family Housing Subsidy Scheme, which is available in more than 2,600 disadvantaged, small, preferred settlements, farms and estate centres, as presented in the rural development section. In the light of the results, the Government decided to extend it until the end of 2024, too. The two tax rebates of the Home Creation Programme extended last year, i.e. the 5 per cent VAT rebate for new homes and the maximum 5 million HUF rebate applicable on the 27 per cent VAT content of self-builds, are also extended beyond the original closing date of 2022.

Priority 6 of the HRDOP Plus Operational Programme includes family policy developments. The priority is linked to the 2019 country-specific recommendations on improving the conditions of education outcomes.

The third objective of Hungarian family policy is to **support the balance between work and family**, and to promote a quality relationship between the two. Complex development of day nurseries in recent years has directly contributed to this. Focusing on equality of opportunities, measures implemented in the framework of the day nursery development aim to reduce regional disparities in accessibility, to encourage women to return to the labour market as soon as possible and to ensure access to quality early childhood services on demand, without exclusion. Territorial coverage improved to an even greater extent: Nursery care was available in around 330 and 919 municipalities in 2010 and early 2022, respectively; in February 2023, it was available in 1,030 municipalities. Meanwhile, the share of active places in relation to the number of children of nursery-age (0-2 years) rose to 21.2 percent, and around 10,000 new places are under development, with the total number of new places in day nurseries, mini day nurseries, family day nurseries and workplace day nurseries exceeding 60,000. According to the Hungarian Central Statistical Office, the employment rate of women aged 25–49 with children under 3 years improved dramatically between 2010 and 2022, from 66.6 per cent to 77.7 per cent.

The structural transformation of the **day nursery system**, which started in 2017, will be continued in the period 2021–2029, among others in the framework of the programme entitled Improving Day Nursery Care (RRF-1.1.2-21), which will not only increase the number of active places, but will also promote the labour market integration and stability of parents.. When planning new places, it is important to ensure that the network of day nurseries is responsive to parents' needs, based on the experience of the needs assessment carried out in November 2020 with the involvement of all local governments and churches. In addition to the need for some 12,000 additional places identified in this survey, it became clear that there was a need to target improvements territorially. Closing the gender employment gap is also a clear economic imperative for Hungary. Based on the encouraging results so far, the implementation of the complex day nursery development is expected to improve women's access to the labour market through expanding early childhood services. To this end, we have implemented a project supported by the European Commission's DG Reform, which allows us to formulate new policy recommendations and to prepare an action plan. The complex development of day nurseries in Hungary in the period 2021–2027 can be achieved through the cooperation of 5 funds: in addition to domestic funds, the RRP supports the creation of new day nursery places in municipalities with a population of 3,000 or more, while TOP Plus supports the creation of new day nursery places in municipalities with a population of less than 3,000. The HRDOP Plus provides incentive support for students with children, targeted support for the return of those raising toddlers to the labour market (in the form of a contribution towards nursery fees) and the provision of day nursery services at workplaces. DROP Plus provides funding for the digitisation of day nursery documentation.

Local day nurseries, driven by parental demand, help to reduce parents' travel and occasional childcare costs. The law requires parents to pay a fee for meals, but more than 60 per cent of children attending day nurseries are eligible for free school meals by law. The legislation refers the determination of fee for care in day nurseries and mini day nurseries to the competence of the maintainer. Based on the experience and data of the past years, it can be said that in the past 10 years, fee for care was introduced in about 43 per cent of day nurseries, but despite this, parents of 70 per cent of the children enrolled did not have to pay the fee for care.

The **reinforcement of regional child protection services** responsible for the preparation and follow-up of adoptions took place in 2021, after the number of people seeking to adopt increased by 90 per cent since 2010, while the number of completed adoptions increased by 36 per cent between 2010 and 2018The 92 people who have been working there so far defending the rights and interests of children are supported by 56 other professionals with higher education qualifications (adoption counsellors and psychologists). According to the preliminary data, the number of adoptions could reach an all-time high of 1,222 children in 2022.

In order to improve the position and strengthen the role of women in the family and in society, **Action Plan 2021–2030 "Strengthening the role of women in the family and in society"** was prepared, adopted by the Government and enshrined in law, revised in autumn 2022. Following the years 2021–2022, **an Action Plan for 2023–2024 was adopted** to facilitate the implementation of the Plan. An innovative **Family Support Calculator** still helps learning about the presented new and unchanged benefits, on a transparent web interface which has been available since December 2021.

Youth policy

The **Children and Youth Fund Programme** supports programmes, organisations and initiatives for children and young people as a chapter-managed appropriation. It has been an annually changing, yet predictable long-term programme, in the context of community awareness-raising, since 1994. In spite of less resource-intensive applications, the applicant has been able to present mental health protection plans and activities focusing on young people aged 15–35, to organise events and trainings for these young people facilitating community presence, responsibility or prevention, with the involvement of a qualified psychologist, mental health professional, youth or spiritual pastor.

In Hungary, public education institutions alone cannot sufficiently mitigate inequalities arising from the home environment through pedagogical effects. This also has a negative impact on the labour market situation of students. There was therefore a need for measures that could effectively support the development of social competences required for learning and social inclusion. The **Elizabeth for the Children in the Carpathian Basin Foundation** (hereinafter: Elisabeth Foundation) implements experiential education programmes until 30 June 2023, using EU and parallel national budget resources, in order to promote social cooperation as well as combat poverty and discrimination. During the summer school holidays, more than 1 million people have attended some type of Elizabeth camp in campsites over the past 10 years, between 2012 and 2022. Meanwhile, the Elizabeth camps have become four-seasonal, with additional thematic activities such as family, therapeutic, diabetes and Christmas multi-day camps in Romania and Transylvania, in addition to Zánka and Fonyódliget. Camps hosting able-bodied children besides children with disabilities also have a significant positive awareness-raising impact and helps community integration..

As part of the Action Plan for Restarting the Economy, **as of 1 January 2022, the income of people under the age of 25 is exempt from personal income tax.** This measure aims to support young people's successful labour market entry to have their separate income. This makes not only the transition to an independent life easier but may also bring forward the establishment of a separate household and starting a family in time. Thus, young people under the age of 25 are automatically entitled to a personal income tax exemption for up to the amount of the gross average salary (measured as a national average in July of the previous year). Eligibility is extended to the latest month of reaching the age of 25. Young employees, private entrepreneurs or primary agricultural producers are also eligible to benefit, while public consultation identified the need for the extension to part-time work and student work which was put forward. The tax exemption amounts to a surplus of around HUF 500 thousand annually for a young person. Additionally, new entrants of labour market (insured for up to 92 days in the preceding 275 days) also receive a tax benefit in the first three years, for up to the amount equal to the minimum wage, and full social contribution exemption is introduced for full-time students working in a school cooperative. .

Objectives of the Government still include the search for and targeted, long-term support of children, young people capable of outstanding performance, in order to allow their talents to flourish and be optimally utilised. The **National Talent Programme** continues, serving the achievement of these objectives. A total of 26 calls for applications were announced for the budgetary year 2022; 1,328 applicants received funding of around HUF 4.5 billion.

6.2. Sport policy

In 2023, Hungary continues to provide funding primarily for the development and operation of facilities that make sport accessible to the widest possible social segments. In this context, priority is given to disadvantaged, lagging regions. In addition to the programmes already underway, it is necessary to respond to the economic challenges of epidemics and war, and a review of investments and a partial reallocation of resources, adapted to the economic situation, have been and are being carried out in order to maintain the positive results achieved and to allow for further progress.

The focus is on continuing the investments and programmes already started, countering the effects of the energy price boom with public measures, ensuring the smooth functioning of sports organisations, creating the infrastructural conditions for sports for professional, youth and amateur athletes, and improving general health through sport.

After 2022, the **National Public Education Infrastructure Development Programme** continues in 2023. As phase 1 is nearing completion, 2 classrooms (Budapest, district XX., Solymár) are being prepared. In Phase 2, one gym (Mezőkovácsháza), 3 training pools (Pétervására, Orosháza, and Tapolca), 2 classrooms (Budapest district I., Budapest district II.), while in Phase 3, 41 gyms and 7 training pools are being prepared, with a total of HUF 2.7 billion so far.

Launched in 2020, the **Swimming Nation Programme** was further expanded in 2022 and continues on its development path in 2023. The aim of the Swimming Nation Programme remains to continue to provide nationwide, progressively expanding swimming education embedded in the curriculum, so that more children learn to swim and gain water safety skills and experience the joy of water sports. The age groups concerned range from kindergarten year 3 to the 2nd grade of primary school (children aged 5–8). The Programme is planned to be extended to 330 cities across the country by 2028, covering around 300,000 children), with HUF 4.7 billion of public funding to be provided in 2023.

The **specific sports facility developments** include small-scale investments and refurbishments that are essential for the maintenance and development of the local sports scene. Within the framework of this programme, for example, the facility development of the Gesztelyi Football Club, the Újfehértó Sports Centre development, the wrestling hall development in Szigetvár, the development of the sports hall in Dabas takes place among many other developments, for which the Hungarian state provided HUF 7 billion in 2022, and a similar volume of funding is forecast for 2023.

The **new multifunctional event and sports hall development in Székesfehérvár** is an unparalleled scheme, through which a multifunctional event and sports hall suitable for sports and other events, with a capacity of approximately 6,000 people, is to be built, with HUF 11.7 billion state aid in 2022 and HUF 26.1 billion state aid in 2023.

The expansion of the **Hagymatikum Aquapark in Makó** is a development of local importance, which also creates opportunities for sports for the region's residents, and jobs due to its importance for tourism. Within the framework of the development, the facility is expanded with an outdoor thermal pool, a summer changing room, a summer entrance, a drinking hall, and a slide park, for which the Hungarian state provides HUF 2 billion in 2022 and HUF 4.2 billion in 2023.

Under the **EEEOP 5.2.12 programme**, the energy performance modernisation of state-owned sports facilities is carried out with a total of HUF 3.5 billion of EU and HUF 1 billion of state support. Investments are made in 28 sites, 3 of which are still ongoing and about to be completed in 2023. The technical content of the energy performance improvements varies from site to site (roof insulation, facade insulation, replacement of windows and doors), but the common element of improvement is the installation of solar panels and heat pumps.

The sport-specific facility development programme, defined by sports federations and set by the Hungarian Olympic Committee in 2013, is expected to be completed in 2023, requiring HUF 7 billion in state funding. Within the framework of the programme, developments have been and are implemented on a very wide scale, so it is not possible to define their general specifications, these are developments related to the professional needs of the sports.

6.3. Housing policy

The **Home Renovation Programme** was launched on 1 January 2021, under which families could apply for a home renovation grant to help with the cost of renovating the property they live in. Applications for support could be submitted until 31 December 2022, but the deadline for applications involving the installation of solar collectors or solar panel systems was extended until 31 March 2023. The programme is ex-post funded, investment costs must be supported by invoices, and the application for support must be submitted to the Hungarian State Treasury within 60 days of the issue of the last invoices. The amount of support is 50 per cent of the refurbishment costs, but not more than HUF 3 million. Half of the amount of support must be covered by the cost of materials and labour as supported by invoices.

In addition to the grant, a home renovation loan of up to HUF 6 million with a 10-year term and a preferential interest rate (3 %) can be applied for to cover the amount of own contribution.

The main purpose of the programme was to improve the housing conditions of families bringing up children and the quality of the domestic housing stock. The aid can be used for the refurbishment of the exterior of the building (e.g. thermal insulation, waterproofing, painting, roof replacement, replacement of windows and doors, chimney refurbishment) or the interior (plumbing and electrical installation, modernisation of the heating/cooling system of the home, installation of renewable energy systems, renewal of the interior).

The Home Renovation Programme is highly successful and contributed significantly to the renewal of the **existing housing stock**, with **nearly 10 per cent of it is affected, i.e. some 350–400 thousand homes**. In the framework of the programme, renovations in the total value of HUF 1,760 billion may be realised, and the amount of state subsidy paid is expected to reach HUF 770 billion.

7. Fight against poverty, social inclusion

The Hungarian Government's efforts for social inclusion are framed by the **National Social Inclusion Strategy 2030**, adopted in 2021. The adopted programme defines strategic directions relating to the population living in poverty, with a focus on families with children, and the well-being and social inclusion of the Roma after the ten-year strategy in effect until 2020. The main goal of the strategy has remained the reduction of poverty, prevention of the recurrence of poverty and improvement of equal access to socioeconomic goods. The key undertaking of the strategy is the 10-percentage point reduction of the financial and social deprivation rate among households with children. Additional goals include, inter alia, reduction of the poverty gap to 20 per cent, the share of early school leavers among Roma students to 45 per cent, and the increase the employment rate of the Roma to 60 per cent.

In line with the targets set out in the strategy, **poverty** in Hungary **has continued to fall significantly over a decade**: while almost 29 per cent of the population was exposed to the risk of poverty or social exclusion in 2015 (people in this category are affected by at least one of the three dimensions measuring poverty: relative income poverty rate, severe material deprivation, very low work intensity), this rate fell to 19.3 per cent in 2021[14]. The share of families with children exposed to such risks fell sharply from nearly 34 per cent in 2015 to 17.7 per cent in 2021, with the tax system and other government measures supporting families playing a significant role. Despite the pandemic, the share of the Roma population living in such households fell by nearly 8 percentage points to 60.1 per cent in 2020 from 2021[15].

In relation to income, Hungary continues to belong to the European Union's countries with average inequality[16]. The Gini coefficient measuring income inequality has been on a downward trend in recent years, falling from 27.7 in the previous year to 27.3 in 2021. The value of the S80/S20 indicator measuring the difference between the upper- and lower-income quintiles decreased to 4.0 from 4.2 in the previous year.

The role of expanding employment in the fight against poverty

The benefit and tax system encouraging employment continues to play a key role in the fight against poverty. As a result, the employment rate (population aged 15–74) has risen steadily since 2010, from 50.7 per cent to 64.1 per cent in 2022, and the unemployment rate has fallen from 10.8 per cent in 2010 to 3.6 per cent in 2022[17]. The positive trends led to a significant improvement in the focus of the social system: In 2021, the number of people claiming employment substituting benefit was 156,000 lower than the peak in 2012, amounting to 80,000[18]. Following the 16 per cent increase of the minimum wage in January 2023, workers in full-time employment may earn at least a monthly gross wage of HUF 232 thousand.

Public work scheme offers transitional job opportunities for typically low-qualified people unable to find work on the primary labour market. Despite the effects of the pandemic, the number of people in public work scheme has been falling steadily in recent years: In 2016, 202,000 people were in public

[14] https://www.ksh.hu/stadat_files/ele/hu/ele0033.html
[15] https://www.ksh.hu/stadat_files/ele/hu/ele0034.html
[16] https://www.ksh.hu/stadat_files/ele/hu/ele0009.html
[17] https://www.ksh.hu/stadat_files/mun/hu/mun0002.html
[18] https://www.ksh.hu/stadat_files/szo/hu/szo0021.html

work scheme, in 2021 84,000 and in 2022 only 72,000[19]. From January 2023, the wage of full-time public workers increased by 16 per cent to gross HUF 116 thousand.

The **Growing Chances** programme provides employment-embedded training for disadvantaged, mainly Roma women. As a further development of the 2007–2013 programme, 1,220 people are trained in the same targeted jobs (kindergarten teachers, early childhood educators, child and youth workers, social care workers and caretakers, social assistants). After the 36 months of project implementation period, project closing took place on 66 sites in 2022, which affected 1,028 target group members. As a result of learning a trade, 81 per cent of the target group members who have left so far have successfully entered the labour market. These programmes are an important tool for preparing disadvantaged people for the labour market and for tackling long-term unemployment.

Actively for Knowledge aims to raise the basic skills of people aged 18–55 with low or no education. As a result, the number of working-age people without primary education is reduced, functional illiteracy is reduced, and participants can be integrated into further training or employment programmes. The programme runs until 30 June 2023 and had 29,829 people enrolled by the end of 2022. The training was successfully completed by 16,676 people, 4,217 of whom were able to participate in work experience.

Programmes supporting convergence

Launched in 2019, the long-term programme for **Catching-up settlements** (hereinafter: DSPCS) is a complex social integration programme aimed at promoting inclusion in the 300 most disadvantaged settlements in Hungary. Involvement of municipalities is ongoing; the programme has started in 118 municipalities so far. The objective of the programme is to provide a comprehensive set of interventions for the most vulnerable groups of society (in line with country-specific recommendation CSR3 of 2022). Based on local findings both infrastructural (e.g. improvement of housing, operation of social housing agency, installation of solar panels from the revenue of which heating is financed by way of prepaid meters for families in need) and social (early development, music and sports programmes, substance abuse prevention, family mentoring programme, etc.) interventions were carried out. From 2023, the programme is mainly financed from EU funds (RRF, HRDOP, i.e. Human Resource Development Operational Programme and HRDOP Plus).

The RRF programme launched in 2022 overwhelmingly finances infrastructural developments aimed at housing improvement, renewable energy production, energy poverty mitigation, economic and educational development. Under the programme **"Construction and development of social housing, improvement of housing conditions"** the purchase and renovation of at least 1,600 dwellings will be realized in the coming years till the end of the programme and at least 400 new rented social housing will be built (to facilitate mobility, in part outside of convergence municipalities) which will be operated through a social housing agency. The amount of national and RRF funds utilized for the programme is HUF 56.1 billion.

Under the project **"Production and consumption of renewable energies in disadvantaged localities"** plant capacity of at least 25 thousand kWp is to be created until the end of 2025, supporting the heating of about 10 thousand people. The amount of national and RRF funds utilized for the project is HUF 12.9 billion.

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[19] https://www.ksh.hu/stadat_files/mun/hu/mun0051.html

The objective of the programme "**Work socialisation and skills development based on local features and strengthening the local economic culture**" is to improve work skills of residents of catching-up settlements and to include them in the local economy. The target is to have 10 thousand people from selected localities participate in work socialisation programmes till the end of 2026. The amount of eligible and ineligible (national) subsidy: HUF 15.5 billion. The programme is financed from national and EU funds totalling to HUF 10.1 billion.

Enhancing child opportunities

The project "**Focus on the child**" was started in 2021, financed from funds of the HRDOP. The project contributes to the foundation of the "Catching-up settlements" programme through improving opportunities for and enhancing living conditions of children living in the most disadvantaged settlements in less developed regions and through mitigating negative effects of child poverty by ensuring locally accessible, intensive, complex social work, family, and childcare as well as professional and methodological support of activities. The direct target group of the project are children between the ages 0–14 living in the most disadvantaged settlements participating in the programme as well as their families and professionals tending to these families, the indirect target group is the entire population of these "catching-up settlements". The amount of the subsidy enabling the operation of the programme till 2023 was HUF 7.9 billion, however, after the increase in process it is expected to reach HUF 20.85 billion a year.

The programme's operational and co-ordinational elements related to social and community development, child subsidy and prevention are realized under **HRDOP Plus**, which in 2024 replaces HRDOP-1.4.5-20 ending in 2023. The programme is based on continuous, local social work carried out in deprived small settlements. Further elements are accomplished based on the above, by the help of locals, founded on the diagnose obtained through a survey of services and needs determined at local level. It renders gap-filler activities which facilitate the access to basic services for those in need the overwhelming majority of which suffer from employment and subsistence issues, health problems and poor housing conditions. The subsidy amounts to HUF 84.76 billion (including co-financing).

Under the project **"Community-focused pedagogy"** at least 100 public education and vocational training institutions of the selected municipalities benefit from the pedagogic development till the conclusion of the project on 30 June 2026. This covers measures such as the social diagnose of public education institutions, extended school programmes, secondary school grants (grants related to secondary education leading to school leaving examination), application of community-focused methods and career counselling. National and RRF funds amount to: HUF 10.1 billion.

In the frame of the HRDOP 1.4.3-16 call for proposals **"Nice Little Place – Subsidy for the Sure Start Children's Houses and complex children's programmes in small municipalities"** "Nice Little Places" were established in settlements with a population of less than 1,000 people and Sure Start Children's Houses in localities with a population of 1,000–5,000 people. The programme "Sure Start Children's House" is aimed at providing assistance to disadvantaged toddlers between the ages of 0–3, mainly of Roma origin, mostly with the involvement of their mothers, in the development of their skills and capabilities from their early years to lay the groundwork for their kindergarten and school integration, and success. In 2022 more than 160 children's houses operated in the country; the programme, facilitated earlier by EU resources, has been funded from national budget resources since 2023. Hungarian poverty is concentrated in rural areas, in small villages. At the time of programme announcement there were more than 200 municipalities with population of less than 1,000 people in which the rate of children receiving regular child protection benefit exceeds 50 per cent. The Nice Little Place PILOT programme, focusing mainly on age groups under 25 years, however addressing the needs of the whole community, offered complex services and programmes based on local demands to these settlements. In 37 settlements "Nice Little Places", contributing to the improvement of living conditions in the settlement as well as to the fight against poverty and social exclusion, render services improving opportunities for children that were not accessible earlier.

Social area

The digitalisation project under the call for proposals RRF-8.4.1-21 for the security and life protection of reliant individuals aims the establishment of a new automatic welfare service system rendered for elderly above the age of 65 within their own living environment. The service enables individuals to request quick and efficient ad-hoc assistance whenever needed through a 24-hours call centre by contacting family members or the appointed contact person.

In accordance with the UN Convention on the Rights of Persons with Disabilities (CPRD) measures were carried on to create **high-quality, accessible, community-based caregiving** responding to needs of inmates, aiming the full replacement of institutions numbering more than 50 inmates per licence holder in respect of **target group,** caring for the **partially reliant, i.e. disabled persons, psychiatric patients and addicts.** Under the instrument HRDOP-2.2.2-17 "Development of the transition from institutional to community-based care", funds of HUF 24.15 billion facilitate the replacement of 1925 places in institutions maintained by the Directorate-General for Social Affairs and Child Protection. Furthermore, subsidized housing opportunities for 125 individuals were created in the maintenance of IRMÁK Nonprofit Kft., fully replacing the institute Kraxner Alajos Speciális Foglalkoztató Otthon és Intézményei in Csobánka. Under CCHOP instrument places retained by the IRMÁK Nonprofit Kft. in the Speciális Foglalkoztató Otthon in Albertirsa were replaced by establishing 7 subsidized housing units enabling caregiving to 82 persons and a service centre in Albertirsa.

With the aim of facilitating self-reliance, on 28 October 2022 HRDOP 2.2.25 "Development of the transition to community-based services – subsidized housing, improvement of basic social services" call for proposals was announced which supports from a budget of HUF 25 billion the formation and development of "self-reliant" services. By this, on the one hand, it can be achieved that disabled persons and psychiatric patients awaiting institutionalization being hardly able to lead a self-reliant life in their homes by the support of basic services have access to a service type which supports their self-reliance, is integrated in the community, and responds more efficiently to their needs. On the other hand, the development of basic social services giving the range of care types, caring for recipients living in their homes and for those in subsidized housing, contributes to the integration of disabled persons and psychiatric patients and to the prevention of institutionalization.

The international and national policy unanimously emphasizes the development of community-based services and the support of a self-reliant and self-determined life. The call for proposals **HRDOP-1.9.10-22 "Development of the transition to community-based services – formation of the personal support system"** announced on the 6 October 2022 with a budget of HUF 1 billion is aimed at establishing a new, flexible, recipient-focused personal support system managed by members of the direct target group.

The instrument seeks **to model a personal support system** opening the way for targeted disabled individuals to

- real social integration and participation in the community by 24-hours and weekend availability,
- receive personal support covering for their needs related to family life and everyday life,
- begin or continue vocational training, adult education or tertiary education or find employment on the labour market.

The essential part of the system supporting self-reliance is that the decision on how to cope with everyday challenges is placed into hands of the disabled person. The **personal assistance** becoming accessible to them **may ease their life in their home and can prevent institutionalization**.

8. Education

The **public and higher education strategies** defining the development framework of the education system **propose quality improvements in education as a main goal** in order to help nurture successful and competitive adults. One of the priorities is to ensure equal access to digital education through the creation of competitive public education based on 21st-century technology. Social inclusion and further improving the access to high-quality education for socially disadvantaged and vulnerable pupils remain priority for public education. In 2022 and 2023 measures in tertiary education partly focus on the practice-oriented transformation of education and on the expansion of the practical content of trainings. Moreover, the complex infrastructural development of several higher education institution is ongoing.

Developments of public education and higher education infrastructure

Educational institutions of sufficient number and quality are an important condition for quality education and for promoting compensation of disadvantages. To this end the Government is allocating substantial funds for the infrastructure development of educational institutions. Within the framework of the **Modern Cities Programme** launched by the Government of Hungary in 2015, between 2020 and 2024 major institution development, capacity building investments in medium-sized rural cities are implemented in the total value of around HUF 37.8 billion in relation to their secondary level institutions and their dormitories, and in the value of HUF 48 billion for the campuses of higher education institutions, with HUF 63 billion provided as budgetary resources.

Since 2018, the Government has spent around HUF 983 billion in 4576 sites on **public education infrastructure development** and multiple programmes have been launched to facilitate the development of schools and kindergartens. Under the National Public Education Infrastructure Development Programme (TTT) 118 investment projects have been completed till the end of January 2023. Under the TTT programme indoor sport facilities have been created at 43 sites, swimming pools at 34 sites, in 33 schools classrooms have been refurbished, 7 new school buildings have been constructed and 1 kindergarten has been renovated. **In the current programming period, the TSDOP Plus budget** amounting to nearly HUF 200 billion will provide funds for the infrastructural development (and primarily for the modernisation of energy use) of kindergartens, primary and secondary public education institutions, and dormitories. Education and caregiving institutions treating children and pupils with special educational needs as well as public education institutions carrying out special pedagogic services can be transformed and developed as most appropriate to their particular needs. The call related to the measure has been prepared, it is expected to be announced in 2023. The Hungarian Village Programme provided assistance for school building renovation and for the development of indoor sport facilities in 231 small municipalities with a population under 5,000 people, and 294 small municipalities received funding for kindergarten playground projects.

As for **infrastructure development within tertiary education**, several complex and multiple smaller projects have been realized in the past years from central budget all of which created modern education environment. In the spring of 2022, the Government has brought a decision to support 20 higher education institution by nearly HUF 200 billion to be used for infrastructure development and the renewal of science facilities.

8.1. Public education

In its 2019 country-specific recommendation, the Council of the EU recommended that Hungary "take measures to improve education outcomes and increase the participation of disadvantaged groups, in particular Roma, in quality mainstream education", while the 2020 recommendation related to ensuring the access to inclusive education. The Public Education Strategy of Hungary 2021–2030 prepared for the European Union (Gov. Resolution 1551/2020. (VIII.25.)) defines the challenges to public education: The average salary of teachers must to be raised relative to the overall average salaries of graduates; the access to high-quality education and care is not equal; the preparedness and esteem of teachers shall be strengthened further; public education infrastructure (including provision of digital equipment) is unequal.

Results of the 2021 National Competence Assessment show that, despite of negative expectations, pupils of the 10th and 8th grade performed close to the average results of the preceding years even when teaching took place outside the classroom, on digital platforms. The 6th-grade mathematics results were 1.7 per cent worse than the average results of the preceding 12 years, in reading comprehension pupils achievement worsened by 0.7 percent, good outcomes under the given circumstances.

In 2023 some of the developments started in previous years will be set forth and new education measures will be launched as well. Planned measures contribute to the access of vulnerable pupil groups (children with special educational needs, disadvantaged and multiply disadvantaged children, including Roma children) to quality education, to the prevention of early school-leaving, to the improvement of qualification level, to the infrastructure development of schools, to the facilitation of digital education, to the ensuring of the appropriate number of teachers and consequentially, to the increase of the quality of public education.

The public education system has to deal with new tasks posed by the challenges of the 21st century, the spread of digitalisation, expectations of teachers, change of attitude of pupils and the coronavirus pandemic. The comprehensive objectives of public education for the coming period are the improvement of the inclusiveness and effectiveness of education, ensuring equal access to public education services and to increase the number of qualified education professionals. Programmes, reforms and investments financed within the framework of the Recovery and Resilience Facility (RRF) respond to the aforementioned challenges and set objectives.

Programmes financed within the framework of the Recovery and Resilience Facility (RRF):
One of the main objectives of digital transition is to **ensure the conditions for equal access to digital education for students and teachers**. For this end pupils of the 5–12th grades as well as their teachers and schools receive modern digital tools for personal use and equipment fostering pupils' creativity and problem-solving mindset (e.g. robotic devices, scientific sets for developing programming skills, drones). Use of these equipment allows students to acquire digital competences that improve their prospects on the labour market. Within the developments priority is given to schools with low pupil numbers, typically located in disadvantaged areas, which are less prepared for the use of available digital tools and for the deployment of teaching methods based on these compared to larger and better equipped public education institutions. In 2022, 120 thousand laptops have already been procured and allocated as part of the development.

In task performance locations with low pupil numbers the support of access to quality education aims to create the opportunity for poor performing upper primary, often disadvantaged pupils attending small institutions to learn in well-equipped, quality public education institutions and to receive the support required for this. In 2023 the measure will be implemented on pilot basis in at least five public education institutions. The mapping of the school network had been carried out in January till February 2023, it is being processed currently.

In order to strengthen the enabling role of public education **support for the care and education of children and pupils with special educational needs, with long-term medical conditions or under the care of the special pedagogic service is planned** from a budget of HUF 16 billion for the second quarter of 2023. Priority objectives of the development: expansion and improvement of travel services and equipment availability for special pedagogic service institutions and for institutions participating in the public education of children receiving special teaching and care due to their disabilities and of pupils under permanent medical treatment as well as the expansion of locally available services. Under the intervention the professional development of institutions taking part in the teaching of children with special educational needs is realized, including support for the professional renewal of institutions, provision of equipment required for rendering quality services and facilitation of social acceptance of pupils with special educational needs.

For the improvement of the quality of public education it is inevitable to have well-prepared, qualified teachers. In alignment with changing needs, **reskilling for teachers** enabling them to acquire another degree within a short period (2–4 semesters) free of charge **and the improvement of institution directors' leadership capabilities** is planned for the third quarter of 2023. The measure contributes to ensuring the availability of a proper number of educational professionals especially in the subjects showing significant shortage. It is necessary to train institution heads and their deputies to facilitate a more effective and more efficient management of institutions and the handling of more complex HR challenges the future brings (e.g. performance assessment). HUF 9.7 billion are allocated to this measure. Reskilling is planned to be started in the autumn of 2023.

The **Teachers' career model** is included in RRP as a reform however, it is financed by HRDOP Plus and by national funds. The measure is aimed at making the career more attractive, increasing the number of new entries to the field, motivating teachers, and facilitating their retention. The gradual salary raise of teachers within the public education system is being realized over a period of several years so that the teachers' average salary reaches 80 per cent of the average salary of graduates by 2025 and is retained at least on this level till 2030. In 2025, the salary raise for career starters will be 10 per cent higher on average compared to the rest of the teachers. The salary of teachers in public education institutions of beneficiary and convergence municipalities, in institutions where the rate of disadvantaged pupils exceeds 10 per cent and which apply methods facilitating integration will be at least 12.5 per cent higher than that of the rest of the teachers. The most important objectives relating to teachers' salary raise is set forth in a legal act. The first step of the salary raise was funded by the Government from own resources in January 2023 when it increased teachers' salaries by 10 per cent on average (in the case of career starters by 25 per cent). By the next step teachers' average salary will be increased to 65 per cent of graduates' average salary retrospectively from January 2023.

Further measures are being planned **to reduce segregation risks**, aiming to achieve a more proportionate participation in the provision of services for disadvantaged pupils and to further strengthen interventions aimed at desegregation. According to the planned provision, starting from

2024, the amount of the budgetary support will be reduced for primary schools located in municipalities where several other primary schools operate, and which contribute to the education of socially and economically disadvantaged pupils to a lesser extent than would be proportionate to their weight within the municipality. Public consultation on the draft legislation is ongoing.

Additional policy measures:
A number of targeted measures also aim to improve the prospects of **disadvantaged and multiply disadvantaged students, including Roma children**. Specialised, needs-based learning establishments (in Hungarian: "Tanoda") are operated by civil society and church organisations. "Tanoda"s established as grass-root initiative, outside of the public education were able to address disadvantaged pupils and their families. The "Tanoda" is an innovative, disadvantage compensating initiative building on local particularities, voluntary participation of children and young people, and their individual needs. It provides a complex service, with a focus on full personality development, which is less successful in the public education system, and can be achieved by children and young people on the social periphery only to a limited extent or not at all. The "Tanoda" grant **help to nearly 5,700 children/young people** every year.

Within the framework of the **Road to Scholarship Programme**, enhancing the success of disadvantaged primary and secondary school students, around 10 thousand students received scholarships and mentoring in the 2022/2023 academic year through the subprogrammes Road to Secondary School, Road to Secondary School Leaving Exam, Road to a Qualification. The scholarship subsidy (and mentoring) is an instrument facilitating school success preventing early school-leaving as defined by the action plan of the Hungarian National Social Inclusion Strategy 2030. Pupils are admitted to the programme primarily based on social eligibility; however, the amount of the scholarship is performance-based, i.e. it depends from the previous end of year achievements.

The **Roma Scholarship** programme supports Roma pupils with outstanding achievement throughout four semesters so that they can carry on with their studies in tertiary education after the successful secondary school leaving exam. In the academic years 2022/2023 and 2023/2024 26 pupils received a monthly scholarship of HUF 30 thousand respectively.

Dormitory Plus *[Kollégium Plusz]* is a new catching-up policy measure founded on the activities of and cooperation between child welfare and education areas, financed from national resources. The PILOT programme started in 2017 allows existing dormitories to implement and apply a sustainable, enabling function. The programme launched in 2017 reaches an average of **210 children in 8 locations**, mainly in the most disadvantaged regions.

The implementation of the **Arany János Talent Fostering Programme (AJTP)** and the **Arany János College Programme (AJKP)**, which provide a complex approach to the academic success of disadvantaged and multiply disadvantaged students and students in need participating in secondary education and to the prevention of early school-leaving, is ongoing. Nearly 4 thousand disadvantaged pupils participate in the programmes per academic year.

The **"Let Us Teach for Hungary" mentoring programme** is aimed at reducing the early school leaving of disadvantaged young people from the education system and at supporting their integration on the labour market. Within the framework of the mentoring programme, students in an active legal relationship with a higher education institution mentor students in primary education. In 2023 the programme operates in more than 100 primary schools. The programme is carried out in 17 tertiary education institutions with more than 1000 mentors and the number of mentored children exceeds

4 thousand. The expansion and professional work of the programme is facilitated by the Let Us Teach for Hungary Foundation.

8.2. Higher education

The Government aims to **create a quality higher education system** capable of responding to global challenges, **in line with longer-term economic and social objectives**, able to provide competitive knowledge to as many students as possible and is also capable of boosting recruitment of future researchers. Additional priorities include improving the competitiveness and educational standard of Hungarian universities, and making Hungary a regional knowledge centre.

In 2021, the 32.9 per cent share of young people aged 30–34 with higher education degrees was around 8.3 percentage points lower than the EU average (41.2 percent). The rate is relatively low, probably due to the high ratio of early school-leaving. The Government has taken and is planning several measures with the objective of decreasing the early school-leaving rate under the Economic Development and Innovation Operational Programme Plus (EDIOP Plus)

In 2023 more than 126 thousand pupils applied to tertiary education institutions; this is an increase of 27 per cent compared to 2022. 62 per cent of applicants applied to tertiary education institutions with a transformed model. By now 42 thousand foreign students are registered in Hungarian tertiary education institutions which obtain better and better positions in global rankings. In 2022, 11 Hungarian universities made it to the best 5 per cent of the world, i.e. they were listed among the best 1400 from a total of 28 thousand. The Government's aim is to increase the share of science, technology, engineering and mathematics (STEM) within tertiary education to 50 per cent by 2030, i.e. every second student should be enrolled in a STEM course. 8 out of 10 students receive a state grant.

Programmes financed within the framework of the Recovery and Resilience Facility (RRF):
The Government implements the **sectoral modernisation of higher education** within the framework of reforms modernising universities under the RRP. The reform simultaneously targets the practice-oriented reform of the training system of higher education, establishing collaboration with vocational training and innovation in training and regulation, and reinforcing the further training, upskilling, and reskilling schemes in higher education, aligned to expectations on the labour market. All source of law, controls and procedures are revised and tertiary education fields in the tertiary education registry are renewed under the reform. The **practice-oriented reform of higher education courses** is key to providing higher education training satisfying labour market needs; reform is aimed at the infrastructure development of internal practice establishments, improvement of digital infrastructure and competences, competences of students and workers in tertiary education, and at globalisation in more than half (36 pieces) of the state-accredited tertiary education institutions. In terms of infrastructure development, the aim is to improve the building infrastructure and equipment related to the practical training, teaching and quality institutional services of tertiary education institutions, with a view to promoting the green and digital transition. Moreover, established developments facilitate the modernisation of training capacities, the extension of knowledge bases and improvement of their availability, contribute to the increase of competitiveness of the national tertiary education system and intensify the integration of national institutions into the European Higher Education Area (EHEA). The preparatory activities for the projects have been completed, and all beneficiary tertiary

education institution have started the implementation of the projects. For training activities, tertiary education institutions completed the first milestone by 30 October 2022.

Additional policy measures:
Following consultation of the universities and students' organisations, end of July 2022 the Government brought a theoretical decision on the **renewal of the tertiary education admission system**. The modification of the admission process for the renewed tertiary education system was necessary due to the new contractual framework applied to 21 universities operated in model changed and 16 universities maintained by churches, three fourths of the students are registered in these. Under the new framework private institutions fulfil a public-service mission based on a 6-years performance- and quality-based contract. The admission requirement of advanced level exam for one subject was abolished. The minister responsible for tertiary education defines a broader scope of school leaving exam subjects (school leaving exam matrix) per course areas and levels out of which the tertiary education institution selects the expected examination subjects considered when calculating admission scores and decides whether it requires an advanced level exam in the case of each of its courses.

The language exam requirement was abolished; the intermediate-level language exam is no longer needed for graduation. One of the main objectives of the measure is to reduce the drop-out rate (the rate of those not earning a degree). Parallel to abolishing the language exam requirement the Act on National Tertiary Education requires the tertiary education institution to provide for teaching the foreign language skills necessary to the practical use of qualification to be obtained in the given course (Bachelor's qualification, Master's qualification, undivided qualification offering Master's degree, higher vocational training). The regulation worked out substantially contributes to the expansion of universities' autonomy and delegates the power of decision to the level bearing the respective responsibility.

A long-term strategic goal is to **significantly increase the number of participants in dual education and to broaden the practical content of higher education courses**. Today, students of dual education have to cope with significant additional workload as they study on the university and work several hours a day and, in most cases, they are subject to academic and exam requirements applied to students in traditional education scheme. In order to reduce the workload, we would like to provide easy subject and exam registration for dual education students and define favourable reclassification rules. We would like to create an integrated education model in which dual education students can take their practical exams at the company cooperating in their studies.

The increase of the rate of graduates can be achieved by the raise of the rate of those earning a degree, i.e. by the decrease of drop-out. For this end, by participation and mentoring activities of tertiary education students, teachers and other educational staff learning-focused services and programmes supporting study environment, **developing special education content, preventing, and avoiding early drop-out** are realized from EDIOP Plus resources particularly in **priority areas** addressed by the sectoral strategy (**medical and health studies, STEM, agricultural and teacher education**).

The **"Ensuring quality digital higher education in Hungary"** project is implemented within the framework of the EU Technical Support Instrument (TSI). The project lead and realized by the Organisation for Economic Co-operation and Development (OECD) is supported by the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission and accomplished in close cooperation with the Ministry of Culture and Innovation (hereinafter MoCI) and the Hungarian

Accreditation Committee (hereinafter HAC). Based on international best practices of the OECD and the EHEA, the report presents a possible model for the introduction of a performance-based self-accreditation system in Hungary. The final report of the project assessing the Hungarian higher education quality assurance system, more specifically its strengths and weaknesses in ensuring the quality of digital higher education, was published in March 2023 on the OECD iLibrary. Based on key findings from the international mapping of new quality standards, practices and support for digital higher education, the report offers recommendations and policy options to support the ongoing reform of the Hungarian higher education accreditation system, as a list of possible digital education indicators to be integrated into the assessment frameworks used by the HAC for the accreditation of higher education institutions. The closing conference of the project took place on 29 March 2023 in Győr.

The National Research, Development and Innovation Office (hereinafter: NRDIO) controlled by MoCI is responsible for the realization of the calls for applications *RRF-2.1.2-21 Infrastructure and skills development for practice-oriented higher education* and *RRF-2.3.1-21 Establishment and complex development of the National Laboratory.* Examining beneficiaries' DNSH commitments MoCI and NRDIO take the view that the quality thereof is not consistent, a substantial part of them complies with expectations only formally and there is a significant unexploited potential. Under the TSI project ***"Integration of environmental aspects in public finances – implementing the Do No Significant Harm principle (DNSH) in public funded programmes"*** the NRDIO commits to participate in RRF-level methodology developments, to expand the organisation tasks of leaders responsible for the realization of instruments handled by the NRDIO, results of which are being validated during the completion of its own measures and to work out government-level submissions in disputed subjects of the project.

Road to a Degree subprogramme **of Road to Scholarship Programme** facilitates the graduation of Roma and disadvantaged students. The subprogramme consists of a grant support and a self-contribution support component. In the academic year 2022/2023 171 of 377 students received the subsidy.

To increase the number of Roma with a higher education degree and to strengthen their role in society, a total of 11 special **Roma Colleges** in higher education assist hundreds of mainly Roma young people in their university and college studies. In 2023, over 300 Roma or disadvantaged students started studies in the special colleges.

8.3. Vocational training

The Act on Vocational Training taking effect in January 2020 reshaped the national vocational training significantly. The formation and operation of the new system is continuously monitored by the Government, the legal environment is regularly reviewed to ensure efficient and smooth functioning. **The primary goal of the vocational training renewal to make the system more flexible and practice-oriented,** one of the basic condition of which is the increase of esteem of trainers. In July 2020 the Government has **raised the salary of professionals in vocational training by 30 per cent** on average encouraging this way the activities of trainers with outstanding achievements in their field of expertise. **In January this year**, by a 10 per cent salary raise in both public education institutions and vocational training, **the salary of vocational trainers increased further.** A pending draft legislation related to a budget act articulates that the average salary of vocational trainers shall be raised at least to the extent of teachers' salary raise to be executed in the coming years. Currently the **performance assessment of**

vocational trainers is in process in accordance with the European Quality Assurance in Vocational Education and Training (EQAVET) the result of which will serve as basis for further salary increase.

At the moment the refining of the vocational training system renewed in 2020 is underway. As a consequence, the relations between enterprises and schools may become more efficient, and more pupils and partner companies will be able to join dual education. Furthermore, the chances of being admitted to vocational training are broadened for those without qualification in order to facilitate catching-up and reduce the drop-out rate**.** In deciding on the modifications, the Government largely rests on the proposals of the **Vocational Training Innovation Council (VTIC).** The objective of the body founded in 2018 is to offer a regular platform for meaningful dialogue between the government and decisive actors of the vocational training system. Besides government representatives VTIC consists of delegates of chambers, large enterprises, trade unions, representations of interests, educational organisations, institution maintainers and pupils' associations. From the side of the economic sectors **Sectoral Skills Councils** (SSCs) take part in the development and modernisation of content structure of vocational trainings and in the alignment of training offers with labour market needs. SSCs, starting their activities officially in 2019, largely contribute to the shaping of a vocational structure which fulfils the new requirements. The mission of SSCs is to facilitate the harmonisation of labour market needs and the training system and to contribute to the operation and necessary transformation of the vocational and adult education by making comments and proposals.

The **"21st century vocational training institution development"** programme is aimed at the creation of an attractive learning environment in the institutions of vocational training centres, the establishment of the conditions for quality vocational education, the **infrastructural and energy-efficient improvement** of the buildings, classrooms, workshops, laboratories, as well as the educational farms and community spaces used for training, and the modernisation of the equipment. Under project RRF-2.0.0-2021-00001 preparing the programme the technical compilation of investment and development concepts of the 21st-century vocational training institution development programme commenced, the energy consumption assessment of the systems of the participating institutions has been carried out, certifications have been prepared and the impact study for the implementation of horizontal aspects as well as the primary energy savings methodology indicating the investment's savings ratio has been worked out. At policy level participating vocational training centres have been selected. Consultations on the final call relating to implementation are ongoing. The total investment budget is HUF 96.2 billion.

Accredited examination centres established during the years 2021 and 2022 have a high degree of autonomy; the new system separates vocational training from exam organisation. Furthermore, state-maintained, and privately maintained education institutions with cooperation agreements not carrying out basic public vocational training tasks may organise vocational exams without accreditation till the end of 2025. The nationally accessible, centralised **National Accredited Examination Centre** (NAEC) network equipped with state-of-the-art facilities is being established which will create the basic conditions for high-quality vocational examinations for those professions and qualifications for which no accredited examination centre is available. Beyond the construction investment and procurement of equipment a database will be created within the NAEC network as the systematic collection of practical questions and lists of topics defined by the training and outcome requirements and programme requirements of the professions and qualifications that can be examined in the central building of the network and on the basis of the equipment of the examination rooms in the central building. Under the project RRF-2.0.0-2021-00001 preparing the programme the central building of

NAEC has been acquired; implementation has started under project RRF-2.2.3-22-2022-00001. The total investment budget is HUF 12 billion.

The "**Digital curricula development for vocational training**" started with the aim of comprehensive renewal of the entire content of the vocational training system is ongoing. Digital learning materials for teachers and students in vocational training institutions facilitate the teaching of professional content and the acquisition of the necessary competences in line with labour market requirements, as well as the support of innovative digital vocational education in vocational training institutions. By increasing the share of up-to-date digital content, vocational training will be of higher quality and become more inclusive, and students leaving vocational training institutions with more up-to-date and more marketable skills will contribute to the competitiveness of economic operators. The programme was prepared within project RRF-2.0.0-2021-00001, implementation has started under project RRF-2.2.1-22-2022-00001. The total investment budget is HUF 20 billion.

8.4. Adult Education

Since 2020 the renewed adult education system strives for an effective adult education which contributes to the shaping of a knowledge- and work-based society. **The primary goal of adult education is to empower the Hungarian workforce to flexibly react to challenges presented by technological changes** thus ensuring workplace stability and the creation of workplaces. **Another important objective is the effective and quick fulfilment of labour market requirements** by ensuring that Hungarians can participate in courses which best suit their abilities and interests and get hired for the appropriate positions. With this aim in mind, responding to the aforementioned challenges and **in line with previous strategic objectives several modifications were adopted to the legislative background and the management of adult education in 2022** in relation to provisions pertaining to programme requirements and to other regulative elements. The **renewed management structure** of adult education and vocational training, in co-operation with the tertiary education, vocational training and innovation areas, enable the planning, execution, joint follow-up and assessment of more efficient and more focused interventions.

The objective of the Government is to **fulfil the national commitment relating to the European Pillar of Social Rights action plan,** i.e. to increase the share of adult population aged between 25 and 64 participating in education. Policy interventions are facilitated by EDIOP Plus provided for by the Structural Funds. Adult education successfully applied for the European Commission's Technical Support Instrument (TSI) facilitating policy reforms in respect of two interventions, for the individual learning account supporting lifelong learning and for the development of the single micro-credential system. As far as RRF funds are concerned, adult education takes part in measures serving green and digital transformation indirectly; the implementation of the micro-credential system is one aspect of participation.

The scheme **"Improvement of the adaptive capacity and productivity of employees and companies through workforce development"** supports the training and competence development of employees by the involvement of adult trainers, thus contributing to the improvement of competitiveness of the national human resource. The programme budget of HUF 70 billion is managed by the employment and adult education policy jointly. *(Please consult the employment section for further details.)*

The European Commission (DG Reform) approved and supported the project of Technical Support Instrument submitted by the Government which is the project plan for the subsidy of the implementation of the **Individual Learning Account**. In order to increase the number of people participating in adult education, in line with the recommendation of the European Council, we examine the possibility of implementing the Individual Learning Account (ILA) in Hungary, its proposed structure and expected benefits. ILA is an indirect funding tool that involves stakeholders (companies, social partners, municipalities, church, civil society organisations, individuals, and the state) in education funding and leaves the use of training support to the individual's discretion—within the framework of a quality-assured list of courses. ILA entails many benefits (confers rights and responsibilities upon the individual), however the way of implementation, quality assurance, the appropriate methodology and monitoring are essential for successful operation. The official kick-off event took place on 24 January 2023.

In October 2022 the Hungarian Government submitted the application to the European Commission (DG Reform) for the **establishment** of a single, national **micro-credential system** ("Preparation for the implementation of a micro-credential system based on Hungarian standards") which was accepted in January 2023. The project spans over a period of 18 months, its goals are harmonised with the measure under which the already granted Individual Learning Account will be implemented as well as with the RRF intervention entailing the pilot of the micro-credential test in the field of tertiary education. Short-term education contracts not generating any other legal relationship may be registered as adult education legal relationships in the case of tertiary education, adult education, and vocational training as well, thus micro-credential issued fit in to adult education system governed by continuous learning.

9. Healthcare

The current and subsequent development of healthcare is largely accomplished under Hungary's Recovery and Resilience Plan.

The first component of this is the unprecedented salary raise of doctors which, instead of being funded by EU resources of HUF 300 billion as originally planned, was completely financed by national budget, and enabled the **abolishment of informal payment**. As a result of the salary increase started by the Healthcare Service Relationship Act in the beginning of 2021 doctors earn two and a half times their earlier salary on average from 2023. As the result of the four-staged salary increase of skilled healthcare workers completed between 2019 and 2022 the salaries of nurses rose by 72 per cent on average compared to the level of 2018, i.e. the 2018 salaries have been raised by 30 per cent on average. According to plans the base salary of **skilled healthcare workers** will be further increased in two steps, starting from 1 July 2023 and 1 March 2024 and is to be accompanied by the salary raise of unskilled health workers, thus 83 thousand skilled workers and 24 thousand other healthcare workers receive a pay raise. At the same time the acceptance of any monetary, economic, or in-kind consideration beyond the fees defined by the law became illegal; according to provisions of the Healthcare Act the Criminal Code punishes those offering undue advantage with deprivation of liberty of up to one year.

Within RRP, four additional independent measures have been set which are owned by the Minister responsible for healthcare. Beyond the salary raise of doctors certain **significant restructuring investments and systemic interventions (i.e. transformation of primary care, digital transformation) have been completed.** Beside healthcare developments, the health component of RRP includes the "Digitalisation programme serving the security and life protection of reliant individuals" which belongs to the competence of the social area.

Detailed introduction of component 'H' of the Recovery and Resilience Facility (RRF):

	Measure	Net EU resources (billion HUF)	National contribution (billion HUF)	Total (billion HUF)
1.	Development of primary care to strengthen the role of general practitioners, to expand the scope of proximity services and to mitigate the workload of specialised care	68.48	17.01	85.49
2.	Creating the foundation for 21st-century healthcare	239.16	73.05	312.21
3.	Supporting the digital transformation in health	96.21	27.11	123.32
4.	Income decompression of physicians, phasing out of informal payment	0.00	300.00	300.00
5.	*Digitalisation programme serving the security and life protection of reliant individuals (development of the social policy)*	*86.73*	*24.81*	*111.54*
	Total of RRP component 'H' (rows 1–5)	**490.58**	**441.98**	**932.56**
	Out of which healthcare developments totalling to (rows 1–4)	**403.85**	**417.17**	**821.02**

Table 4

1. **Development of primary care.** The aim of the intervention is to strengthen the primary healthcare system, to prevent major widespread diseases more effectively and to ensure access to safe, good-quality care. The system of general practice partnerships will be expanded, the role of primary care in prevention and chronic disease management will be strengthened, and telemedicine activities are to be spread. The planned implementing parties of the **project**, which uses the above budget in full, are the National Directorate General for Hospitals and its consortia partner, the National Institute of Health Insurance Fund Management.
2. **Establishment of conditions for 21st century healthcare.** The aim of the intervention is to strengthen the infrastructure of specialised outpatient and inpatient care and the supporting emergency care and blood supply in order to increase the efficiency of care. To this end, the intervention will improve the built infrastructure and equipment of some priority outpatient and inpatient specialised care facilities and of blood supply facilities as well as the network of ambulance stations.
3. **Supporting the digital transformation in health.** The aim of the intervention is to ensure the sustainability and financing of the healthcare system and to strengthen its cost-effectiveness by reducing duplications and by creating healthcare posts with clear profiles. The most important development objectives: increasing day care and ambulance care capacities, increasing the occupancy rate, reducing the average length of hospital stay, ensuring secure management of health data assets and provision of higher quality services, while improving the health status of the population.

Systemic developments

In December 2022, for the sake of equal and permanent access, the Parliament resolved to amend the act on primary care in order to establish the **unified on-call duty primary care system**. The on-call service is available on the phone number 1830 from counties that joined the system.

According to adopted plans the general practitioners' on-call duty will be available between 4 p.m. and 10 p.m. on working days and between 8 a.m. and 2 p.m. on weekends and public holidays in 174 districts of Hungary. On-call duty is performed by 102 on-call duty centres in 81 municipalities between 10 p.m. and 8 a.m. the next day on working days and between 2 p.m. and 8 a.m. the next day on weekends and public holidays; thus, the objective to ensure equal access for everyone irrespective of the place of residence can be reached.

The unified on-call duty service rendered by the National Ambulance Service (hereinafter: NAS) ensures on-site on-call care appropriate for the patient's condition in all municipalities of the country, for all those in need, however at a higher quality level and with expanded accessibility than earlier. The preparation of on-call duty schedule is facilitated by the scheduling software provided by NAS. The on-call duty is organised by the county hospital, if needed, by the co-operation of the Collegial Head of General Practitioners (mainly in the case of services across district borders). In places where no on-call duty post was established the assistance can be accessed as well as by calling the central number patients receive professional advice through the application of the triage system, or, depending on their condition, emergency medical vehicle or, in case of risk to life, ambulance is sent to their place of stay, wherever they are.

The implementation of the new on-call duty system was founded on the positive experiences with the pilot programme in Hajdú–Bihar county started in July 2021 under project HRDOP-1.8.23-21. Within this project patient needs have been surveyed; the difference in services before and after 10 p.m. was defined based on these findings. Another indirect precedent was project HRDOP-1.8.22-20-2022-00002 "Development of primary care to strengthen the gatekeeper function of general practitioners and general paediatricians" which enabled the strengthening of the role of general practitioners, expansion of proximity services and the reduction of burdens on specialised care. As a result of the efficient operation of the on-call duty system the number of ambulance calls and the unnecessary influx of patients to emergency services of hospitals decreases. This is also a relief for general practitioners as they are not required to work on the night shift of the on-call duty services. The new on-call duty was launched firstly—in February 2023—at the location of the previous pilot project; in March counties Szabolcs–Szatmár–Bereg and Győr–Moson–Sopron, in April county Borsod–Abaúj–Zemplén, in May Komárom–Esztergom and Békés joined the system.

At the same time, the "Egészségvonal" (health line) service accessible from anywhere in Hungary in 24 hours is launched with the aim to help patients use care options more consciously through the contact centre or the egeszsegvonal.gov.hu portal. The National Health Telephone Customer Service and Online Information Centre is available 24/7 by telephone and online on various platforms for all residents of Hungary on the number 1812. The subproject "Establishment of the National Health Information Centre" of priority project "Professional Methodological Development of the Healthcare System" was concluded by NPHC on 31 December 2021, replacing the previous service available throughout the coronavirus pandemic at the beginning of 2022.

On 1 January 2023 a new financing system entered into force in inpatient specialised care which takes into account the actual cost of services and the number if residents as well. Since February settlement of the performance of healthcare service providers is arranged for under this scheme. Its three main components: a) balancing specialisation areas, i.e. by balancing different specialisations the liquidity of affected hospitals improve; b) weighted definition of yearly budgets based on number of residents and number of patients in 20–80 share respectively; c) taking into account levels of different cost intensity.

Prevention programmes

The programme HRDOP-1.8.1-CCHOP-15-2016-00001 "Complex public health screenings" presents an important step forward in the expansion of the range of screening tests. Every man and woman aged between 50 and 70 having effective healthcare insurance are eligible at 22-months intervals for free colonoscopy if they had no faecal immunochemical test earlier and if they have not been diagnosed with colorectal, rectal cancer or inflammatory bowel syndrome.

The programme "Local Provision of Screening Examinations" started in 2018, screening of more than 42 thousand people has been carried out since. AS its main component, the programme will help to increase the availability of organised public health screening tests and participation rates by the gradual installations of 10 mobile units (buses) used for carrying out general examinations, and will also contribute to making certain health services, in addition to primary care, easily and quickly available to people living in municipalities with a small population, where transport conditions or other factors make access to screenings and examinations difficult. From 2019 onwards it is aligned with the long-term programme "Catch-up settlements", municipalities indicated in the annual timetable are prioritised.

Also serving prevention, since 2014 the HPV vaccine has been available mainly in schools, resulting in a vaccination rate among girls of 81 per cent by today. Since 2020 the free vaccine is also available to boys over the age of 12, further decreasing the circulation of the virus.

The meanwhile concluded project HRDOP-1.9.5-CCHOP-16 “Intersectoral development of early childhood intervention” implemented the National Information System for Nurse Service. Electronic administration was also supported by project PASOP-1.0.0-CCHOP-15-2017-00051 “Reforming the financial management and public administration functions of the healthcare system” which was aimed at the replacement of the previous systems (e.g. eGen, HENYÍR) by a central system which could simplify and speed up proceedings of the affected authorities.

Prior to 2020 several programmes funded by national and EU resources were carried out with the objective of health improvement strengthening and the prevention of addictions.

From 2020 multiple programmes were aimed at health improvement and mental health retention at the level of schools. At the same time, targeted programmes were supported in the field of prevention of substance abuse for the most endangered groups (youngsters subject to child protection, segregated groups). These programmes are carried on in 2023 as well.

The settlement of legal status and financing of the national health promotion offices able to fully integrate the national prevention institution system into healthcare is in process.

The “Clean Drinking Water Project” identifies impacts endangering the catchment and the safety of drinking water from water abstraction to consumers, i.e. from catchment of the Danube to the tap. The implementation of the project is funded by the National Research, Development, and Innovation Office.

10. Sustainable economy

10.1. Environmental protection, water management

Developments planned in waste management

Based on the existing provisions of Act CLXXXV of 2012 on waste (hereinafter referred to as the "Waste Act"), the public waste management planning is carried out through the establishment of the **National Waste Management Plan 2021–2027** (hereinafter referred to as "**NWMP**") and the National Prevention Programme (hereinafter referred to as "NPP"), which is part of it. NWMP presents the waste management situation in Hungary, the conditions of the base year 2018 broken down by waste streams, results achieved by National Waste Management Plan II, identifies deficiencies, and draws up direction for general and specific actions relating to the given waste streams. Furthermore, it puts into practice the objectives set by the Climate and Nature Conservation Action Plan (hereinafter referred to as CNCA) which, among others, contribute to the decrease of the annual volume of plastic waste, to thrifty management of natural resources and to the facilitation of secondary raw material use. Part of the NWMP is the Action Plan identifying the specific interventions indicating the objective, measure, index, resource demand and subsidy options relating to the given intervention. NPP, forming a part of NWMP includes the targets relating to waste prevention and the measures necessary for these. The plan shall be reviewed every second year, the first review is to follow in 2023 the preparation for which is in process. Funds from EEEOP Plus and DROP Plus to be used for objectives of the NWMP amount to EUR 257.9 million.

One of the main components of CNCA announced in February 2020 by the Government aims to eliminate illegal landfills and to ensure that plastic and glass bottles and metal cans can be returned. Another objective of the measure—in line with the 2018 directive of the EU on the transition to a circular economy—is waste prevention, the increase of waste processing and recycling ratio as far as possible and reducing waste disposal. **Component 'G' of RRF** serving the implementation of CNCA supports recycling and the market of innovative secondary raw material in the industry sector. 40 thousand tons of plastic waste is recycled by the innovative processing method annually. In case of a smart, sustainable industry development projects the budget amounts to HUF 86 billion, otherwise waste management infrastructure development can be completed with a budget of HUF 43 billion.

Related to and beyond Directive (EU) 2019/904 of the European Parliament and of the Council **on the reduction of the impact of certain plastic products on the environment** (The Single-Use Plastics Directive, SUP) Hungary provides for a ban on free single-use plastic food containers and on the marketing of all single-use cups for beverages with effect from 1 July 2024 (while the ban in line with the SUP Directive only applies to expanded polystyrene products). The adoption of the SUP Directive to the Hungarian legal system had been completed in the course of 2021. From 1 January 2023 it is prohibited to give single-use plastic food containers free of charge to customers. Directive (EU) 2018/851 entered into force on 4 July 2018 addresses the **extended producer responsibility** (EPR) **scheme** of Member States which is, by definition "a set of measures taken by Member States to ensure that producers of products bear financial responsibility or financial and organisational responsibility for the management of the waste stage of a product's life cycle". These were transposed to the Hungarian legal system by the 2021 modification of the Waste Act; detailed regulations have been worked out and the launch of the system is planned for 1 July 2023. From 1 July 2023 one of the main objectives of the **concession system for national waste management** is to meet the targets set for the preparation for re-use and recycling of municipal waste and for the landfill rate set for the same waste stream. The targets set for 2025, 2030 and 2035 (by 2035 a recycling rate of 65 per cent and a landfill rate of 10 per cent shall be reached without derogation) present a major challenge having regard to the development needs of the waste management infrastructure. In the new waste management system model, the concessionaire will be responsible for the performance of state public functions in waste management, and will implement the related improvements in the collection and pre-treatment of municipal waste and waste from products subject to the extended producer responsibility scheme. On 28 July 2022 the Hungarian state and MOL Nyrt. as concessionaire concluded a concession contract under which the concessionaire or the concession company acting on its behalf shall complete an investment of nearly HUF 200 billion in the first 10 years of the concession period.

The National Coordination of Waste Management and Asset Management Plc co-operates in the **implementation of the national asbestos removal programme** under which residents may apply for the removal and disposal of demolition waste containing asbestos. The objective of the programme is to support legal waste disposal and to eliminate illegal waste disposal. Since 2005 the use of asbestos in construction is prohibited in Hungary due to the fact that it is harmful to health. Asbestos removal upon the demolition of buildings is regulated by law. Phase I spans from August 2022 (residential applications) to June 2023 (handover and transport, project closure) while phase II is expected to start in July 2023 following the call for proposals.

Several waste management developments are in process under EEEOP's priority 3 between 2021 and 2023 in county Szabolcs–Szatmár–Bereg (EEEOP-3.2.1-15-2017-00025), in the Budapest (EEEOP-3.2.1.-15-2017-00024), and in the Mid-Danubian region (EEEOP-3.2.1.-15-2016-00002) totalling to HUF 23.9 billion. Projects aim to improve differentiated waste collection, to systematically develop the network of municipalities' waste management facilities and to carry out remediation tasks as prescribed by order of authorities. Investments carried out within EEEOP-3.1.1 for the development of municipal waste collection, transport and pre-treatment systems, diversion of biodegradable waste from landfill (EEEOP-3.1.2) and the development of pre-treatment, recycling and disposal subsystems are ongoing from 2015 to 2023 with a budget of HUF 31.3 billion. These projects affect around 500 thousand people and realize the processing of 22 thousand tons of waste annually.

Water utility development

Measures of the **National Public Water Services Strategy** (NPWSS) include public drinking water supply, related drinking water base protection, treatment, storage, transport and distribution of drinking water, delivery to points of use, and related provision of fire water, public sewerage (including rainwater drainage in the case of combined systems), the collection, disposal, treatment of waste water from points of use, the treatment of the resulting sewage sludge and the recovery and disposal of treated waste water. Based on the nature of the impacts, the above three intervention areas have been complemented by the intervention area "tasks to increase the efficiency of water utility services" promoting a more sustainable and safer operation of water utility facilities. Following the public participation process and the adoption of the document by the Government on 4 November 2021, the NPWSS was sent to the European Commission, which on 27 January 2023 made further comments on the strategy, in the light of which it is now being revised. The strategy funded by EEEOP resources of HUF 240 billion is aimed at the development more cost-effective, sustainable, and energy-efficient systems.

The **second revision of Hungary's river basin management plan**: the EU Water Framework Directive requires Member States to prepare and review a River Basin Management Plan (RBMP) every 6 years to achieve good water status. The RBMP includes all relevant information currently available on water bodies, the results of status assessments based on monitoring programmes. Currently Hungary's river basin management plan No. 3 is under adoption. RBMP3, funded by a total of HUF 1,620.2 billion, identifies problems for the period from 22 December 2021 to 22 December 2027 preventing the achievement of good water quality status and their impacts, the environmental objectives that can be set and the technical and control measures, financial support and incentives needed to achieve them. **Component 'D' of Hungary's Recovery and Resilience Plan** provides for a more extensive information to ensure that current and future water user generations understand the importance of sustainable water management and are equipped with the modern solutions needed to realise it. The means of providing information are manifold: publications, film distribution, and organisation of meetings or training programmes. In the second quarter of 2023 Act CXIII of 2019 on Irrigated Cultivation is to be amended and in till the third quarter of 2024 100 sustainable water management communities shall be formed for the promotion and monitoring of efficient water use. By 2026 the area cultivated by farmers implementing water-saving farming may increase to 50,000 ha and by this time announced trainings will be concluded as well.

Under priority 2 of EEEOP **water utility investments are realised—mainly sewerage network and wastewater treatment plant developments—**in the following waste water agglomerations: Dunaújváros, Pusztaszabolcs, and Dunaalmás (HUF 6.1 bn.), Pécs (HUF 7.9 bn.), North-Hungary (HUF 10.1 bn.), Bicske, Csákvár, and Újbarok (HUF 7.8 bn.), Bácsbokod, Tiszakécske, and Cibakháza (HUF 5.3 bn.), Zsámbék, Perbál, Telki, and Budajenő (HUF 6.3 bn.), Csengőd, Gyömrő, and Szeremle (HUF 8.5 bn.), Hajdúhadháza, Tunyogmatolcs, Balkány, Hajdúnánás, and Kemecse (HUF 13.2 bn.), Mándok, Gávavencsellő, Vásárosnamény, Cigánd, Nagyhalászi, and Tiszatelek (HUF 9.1 bn.), Békésszentandrás, Dévaványa, and Mezőberény (HUF 5.9 bn.), Cegléd (HUF 8 bn.), Sátoraljaújhely, and Kenézlő (HUF 8.3 bn.), totalling to HUF 104 billion. Projects aimed at the **improvement of drinking water quality** have commenced in the municipalities Pincehely, Tamási, Kistormás, and Kölesd (HUF 5.1 bn.) and Aba (HUF 0.97 bn.); development of the water wells of capital Budapest and projects pertaining to the management of water quality and capacity risks (HUF 16.1 bn.) are ongoing from a total budget of HUF 22.1 bn. The water utility network of the industrial park of Komárom is developed from national funds of HUF 12.1 bn.

Nature conservation, natural living waters

The Second National Climate Change Strategy adopted by the Parliament in 2018—setting climate objectives for the period 2018–2030 with a view to 2050—defines climate policy objectives and action lines for the short, medium, and long term. The implementation of the strategy rests on four climate change action plans, each spanning over a period of three years, their subjects and structure harmonising with the tripartite structure of the strategy: mitigation (emission reduction), adaptation and awareness-raising pillars setting out specific measures. The implementation of the measures included in the action plans will contribute to the reduction of greenhouse gas emissions, adaptation to the inevitable negative impacts of climate change and awareness raising.

The **LIFE Enhanced Capacity Building in Hungary** project will be coordinated by the Hungarian Development Promotion Office and will be realized with the participation of the Ministry of Energy, the Prime Minister's Office and the Ministry of Agriculture between 2023 and 2026. The project aims to increase the number and improve the quality of successful Hungarian LIFE applications by training potential applicants and national contact points. Project actions include information days, project management training, organisation of university innovation competitions, exchange of good practices through study tours for national contact points, and targeted information dissemination campaigns through digital channels. One of the most important milestones of the road to climate neutrality is the climate-friendly conversion of the power plant of MVM Mátra Energia Zrt. in Visonta accounting for about 10 per cent of the total national CO_2-emissions, i.e. it is Hungary's largest greenhouse gas producer. The priority goal of the LIFE-IP North-HU-Trans "Roadmap for the safe, efficient and low-carbon transition of Hungary's last coal region" project of a budget of HUF 5.2 billion is to execute the relevant targets of the National Energy and Climate Plan and to ensure the sustainable and just transition of the Mátra Power Plant and its environment. **To create the necessary budgetary conditions for the implementation of the LIFE Integrated Project** the Government passed **Resolution no. 1170/2021 (IV.9).**

Out of the four macro-regional strategies of the EU, Hungary participates in the implementation of the **EU Strategy for the Danube Region (EUSDR)** including 14 countries and a total population of 115 million. Hungary coordinates EUSDR priority area 2 "to encourage more sustainable energy consumption" together with the Czech Republic (PA2), priority area 4 "to restore and maintain the quality of waters" (PA4) together with Slovakia and priority area 5 "to manage environmental risks" (PA5) together with Romania. As a result of regular policy consultations, regional assessments and studies, knowledge sharing and contact building and joint transnational projects EUSDR contributes to the mitigation of regional differences and to the European integration of the three Western Balkan countries of the Danube region (Bosnia and Herzegovina, Montenegro, and Serbia) and of the Ukraine and Moldova. In 2022, commissioned by priority area 2 (PA2) sustainable energy, a study was carried out on the decarbonisation of heating and cooling related to the impact of the decrease of Russian gas consumption on the Danube region. In 2022, as for EUSDR priority area 4 (PA4) water quality, studies and international projects were carried out relating to the handling of the sewage sludge and microplastics and hazardous substances pollution in the Danube catchment. With the support of the Hungarian-led Disaster Management Working Group within priority area 5 (PA5) environmental risks, three international projects assisting the preparation for climate change had been realized within one year. In 2022, EUSDR's national coordination financed the preparation of a gap filler summary on the invasive species appearing and spreading in Hungary, often presenting significant economic risk (in particular to the agriculture) in accordance with objectives of Regulation (EU) No. 1143/2014 of the European Parliament and of the Council on the prevention and management of the introduction and spread of invasive alien species and of the EU's biodiversity strategy for 2030.

Remedy intervention plans are being prepared for polluted areas touching almost all regions of Hungary the majority of which was formed prior to the political transition. The aim of the measure is the national assessment and identification of the environmental damage left behind by the intensive industrialisation of the last century, and the planning of the necessary remedial intervention works. The measure enables further national economic development by recycling the damaged and polluted environment, while protecting the health of the population and preserving the good condition of our strategically important water and soil resources. Throughout 2022–2023 11 intervention plans are being prepared funded by HUF 5.5 billion. Grant applications were expected to be submitted for the subsidy **"Preventing damage to forestry management potential"** between 4 February 2022 and

31 December 2022. The call is meant to support the protection against forest fires and other natural hazards, through forest management and forest use solutions. Funds are available for the construction of firebreaks of various widths, firewater storage, the distribution of pine cleaning material, stump removal, the establishment of ponds, the support of biological or chemical control of forest pests and the purchase of a forestry weather station. As a result of this subsidy, the risk of forest fires and other abiotic and biotic forest damage can be reduced. It is important to adapt agricultural production to changing environmental conditions through the use of environment and climate conscious farming practices that improve landscape mosaicism and biodiversity, improve soil conditions and the water balance, or even more sustainable use of pesticides. The Ministry of Agriculture can translate this into practice in the process of developing environment and climate-conscious agriculture by placing more emphasis on voluntary and incentive programmes instead of binding and restrictive rules. The **Agroecology Programme** (AEP) starting in 2023 under the CAP Strategic Plan, is such an incentive, based on voluntary commitments it grants subsidy for one year with a budget totalling to HUF 368.9 billion over 2023–2027. In 2023, funds total to HUF 73.8 billion and 2.5 million hectares of agricultural land will be affected by the measure. The aim of the development RRF-4.3.1-21 is to **maintain and improve the ecological condition of Natura 2000 habitats** and of the "Hanság" area, a total of 4,950 hectares, by improving underground and surface water storage capacity. With the nature conservation objectives of land management in mind, the planned activities include the necessary renovation of certain sections of the riverbed and treatment lanes, the renovation of structures for water control and retention, and the construction of new structures. The water management system, reconstructed in this way, will allow the retention of rainwater and rivers entering the area, and avoid their unused disappearance from the area, and will ensure the ecological water needs of the Natura 2000 site by holding them as surface and underground water resources. The subsidy contract was concluded on 9 June 2022. The planned deadline for implementation: 30 June 2026, currently the in-depth preparation of the project, i.e. preparation of construction plans, detailed feasibility study, obtaining permits is underway.

Government Decree 266/2022 amending Government Decree 14/2015 (II. 10.) on the conditions for carrying out activities related to fluorinated greenhouse gases and ozone-depleting substances enables the trade and secondary market for reclaimed refrigerants, i.e. fluorinated greenhouse gases (F-gases) which have an extremely high global warming potential. The amendment ensures that the recovered refrigerant can be used for its original purpose by keeping it in circulation. In practice, the new regulation will give operators and equipment owners more incentive to choose the option of regeneration as an actual alternative to disposal, so that F-gases only become waste if absolutely necessary. The amendment promotes the objectives of the circular economy, climate protection and environmental protection. The amendment came into force in August 2022.

10.2. Energy policies

Energy security and energy sovereignty strengthening, increasing the use of renewable energy sources, the spread of electrification and managing relating challenges are the priorities among Hungary's short- and mid-term energy tasks.

Approved investments of the Recovery Plan contribute to the development of the electricity network, the further spread of renewable energy use and the increase of free storage capacities, thus furthering the acceleration of the green transition and strengthening the security of supply.

Policy measures aimed at the green transition

Complementing the Recovery Plan has commenced the **preparation of the chapter REPowerEU**. For the preparation of the chapter containing energy investments background calculations were made and consultation with the European Commission is in process. The Government has brought a theoretical decision on the REPowerEU chapter. Investments serve four governmental objectives: network development needed to satisfy the increasing energy demand, supporting the energy aspects of investments, increase of the country's energy sovereignty and the spread of alternative means of mobility. By adoption of the new chapter of the Recovery Plan energy investments of nearly HUF 4 thousand billion may be implemented.

Among measures aiming the development of the electricity network the objective of **traditional and smart network developments for transmission system operators and distribution system operators** is to build capacity for the electricity transmission and distribution network so that an additional weather-based renewable power generation capacity of at least 2,925 MW can be safely integrated into the electricity system. Subsidy contracts have been concluded in a total amount of HUF 103 billion; the budget was raised by HUF 60 billion in 2022. Implementation of the investments is in process; they must be concluded by 30 June 2026. All licensees are eligible for the subsidy proportionate to their capacity.

As part of the **modernisation of the electricity network**, capacity improvements in the municipalities Debrecen, Kecskemét, Nyíregyháza, Eger, Iváncsa, and Göd are implemented relating to industry developments from national resources totalling to HUF 130 billion.

The reliable operation of the transmission and distribution system is furthered by integrated storage facilities. The aim of "**Supporting integrated energy storage investments**" is to install energy storage facilities as integrated network components at transmission and distribution system operators. The investment, in line with objectives of the National Energy and Climate Plan, contributes to the greening and enhancement of the competitiveness of the energy sector. Non-refundable support is granted from a resource of HUF 33 billion in total provided by the Government and the Modernisation Fund; the final deadline for project completion is 30 June 2026. As a result of the investment a total energy storage capacity of 66 MWh is getting integrated into the network.

The non-refundable support energy component of the Recovery Plan indicates three additional investments: 1) Installation of network-integrated storages at Mavir Zrt. and distribution system operators – budget: HUF 58 billion; 2) network storage installation at energy market actors – budget: HUF 62 billion; 3) installation of smart meters – budget: HUF 20 billion. For all three investments draft call for tenders have been prepared and the required state subsidy notification procedures have commenced. As a result of the investments new network-integrated installed capacities able to store 120 MWh and new storage capacities on the small-scale balancing market of 256 MWh are created and 290,680 smart meters are installed.

Under the measure "**Support of household PV panel systems and electrification of heating systems combined with PV panel systems**" households with earning less than the average income can apply for 100-per cent non-refundable support for the installation of PV panel system or for heating modernisation combined with PV panels. The full cost of the public (non-private) investment is HUF 173 billion (excluding VAT). 43,379 applications were submitted for the "Support of household PV panel systems and electrification of heating systems combined with PV panel systems" announced in 2021. Subsidy contracts have been concluded with 34,833 families; implementation is in process.

The instrument offered subsidy for the installation of PV panel systems and heating electrification. Under the call for proposals "**Facilitating green power generation by the installation of power generation facilities not exceeding 0.5 MW installed capacity**" (EEEOP-5.1.2-17-2021-00007) the installation of 28 photovoltaic power plants is underway up till 2023 with a budget of HUF 6.7 billion. Under the support for **power generating systems with an installed capacity exceeding 4 MW** (EEEOP-5.1.1-17-2021-00008-00012) 24 MW and 20 MW photovoltaic power plants are being built in Debrecen, Kunmadaras, and Szeged, using a budget of HUF 53.5 billion.

Regulative modifications provided for the mandatory energy audit entered into force on 1 January 2022 for heating and air conditioning systems exceeding a nominal capacity of 70 kW, new biofuel blend ratios for 2023, simplification of provisions and acceleration of permission to enhance the prospect and exploitation of hydrocarbons and the simplification of the regulatory framework for geothermal energy consumption.

Act No. LVII of 2015 concerning energy efficiency introduced **mandatory energy audits** from 1 January 2022. As a result, heating and air conditioning systems exceeding a nominal capacity of 70 kW are required to be inspected regularly for energy efficiency. The aim of the inspection is to direct users towards more beneficial energy consumption by making proposals for system optimalization, without the need of energy efficiency investments. The mandatory audit is supplementing the investment-focused energy efficiency obligation scheme which was implemented a year ago on the 1 January 2021 and alternative policy measures. The mandatory audit is provided for by Directive 2010/31/EU on the energy performance of buildings (EPBD), by article 14 for heating systems and by article 15 for air conditioning systems.

The Government has regulated the **biofuel blending requirements** for 2023 in Government Decree 821/2021 (XII. 28): the mandatory biofuel ratio for the period between 1 January 2023 and 31 December 2023 is 8.4 percent. Within this, the minimum mandatory biofuel ratio in the research octane number 95 gasoline is 6.1 per cent out of which 1 percentage point may be covered by methyl-tertio-butyl-ether or methanol; in the case of diesel the minimum ratio of hydrogenated plant oils is 0.2 percent; the mandatory ratio of advanced biofuels and biogases in 0.2 percent.

In order to strengthen energy sovereignty and safety of supply the Government has set a target for 2023 for national natural gas extraction increase of 500 million m3 reaching annual level of 2 billion m^3. Simplification of provisions and acceleration of permission to enhance the prospect and exploitation of hydrocarbons took effect on 1 January 2023. In order **to simplify the regulatory framework of geothermal energy utilisation**, from 1 March 2023 the entire territory of the country on the earth's crust 2500 metres below the natural surface is not designated as closed area anymore and the law introduces the regulatory contract model for the extraction and use of geothermal energy by extraction of thermal water. The licensing powers of research, extraction, and utilisation of geothermal energy by the extraction of thermal water, with the exception of thermal water extraction with medicinal or agricultural primary purpose earlier being split between the water and mining authorities was entrusted to the Supervisory Authority of Regulatory Affairs of the mining authority. The extraction and utilisation of geothermal energy may be carried out under a contract to be concluded with the mining authority by the consent of the Minister of Energy with the reservation that the extraction operator is required to reinject extracted water in order to protect groundwater and the geothermal potential.

The **sixth METÁR tender**, published in March 2022, is available for the construction of renewable energy plants and the formation of storage capacities. The METÁR subsidy aims to provide a cost-effective incentive for environmentally friendly, renewable electricity generation and new investments in line with the National Energy and Climate Plan. In 2022 out of the 24 tenders submitted for the subsidy 12 were valid and all of these were awarded. In the small category (5–19.99 MW) six tenders were awarded making up of a total capacity of 85 MW, while in the large category (20–49.99 MW) six tenders were awarded generating a total capacity of 186 MW. The average price of the successful tenders was 25.73 HUF/kWh in the small category and 24.92 HUF/kWh in the large category making up for a joint average of 25.16 HUF/kWh. The tender's budget takes up HUF 0.5 billion.

In order to ensure the safety of supply in Hungary by diversification on 17 December 2022 Prime Minister Orbán Viktor, the Prime Ministers of Georgia and Romania and the President of the Republic of Azerbaijan signed an international four-part agreement aimed at the implementation of the **Middle Green Corridor** project. The project prepares the transport of green/renewables-based electricity from Azerbaijan to Hungary via the cable that would cross Georgia, run under the Black Sea and through Romania. An 18-month feasibility study—funded by the World Bank—by CESI, an Italian consultancy started in April 2022. The Steering Committee made up of ministers meets once a year, its inaugural session was held in Baku on 3 February 2023. On 24 February 2023 the Middle Green Corridor Working Group responsible for the operative coordination of implementation held its first meeting as well.

In Paks, a uniform integrated centre will be established, which will accommodate 12 governmental entities, integrating the organisations performing public administration, law enforcement, immigration, justice, and disaster prevention tasks. In 2021–2022, the permit plans and the execution plans were prepared. In case necessary resources are available, following public procurement procedure, implementation of a total cost of HUF 30.1 billion may be started.

The **partial or full transition of existing fossil-fuel-based district heating systems to renewable energy** and the implementation of renewables-based district heat production systems contributes to the move towards low-carbon economy. As part of this, in the period between 13 September 2021 and 30 November 2023 projects of a total value of HUF 7.6 billion are being implemented relating to energy efficiency development of the district heating sector. The projects are funded by the resources of EEEOP-5.3.1-17-2017. Currently ongoing developments of renewables-based local heating and cooling make up for a total value of HUF 9.9 billion. In 2023 the project "Biomass heating plant construction and integration to the district heating system of Kecskemét" generated developments of a total value of HUF 7.9 billion, while the project "Biomass heat production in Kaposvár" comes up for investments totalling to HUF 4.2 billion.

10.3. Transportation

According to the country-specific recommendation for transportation development (CSR3 2019): "Focus investment-related economic policy on research and innovation, low carbon energy and transport, waste infrastructure and energy and resource efficiency, taking into account regional disparities. Improve competition in public procurement." Out of the UN's sustainable development goals, each investment component fulfils SDG9: "infrastructure, industrialization and innovation". As for the European Pillar of Social Rights, development results particularly reflect „20. Access to essential services" as due to the advanced transportation infrastructure, educational, healthcare, or governmental institutions are easier to reach.

Railway infrastructure development

The Government prioritises the modernisation and development of Hungarian railway infrastructure in line with EU priorities supporting the **green transition.** As a result, the **installation of ETCS 2 train control system between Sopron–Szombathely–Szentgotthárd stations** was completed. As a result of the project implemented from HUF 10 billion, which was financed largely by the Cohesion Fund and to a lesser extent by national resources, ETCS L2 train control system is used on the 111 km length of the railway section which helps to improve train capacity and regularity. The **modernisation of the railway section Szombathely–Kőszeg** was concluded as well.

An investment in progress, planned to be completed this year aims **the elimination of bottlenecks and the development of interoperability on the railway section Budapest (Kelenföld)–Hegyeshalom.** The project is supported by the Connecting Europe Facility (CEF) (HUF 16 billion out of the total cost of 25.6 billion is provided by CEF). As a result of the project and if the related timetable is applied, 16 minutes can be saved on the Budapest–Vienna section and the international interoperability and stability of the railway increases. By the support of CEF the **TEN-T railway stations in Western Hungary can be made suitable for civil and military uses as well.** The aim of the project currently under preparation is to ensure compliance of the infrastructure of the 12 Hungarian railway stations located in Transdanubia, belonging to the TEN-T network, with EU and NATO military mobility requirements enabling free movement of military units and assets within Europe and, at the same time, to enable the same infrastructure for civilian purposes. **Capacity increase of the Hungarian–Ukrainian border railway traffic** is also to be completed by CEF subsidy, out of a budget of HUF 17.7 billion, by the end of 2027. As the result of the project, by the development of the transhipping capacity of the Záhony border area permeability will improve on the European corridor serving the transport of the Ukrainian grain.

To improve the competitiveness of rail passenger service over other means of passenger transport, beyond shortening travel times it is also necessary to **upgrade ticket sales** and adapt state-of-the-art sales methods. For this purpose it is necessary to focus on **forms of digital and online ticket sales.** To this end, MÁV-START Zrt. is purchasing new ticket dispensing machines satisfying current needs in the value of HUF 5.2 billion, which will be fully installed and put into operation in the second quarter of 2023.

Beyond the development of railway tracks, the upgrading of rolling stock is also necessary; therefore, Hungarian policies place major emphasis on promoting rail passenger services in Hungary. MÁV-START Zrt. plans to **procure 115 electric locomotives** financed by market loan and an EUROFIMA-loan of HUF 169.9 in order to improve the service level of quality long-distance transport (connecting county seats). As a result of infrastructure developments all main railway lines will be equipped for speeds of 160 km/h which requires a certain level of capacity from traction vehicles. Speed growth leads to shorter travel time and to the significant improvement of railway competitiveness. By the procurement of sustainable vehicles pollutant emission decreases. The first tranche is expected in 2023. Moreover, the company acquired **40 high-capacity (KISS) trains** from Cohesion Fund resources of HUF 228.7 billion which were introduced to the fleet last year. In 2023 all 40 vehicles receive unlimited authorisation for putting into service. The purchase is aimed at improving the quality of public transportation in the Budapest suburban transport segment. The new trains are expected to bring a result of 3.5 million passenger hours annually and, due to the recharge, also large energy savings.

The MÁV Group has committed to continue the successful IC+ programme so that the appropriate number of quality passenger cars are available in relation to railway infrastructure developments completed from national and EU resources. To ensure this, MÁV-START Zrt. has **drawn up a development programme relating to 500 IC+ railway passenger coaches**. Under the programme, the fleet consisting of 70 proprietary IC+ Premium and Multi-purpose passenger coaches was fully completed by the end of March 2023. As the continuation of the programme the procurement of 105 IC+ 2nd class passenger coaches, 17 IC+ 2nd class low-floor passenger coaches and 35 IC+ driving coaches is under preparation. Within the **Tram Train** system established on the Szeged–Hódmezővásárhely line, the 12 vehicles were put into operation by the end of 2022, in 2023 all 12 vehicles receive unlimited authorisation for putting into service and the under-floor lathe is put into operation as well.

Road infrastructure development

The development of road infrastructure is a priority mainly due to their role in network development, traffic quality improvement and, consequentially in the reduction of accidents, and in the increase of operation efficiency (development of engineering site). In the past decade Hungary has made significant progress in traffic infrastructure development, in particular in road developments. Beyond the improvement of the existing road network, emphasis is put on the four-lane accessibility of rural areas as a result of which the two-lane accessibility of **20 of the 25 Hungarian cities with county rank was accomplished by 2022**. As a result of developments underway and of the past 12 years, **by early 2024 72.9 per cent of Hungarian municipalities will be 30 minutes away from a four-lane road** and 88.9 per cent of the population will be able to reach a four-lane road in 30 minutes[20]. Another important result of the past years' expressway developments is that out of the 7 neighbouring countries of Hungary only Ukraine is not accessible via expressway. **In the period between 2019 and 2022 420 km of expressways were handed over in Hungary** (2020 was a record year: 162 km were completed during the year). In the years between 2019 and 2021 the length of expressways handed over exceeded 100 km annually.

Out of the 18 developments concluded or to be concluded during 2022 and 2023 exceeding the investment value of HUF 5 billion we shall mention the following:

By the project "Accessibility of Kaposvár: development of the Látrány bypass on main road no. 67" **Kaposvár city of county rank is fully integrated into the expressway network** (into motorway M7) via four-lane road. The existing Látrány bypass section on main road 67 of 10.2 km will be developed to a four-lane road. The planned speed is 110 km/h, the top width is 20.50 m, the whole section will be equipped for wildlife protection. 2 wildlife overpasses, 1 high-speed roundabout, 1 separate-height intersection with lower parameters and 1 separate dirt road crossing will be constructed on the section. As a relating investment the Kaposfüred–Látrány section (33.2 km) of main road 67. was developed to a four-lane road by 14 December 2019, while the bypass of Kaposfüred (3.1 km) was developed to a four-lane road by 19 December 2022. The Látrány bypass section is currently being constructed, it is planned to be finished by the end of 2023. The investment to the Látrány bypass section totals to HUF 41.6 billion.

[20] Based on the report "Accessibility of the four-lane road network" prepared by Trenecon Kft. in January 2020 commissioned by NIF Zrt.

As a result of the “Development of the Pápa–Győr section of main road 83 to a four-lane road (with airport access road 8315 j.)” **the city of Pápa is also integrated into the expressway network**. The section Pápa–Győr M1 motorway of main road 83 runs on a new, four-laned track in a length of 36.1 km, bypassing the municipalities. The road is being constructed with a top width of 20.50 m with 23 road structures and with separate-height intersections between Pápa and Győr, and with at-grade junctions in the initial section towards Győr. The application submission stage is still open and is planned to be finished by the end of 2023. The full investment cost reaches HUF 122.2 billion, funded by EU (ITDOP) resources.

To reduce travel times by road and improve transport safety, Hungary is also allocating substantial resources for the maintenance of the existing network in addition to expansion of the road network. As a result, the share of roads with poor or inadequate pavement decreased from 62.2 per cent in 2016 to 49.5 per cent in 2022, and the share of roads in good or satisfactory condition increased from 17.8 per cent to 34.4 per cent in the same period[21]. Based on the Territory and Settlement Development Operational Programme call **“Transport development serving economic development and labour mobility incentives”**, from a total of HUF 31.4 billion structural and investment funds Magyar Közút Nkft. completes pavement reconstruction and roundabout construction on 89 road sections, along a total lenght of 160 km in 2022 and 2023. Furthermore, in consortia with the local government of Szekszárd city of county rank, Magyar Közút Nonprofit Zrt. completes pavement reconstruction on 4 sections of a total length of 9.6 km, and bicycle road construction on 2 sections of a total length of 8.8 in Tolna county from a budget of HUF 4 billion.

Recent road developments have been prepared and implemented within a slightly modified, mostly unchanged legislative framework. The new investment framework act on the regulation of public construction investments to be adopted and introduced in 2023 brings significant changes. However, as for road development investments it is to be highlighted that at the time of the war in Hungary’s neighbourhood Gov. Resolution 1281/2022 (VI.4) on the budgetary measures necessary for the protection of the overhead cost reduction program and the fulfilment of public defence objectives suspended public investments for the purposes of revision, except for those already in process, as a result of which budgetary savings of HUF 1150 billion are to be realised in 2022 and 2023. Consequentially, implementation of many already prepared developments has been suspended or rescheduled.

Sustainable urban transport

Modern Cities Programme (MCP) aimed at the development of cities of county rank was launched in 2015 and has been continued successfully since. For the implementation of 272 projects of the MCP a total resource of HUF 4 thousand billion have been allocated out of which HUF 2237 billion has already been paid. Out of the MCP allocation HUF 624 billion have already been paid. The overwhelming majority of the projects proceed in line with the timetable, according to plans they are to be concluded by 2025. Changes in the economic environment caused by recent events, the pandemic, the armed conflict and humanitarian catastrophe in the Ukraine as well as the souring prices of construction materials and energy pose major challenges to several projects. Consequentially, the progress of certain projects suffers delay, planned timetables need to be modified and the revision of the

[21] [1] Magyar Közút data

implementation of some projects became necessary. In the light of unexpected events rethinking might be required as far as the future of the programme is concerned. **Under the MCP 64 traffic development projects were implemented throughout the entire programme period** typically for the development of the internal road network and public transport, for the connection to motorways, the construction of high-speed roads, development of airports and bicycle roads. In 2022 a total of HUF 11.3 billion have been assigned to traffic improvements from the MCP allocation.

The Government's priority is to play a leading role in the region in electromobility, to drive implementation and introduction of successful models with emphasis laid on research, development, and innovation. For this end, in September 2019 the Government of Hungary adopted Hungary's bus strategy (hereinafter referred to as **Green Bus Programme**) and **resolved upon the implementation of the Green Bus Model Programme**. The Green Bus Programme — **also being a part of RRP — aims the replacement of the entire bus fleet in the Hungarian public transport** by enhancing national bus manufacturing, reducing the average age of vehicles, pollutant emission of bus transport as well as maintenance and operating costs and by improving transport service quality. In Hungary 47 cities participate in the programme, including cities of county rank.

Beyond the procurement of electric buses, the Green Bus Programme encourages cities to improve their infrastructure as well as national and foreign bus and EV charger manufacturers to expand their production capacity and resources allocated to R&D. In the period 2020–2029, within the frame of the Green Bus Programme HUF **35.9 billion was allocated by using part of the Energy and Climate Policy Modernisation System** resources to the enhancement of the clean and energy efficient market of buses in public local passenger services. Under the Green Bus Programme, on 30 November 2020, the **first call for tenders** was announced for municipalities of a population exceeding 25 thousand people providing for local and suburban public transport and for operators of local public passenger services in these municipalities granting subsidy for the procurement of electric buses and/or self-propelled trolley buses. Till the submission deadline of 31 May 2021 **11 tenders were submitted with a total subsidy demand of HUF 18.37 billion.** According to the decision of the Steering Commission of the Green Bus Programme passed on 29 July 2021 **all 11 applicants were awarded subsidy, thus 123 electrically propelled buses and 4 self-propelled trolley buses were procured with charging infrastructure for the former ones.**

As part of the implementation of the National Hydrogen Strategy 2030 HUMDA Hungarian Motorsport and Green Mobility Development Agency plans to present awareness raising events on several places in the country. Consultations on this are to be commenced in the coming month.

Facilitating cycle commuting

Beside being the most efficient means of transport within city distances of 5–7 km riding the bicycle is also one of the most popular recreational activities. Cycling is healthy, environment-friendly, reduces noise and air pollution and helps to reduce traffic congestion too.

The **comprehensive bicycle network development scheme** launched by the Hungarian Government in 2017 was funded by available EU resources, by national resources of HUF 10 billion annually till 2021 and by further amounts provided from the Modern Cities Programme. As a result, the Hungarian bicycle route network improved at an unprecedented rate in the past years. The **Budapest–Balaton cycling route** was built, with the handover of the Tiszafüred–Poroszló stretch the **circuit around Lake Tisza** was completed and the renovation of the **Balaton circuit** is in progress. The two most significant cycling-related achievements of the Modern Cities Programme are the **Győr–Pannonhalma bicycle road** and the **Wenckheim tourist and bicycle track**. The effectiveness of developments is proved by the 100–150 people riding the bike annually on the most frequented tourists' routes.

Beside tourism developments, **100–150 km of bicycle routes has been built annually** in recent years funded mostly by EU resources, under the LDOP and CCHOP, primarily in response to local and regional demands.

In 2021 and 2022 the Government supported the purchase of around **14 thousand electric bicycles** using funds of HUF 2 billion and in 2022 the scheme for supporting the purchase of cargo bikes was opened under which **in 2022 270 electric cargo bikes were procured** by Hungarian undertakings.

All in all, **Hungary has spent around HUF 100 billion of EU and national funds on cycling-related developments since 2017.**

11. Territorial and rural development

Territorial development subsidies

In the period 2021–2027 resources are available to an unprecedented extent for the development of the agriculture and food industry. The Hungarian Government supplements EU funds by 80-per cent national resources in rural development as a result of which HUF 4300 billion can be spent on the development of the Hungarian agriculture, food industry and rural municipalities in the period 2021-2027 under pillar II of the common agricultural policy (CAP). Due to the increased resources, based on the **Rural Development Programme** (RDP) the "**Rural renewal, agricultural renewal**" programme commenced already in 2021, the implementation of which is carried on in 2022 and 2023 as well by the opening of new and reopening of existing calls for proposals.

By facilitating the **restructuring and modernisation of agricultural holdings** the calls "Support for the installation of gardens and plantations and the growing of pharmaceutical crops" and the "Support for the development of livestock holdings" opened in 2021 enabled significant improvements in terms of national added-value production. Due to the great interest shown by producers these instruments were reopened in 2022. As a result of positive decisions brought so far, developments commenced on 1078 farms.

Calls for the "Support for small ruminant welfare", "Support for bee welfare" and "Support for poultry welfare" were opened **to enhance supply of safe food to consumers and to improve livestock production**. The grant of the aid under these schemes is conditional on the producers committing to animal welfare requirements beyond general regulation and to fulfil stringent provisions pertaining to hygiene and nutrition for the benefit of the animals. The three calls are funded by HUF 30 billion in total, 7072 producers have applied for support under this call and the processing of the applications is still in progress. The call „Animal welfare aid accompanying the restructuring of the dairy sector" announced in 2023 with a budget of HUF 28 billion serves improvements of livestock production as well.

Also in 2022, based on the RDP the "Diversification of non-agricultural activities – Development of equestrian facilities" instrument was opened. The call "Support of small farms" was reopened to **help producers with the smallest holding size in realising their development plans**.

In order to **encourage participation in quality schemes for agricultural products and food of higher added value and quality** produced by farmers, early 2023 the call "Support of agricultural producers in joining EU and national quality schemes" was opened with a budget of HUF 2 billion.

In November 2022 the European Commission adopted the strategic plan on the use of CAP instruments which serves as the foundation for the support scheme since 2023 and entails CAP pillars I and II. As for pillar II, i.e. rural development, the highest priority is assigned to the **formation of a resource-efficient, high added-value producing agriculture and food industry.** According to plans, 52 per cent of CAP pillar II, i.e. about HUF 1500 billion is to be spent on the realisation of policy objectives serving economic development. In many cases, economic development measures further environmental and climate objectives as well, thus separate green investments are also included in the Strategic Plan. The goal is to increase energy sovereignty of agricultural holdings, to reduce energy dependency and to improve energy efficiency. Priority components of the plan are the support of application of digital, precision technologies as a means of environment-friendly cultivation, breeding and production thus contributing to soil protection, retention of the soil's good physical condition and water-holding capacity and to the efficiency increase of irrigation water use. The EU required more than the third of available resources to be spent on green measures, thus nearly HUF 1000 billion can be used for **green measures** based on the Strategic Plan. The objective relating to land occupied by agriculture and most exposed to the impacts of climate change is to ensure replenishment of water the basic means of which is irrigation. The Ministry of Agriculture supports investments improving **irrigation water usage efficiency**, creation of water-retention facilities by ensuring sustainable management of water resources and the co-operation of irrigation associations.

Based on the CAP Strategic Plan, the announcement timetable for the new rural development instruments is to be determined in the third quarter of 2023; the opening of the first schemes is expected by the end of 2023 and early 2024.

Direct payments

From 2023 the **active farmer status** becomes again a requirement for the application for this scheme. More stringent environmental conditions [good agricultural and environmental condition (hereinafter: GAEC) and statutory management requirements (hereinafter: SMR)] also became fundamental criteria for all direct support. Annual budget in the period 2023–2026: EUR 1,347.4 million.

From 2023, replacing items SAPS and greening the **basic payment scheme** will be the basis of the direct payment system. The objective remains unchanged: to guarantee a predictable, basic income support per hectare for agricultural holdings thus improving the financial health of farmers and mitigating their risks. The basic payment scheme remains the intervention covering the widest scope of farmers which can be requested on the basis of every eligible hectare (totalling to about 5 million) and reaches approximately 160–165 thousand farmers. A major step towards sustainability is that—contrary to the approach of the recent decades—non-cultivated land of agro-ecological importance enclosed by agricultural fields may receive the support as well. All active farmers (whether private individual or legal entity) who apply owing at least 1 hectare of eligible land qualifying as lawful user of the land affected by the application may be entitled to the support. Furthermore, applicants must fulfil the requirement of conditionality. The support value is expected around 147 EUR/hectare moving around EUR 125 and 169 depending on the size of eligible land.

Even greater attention will be paid to **fostering generational renewal**. EU resources to be provided by the direct payment system for this objective will rise by around half, to EUR 18.6 million annually. Making use of the new rules, this well-known instrument can be announced by more favourable terms. The size limit of extra subsidy increases from 90 to 300 hectares, the support amount per hectare also rises significantly. The support value is expected around 157 EUR/hectare moving around EUR 78 and 236 depending on the size of eligible land.

Payments guarantee agricultural holdings a predictable, basic income support per hectare or per number of animals thus improving the financial health of farmers and mitigating their risks. **To carry on with the coupled aid system** by the maximum expenditure ratio of 13+2 per cent remains one of the priorities of the policy.

Redistributive payment is a newly introduced instrument. The Ministry of Agriculture annually spends 14 per cent of the full direct budget, i.e. EUR 189 million on this objective. The objective of the measure is to direct resources towards small and middle-sized farms by paying increased aid for the first hectare of the holdings. This complementary, hectare-based payment provides surplus resources beyond the basic payment for the first hectares of the given farm. Thus, the farmer owing land eligible for basic payment becomes entitled to the complementary funds if the size of his holding does not exceed 1,200 hectares. In order to ensure that farms most vulnerable due to their size receive the largest assistance the hectare-based value of the redistributive payment is to be defined in two steps. For the first hectares (1–10) an increased amount (80 EUR/ha on average) is paid, for the subsequent hectares (not exceeding 150 hectares) a lower amount (40 EUR/ha on average) is paid.

We need to adapt agricultural production to changing environmental conditions. This can be achieved through the use of environment and climate conscious farming practices that improve landscape mosaicism and biodiversity, improve soil conditions and water balance, or even enable more sustainable use of pesticides. The Ministry of Agriculture can translate this into practice in the process of developing environment and climate-conscious agriculture by placing more emphasis on voluntary and incentive programmes instead of binding and restrictive rules. The **Agro-ecological Programme** (AEP), to be launched in 2023 under the CAP Strategic Plan, is such an incentive, based on voluntary commitments and will be a one-year subsidy. Within AEP the Ministry of Finance defined optional provisions which are partially already known and understandable to the farmers and are at the same time environmentally useful. In order to ensure that the majority of farmers find the option most advantageous to them, optional provisions are defined per usage method. These agricultural practices focus on soil and water protection, the preservation of biodiversity and the mitigation of climate change. The per hectare amount of the aid is depending every year on the number of eligible hectares identified by the paying agency, i.e. the Hungarian State Treasury. In case crop production area of 2.5 hectares is included in the programme, that would mean a value of 80.85 EUR/ha. The AEP budget is 15 per cent of the full annual Hungarian direct payments.

Digital Food Industry Strategy

The aim of Government Resolution 1479/2022 (X.11) on the Digital Food Industry Strategy is to grant assistance in the form of support, regulations, and trainings within the food chain and by linking different chain components enhancing the efficiency and competitiveness of the Hungarian food industry. The sector has sound foundations, and mastered the challenges presented by changed conditions of recent periods, however the current global crisis has a serious impact on the area. By the increased use of digital tools and services the food industry may become stronger, increasing its export capability, and ensuring safe, quality domestic products for consumers.

As part of the Agricultural Administrative Data Policy (AADP) the development of the **National Agricultural Data Centre** commenced in 2022 using national funds of HUF 2.5 billion. By the collection and processing of Hungarian agricultural technology data, the new innovation provides special support for development of the electronic systems and services of agricultural administration, thereby enabling the planning and implementation of the CAP and the related EU and Hungarian policies. The system to be worked out under the project supports the entire unprocessed food production by reducing the administrative burden of involved farmers while providing the public administration with data to enable the execution of obligations and strategic decisions of the Rural Development MA. The database for the storage of reported purified data will be suitable for the mandatory monitoring of EU funds and will also include data needed for the monitoring system of environmental impacts.

The Hungarian Village Programme

By the **Hungarian Village Programme** (hereinafter: HVP) a unique, targeted governmental intervention was applied to the entire territory of Hungary for municipalities with a permanent population not exceeding 5,000 people. The programme launched in 2019 involves more than 30 per cent of the population and more than 91 per cent of the municipalities. HVP addresses actual needs and can provide a solution to reduce the disadvantages of small municipalities, improve the quality of life in the local area, thus it has the potential to become a key tool to halt population decline.

Measures rest on 4 pillars:

1) Special Family Housing Allowance for Villages (*implementation ongoing since 2019 the budget varies yearly and has no cap)*
2) Road Fund for Villages (*implementation ongoing since 2019 the budget varies yearly)*
3) Hungarian Village Funding Scheme, enhancing local life quality through its 26 subprogrammes. Small municipalities, association of local authorities, church organisations, school districts and NGOs can apply for the funds. (*implementation ongoing since 2019 the budget varies yearly)*
   Village Civil Society Fund (*implementation ongoing since 2020 the budget varies yearly)*
4) Support for the development and operation of shops in small municipalities, (*started in 2021 with a budget of HUF 50 billion*)

The budget for the implementation of the HVP varied yearly. Act XC of 2021 allocated HUF 93 billion to the Road Fund for Villages, the Hungarian Village Funding Scheme and to the Support for the development and operation of shops in small municipalities in 2022.

In the period 2019–2022, within the framework of the **Village Road Fund** renovations were carried out by the Magyar Közút Nonprofit Zrt. on the national road network on 642 stretches of a total length of 1,454 km from funds of HUF 220 billion. Renovations are mainly aimed at the reconstruction of the pavement used by vehicular traffic. The preparation of projects under the Hungarian Village Programme – Village Road Fund continued in 2022 as well. In 2022 HUF 17.9 billion was available under this instrument. Naturally, these programmes entail investments and, consequentially, commitments spanning over calendar years. Under the subsidy contract "Planning of the renovation of the minor road network established within the framework of the 2022 Hungarian Village Programme affecting small municipalities" (HUF 3.5 billion) construction plans for 180 sections (of a length of 426 km) were prepared and the completion is underway, according to schedule. In 2022 150 sections were handed over (as a result of minor road network renovation) mainly under 2020 and 2021 contracts using funds of HUF 60 billion.

By the use of subsidies from **HVP Funding Scheme** small municipalities are able to implement small-scale developments serving the improvement of life quality. The funding scheme is a complex instrument targeting social and economic areas under which small municipalities, associations of local authorities, church organisations, school districts and NGOs could submit tenders for supported activities of 26 different subprogrammes in the recent years. Under the calls for tender 100 per cent advance payment is granted as non-refundable support, financed entirely from national resources. Furthermore, the yearly varying budget of the funding scheme enabled a high degree of flexibility as the opportunity was given to realize new concepts from one year to another as well as funds could be efficiently pooled and rationalised. In the period 2019–2022 applications for subsidy worth more than HUF 730 billion have been submitted. Almost every applicant village was awarded subsidy in the period

2019–2022, thus payments from the funding scheme exceeded HUF 278 billion. In 2022 applications were submitted for 13 calls for tender in a value of HUF 195 billion. As a result of projects implemented from the funds roads and sidewalks were renovated, municipality-owned properties were improved, school buildings and official lodgings were renovated, equipment needed for local government tasks was procured, wage support was granted and developments relating to church-maintained communal areas were completed. 4419 projects were supported; the total subsidy amount exceeds HUF 62 billion. Subsidies granted contribute to the improvement of the built environment of rural areas, of local life quality and the quality and accessibility of services. The overwhelming majority of supported projects are realized within 1–2 years, currently 76 of all projects are completed, accounting statements have been submitted by the beneficiaries.

Due to the **Village Civil Society Fund** introduced in 2020 support (of HUF 2–6 million) became available for rural NGOs, subject to the NGO Act, operating in municipalities with fewer than 5 inhabitants. Applications were invited for four activities: Real estate investment, refurbishment, vehicle purchase, other equipment purchase, program organization. In the period 2020–2022 NGOs operating in small municipalities were granted supports totalling to HUF 20 billion under 6 thousand accepted applications. Awarded organisations include voluntary fire brigades, vigilance associations, sport clubs, associations and foundations of art, traditions, village renewal and social work. In 2022 1489 supported projects were awarded HUF 4.88 billion.

In 2021 Government Decree 62/2021 (II. 12) on **small municipalities' shops** was worked out on the basis of the Action Plan to Relaunch the Economy. The aim of the grant is to support new (start-up) or existing businesses which operate or plan to open a retail shop selling daily consumer goods in small municipalities with a permanent population of 2,000 inhabitants or less. The aim is to raise the quality of existing services and support profitable operation, increase employment, and to open new shops in service-poor municipalities (those with no small shops). In order to promote employment and job creation, the aid may also be used to cover the employer's wage costs (employer's public dues) of the person(s) employed in the shop. As a result, in 2022 the creation, development, renovation and extension of 1467 retail shops selling daily consumer goods is completed or commenced using a budget of HUF 35.83 billion from public funds. Subsidies together with the minimal contribution of the undertakings exceeds HUF 48 billion. The Budget Act provided HUF 50 billion for the implementation of the programme. Under the programme, at the end of 2022, 724 shops in small municipalities received additional HUF 563 million in contribution subsidies to help them keep and create jobs.

Territory and Settlement Development Operational Programme Plus (2021–2027)

Territory and Settlement Development Operational Programme Plus (hereinafter: TSDOP) aims the mitigation of regional differences within the country and the improvement of development ranking of counties and regions relative to the average of the European Union. It supports developments carried out in every Hungarian county and the capital and assigns priority to counties of the 4 least-developed regions (Southern Great Plain, Southern Transdanubia, Northern Great Plain, Northern Hungary) and to the 36 least developed districts to be developed through a complex programme according to Government Decree 290/2014. (XI.6). It mostly but not exclusively supports developments of the municipalities, depending on the measure it funds public, civil society and non-profit organisations as well. TSDOP Plus is implemented through county and capital planning documents with own resources, i.e. integrated territorial programmes (ITPs) and city strategies.

The TSDOP resources together with national co-financing amount to EUR **5.25 billion (HUF 1,962.5 billion[22]).** Out of this, EUR 5.01 billion (HUF 1873.2 billion) serves the implementation of the integrated territorial programmes worked out by the counties, the remaining EUR 238.75 million (HUF 89.3 bn.) the implementation of Budapest's integrated territorial programme. 17.1 per cent of the full TSDOP Plus resources comes from national contribution. (As for county budget: 15 percent, in the case of Budapest qualifying as a developed region: 60 percent). The spatial allocation of the county budget of TSDOP Plus follows strict rules: at least 65 per cent of the budget allocated to counties shall be directed to the 4 least developed regions, and 10 per cent particularly to districts to be developed by complex programme.

Structure and supported activities of TSDOP Plus:

1. *Priority 1: Counties – attractive places to live*

Development of local transport infrastructure and services, green and blue infrastructure of the municipalities, climate adaptation and circular economy, brownfield rehabilitation, brownfield areas, local community, cultural, sport and recreational facilities and services, implementation of the smart municipality, social urban regeneration in designated city areas.

2. *Priority 2: Climate-friendly counties*

Renewables-based municipal developments improving energy efficiency, energy-efficient modernisation of municipal spas and health resorts.

3. *Priority 3: Counties as service providers*

Providing locally accessible, cost-efficient, sustainable, and high-quality municipal public services, in particular within basic child welfare services, day care and kindergarten, public education, basic health and social services. Implementation of social and human programmes and community activities facilitating the accessibility of health and social investments and the realisation of social integration objectives. County cooperation in employment and economic development with the aim of raising employment and employability.

4. *Priority 4: Developments of Budapest's infrastructure*

Creation of a more liveable surroundings in the capital, reconstruction of green areas, enabling services, urban regeneration for social purposes and the improvement of building parameters pertaining to energy efficiency.

5. *Priority 5: Budapest – social and human developments*

Strengthening social service capacities, facilitating access to housing and housing services, establishing the Capital Employment Pact, providing harmonised social, health and labour-market services and support, establishing the energy agency model supporting housing renovations.

6. *Priority 6: Competitive county*

Local economic development by improving the related infrastructure (industrial parks, business incubators, etc.), development of the regional and local infrastructure. Wide-range tourism service development, developments relating to spas, recreation, and ecotourism.

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[22] Applied exchange rate: 373.9 HUF/EUR

Developments are expected to improve the economic development conditions, employment rate, quality of municipal infrastructure and public services and the population retaining ability especially in the four least developed regions and in the least developed districts. All this contributes to the increase of the population retaining ability and competitiveness of rural areas making up of nearly 80 per cent of the districts. Sustainable urban development enables cities to become leading actors of their surrounding area and enhances the liveability of Budapest.

The implementation of TSDOP Plus started prior to its acceptance, at the end of 2021, funded by Member State contribution, by announcement of calls for tender considered as presenting low risk in the context of Commission consultations. Since then, 13 calls for tender were opened under TSDOP Plus totalling to HUF 1020 billion. The number of tenders submitted is nearly 5 thousand, out of which 2,900 were approved. 3 additional calls for tender are being prepared currently. In 2023 and 2024 calls will be opened for the full budget amount.

12. Sustainable development goals

Hungary is progressing well in meeting the UN Sustainable Development Goals (SDGs), as the country's score (79.01)[23] **is higher than the regional average (77.2) and corresponds to 21st place among 163 countries**. Hungary is performing well and improving in relation to a number of indicators. Our country performs best in the indicators on poverty eradication (SDG 1), industry, innovation, and infrastructure (SDG 9), reducing inequalities (SDG 10) and peace, justice, and strong institutions (SDG 16). Except for the indicators on clean water and basic sanitation (SDG 6) and decent work and economic growth (SDG 8), the country's performance in all other areas remained stable (for 10 indicators) or improved (for 4 indicators). It performed least well in the indicator on climate action (SDG 13).

(Measures related to individual indicators are detailed in the policy chapters and Table (*) on measures)

The 2030 Hungarian National Social Inclusion Strategy and the government action plan for 2021–2024 serving its implementation, the long-term programme for "Converging Municipalities" and the complex programmes for the "Elimination of Segregation" are the key measures aimed at the eradication of poverty (SDG 1). The introduction of a food and fuel price freeze contributes to achieving the target, and the Recovery and Resilience Plan, launched in 2022, focuses on infrastructure development in the areas of housing, renewable energy – energy poverty reduction, economic development, and educational development (Poverty chapter). Promoting organic farming and the development of small farms contributes to the achievement of zero hunger (SDG 2), in particular good nutrition and healthy lifestyles. The good health and well-being (SDG 3) indicator target is supported by the need to improve the income of doctors, to phase out gratitude money, to improve health infrastructure and primary care, to support systemic interventions and the digital transformation of health, and above all to create the conditions for 21st-century healthcare (Health chapter). The indicator is also supported by the extension of the Family Protection Action Plan measures. The National Public Education Infrastructure Development Programme, the renewed Data Reporting System of Adult Training, ensuring equal access to digital education for students and teachers, the "Útravaló" Scholarship Programme, the Tanoda, and the teacher career model aim to ensure quality education (SDG 4) (Education chapter). Supporting parents with toddlers in returning to the labour market and improving the capacities of nurseries aim to bolster gender equality (SDG 5). For clean water and sanitation (SDG 6), utility development (drinking water supply, infrastructure developments, wastewater drainage and treatment) and the second revision of Hungary's river basin management plan were implemented. The availability of affordable and clean energy (SDG 7) is supported by promoting the use of residential solar PV systems and heating upgrades, classic and smart grid upgrades of transmission system operators and distributors, and the establishment of energy storage facilities (electricity infrastructure upgrades, renewable energy generation) (Energy chapter). Decent work and economic growth (SDG 8) is promoted through increased employment, labour market adaptation and support for disadvantaged target groups, workforce support for businesses, innovative capacity building, employment partnerships and economic recovery programmes (Employment chapter). In addition to the infrastructure development programmes already mentioned, the development of industry, innovation, and infrastructure (SDG 9) is supported by the creation and complex development of National Laboratories (see also the chapter on Research & Development and

[23] https://dashboards.sdgindex.org/static/profiles/pdfs/SDR-2022-hungary.pdf

Innovation), Startup, SME and Large Enterprise Financing, the digitalisation of the economy and enterprises, and the development of micro, small and medium-sized enterprises. Other measures include the Baross Gábor Reindustrialisation Loan and Capital Programme and the Factory Rescue Programme. (Chapter on Business development). The reduction of inequalities (SDG 10) is promoted through the development of local health and social infrastructure, the Integrated Regional Child Programmes and support for people in need.

Sustainable cities and communities (SDG 11) are bolstered by the National Air Pollution Reduction Programme, development of roads, railways and transport, bicycle infrastructure, and support of electric vehicle purchases (chapter on Transport). Responsible consumption and production (SDG 12) is facilitated by the 5th National Environmental Programme (NEP5), and development projects related to agriculture, livestock and ecological farming. Climate action (SDG 13) is supported by the Awareness Raising in Water Management reform programme and other measures related to sustainability and the sustainable economy. Ecological investments and water management measures (biodiversity, habitat protection, habitat restoration, species conservation measures) boost protection of life on land (SDG 15) (chapter on Environmental protection). The development of the automated decision support system, the establishment of the National Commercial Register and the various corruption prevention and anti-corruption measures contribute to peace, justice and strong institutions (SDG 16). (Chapter on Public administration). The programmes for international cooperation in development implemented under Hungary's Strategy for International Cooperation in Development for the 2020-2025 period (NSICD2025) and the launch of the data change management service (e-Reporting) were set up for supporting partnerships for the goals (SDG 17).

Due to delays in data reporting, the full impact of multiple crises, including the COVID-19 pandemic, is not fully reflected in this year's SDG index. The consequences of school closures on learning outcomes, as well as the direct and indirect effects of the pandemic on health, the war in Ukraine and its impact on many countries, are not yet covered by this year's SDG Index.

13. EU funds

The Recovery and Resilience Facility (RRF) is an extra resource for Member States to mitigate the negative economic and social impacts caused by COVID-19, unlike the EU funds implemented through shared management offered under the Partnership Agreement. The long-term objective of the instrument is also to foster sustainable and inclusive recovery by supporting the green and digital transition through investments and reforms in public systems. The relationship between cohesion policy funds and the RRF is based on mutual synergy and complementarity, since both the cohesion programmes and the reforms and investments financed by RRF funds are part of complex, coordinated development of the sectors.

The general demarkation principles between the two sources of aid, based on eligibility and implementation, are as follows:

- RRF focuses on mature projects that can be implemented by 31 August 2026. Through synergies, the implementation of the later phase of projects funded by the RRF could potentially be supported by OPs and EU direct management programmes as well as its financial instruments. For some investments, after the physical closure of the phase supported by RRF funds, Cohesion Fund support may continue to be provided in areas eligible for Cohesion Fund programmes, as defined in Annex 1 of the Recovery and Resilience Plan or in the programmes.
- In line with its area of intervention, the RRF mainly supports public investments in the green and digital economy, while the Cohesion policy programmes focus more on business and private sector developments alongside public investments.

The separation of the different policy areas in the Recovery and Resilience Plan is based on the following indicative principles:

- In the area of **circular economy, waste management**, the RRP supports investments in the industrial sector to strengthen the innovative secondary raw materials market through chemical recycling of plastics. The EDIOP Plus economic development programme also supports the production of secondary raw materials and products, but chemical recycling is not funded. Complementarity is ensured by the fact that the final products of the development with the help of the RRP funds can be used by the enterprises participating in the Cohesion Policy's secondary raw material production programme.
- In the field of **energy**, the RRP supports classic and smart grid investments, which will be continued later under the EEEOP Plus, following a temporal and specific technical separation. Support for the creation of social solar power plants in catching-up settlements is also supported in the Recovery Plan, as well as the installation of solar power systems for households in need and the electrification of their heating systems. Thus, while RRP funds directly support energy performance investments by the population, structural funds reach the final consumer through ESCO, who cannot be natural persons who have already benefited from RRF funds. In this way, the renewal of the housing stock synergistically reduces the country's greenhouse gas emissions from both sources.
- In the field of **water management**, the water component of the RRP supports the development of main water replenishment systems for water scarce areas for water replenishment and retention, the development of monitoring components for these systems and the awareness

raising of farmers in agricultural production. In addition, RRP supports aim to maintain water-dependent ecosystems and wetland habitats. EEEOP Plus can only carry out water replenishment and related awareness-raising investments in a different area and with a different technical content.

- In the field of **R&D&I** within economic development, the RRP supports National Laboratories in those research areas that do not receive structural and investment funding, thus ensuring complementarity with the planned measures of EDIOP Plus.
- In the field of **labour market interventions**, the RRP provides job socialisation and skills development interventions in catching-up settlements for workers employed in the national public work scheme of the implementing actors of the Catching-up Settlements Programme (CSP), while other public workers are supported under the HRDOP Plus. The ultimate beneficiaries in the CSP programme of the RRP cannot benefit from cohesion policy programmes for the same development objectives, so complementary support is provided, with the separation rules being applied in a continuously monitored way, ensuring that double funding is avoided. By sharing good practices of inclusion programmes and by continuously reviewing and expanding the inclusion toolbox, the resources together contribute to improving the quality of life of the most disadvantaged citizens.
- **Transport development**: The RRP supports the development of the Budapest HÉV suburban train infrastructure, the Green Bus Programme and the development of the railway lines and national and international cycling routes specified in the Council Decision. The separation between the ITDOP Plus and the RRP is therefore ensured by the distribution of the infrastructure tracks and their sections, as well as by the separation in time and technical content, whereby ITDOP Plus can provide a framework for RRP investments eligible under the programme after the RRP funds have been exhausted.
- **Human development**: Several components of the RRP support human development, including public education, vocational training, higher education infrastructure and service developments. New day nursery places are funded from both TSDOP Plus and RRP funds, with the two funding sources being separated by municipality population and by maintenance authorities. The development of the digital infrastructure of education and the purchase of IT tools is mainly carried out within the framework of the RRP and using domestic funds, DROP Plus does not support the purchase of IT tools separately. In the field of higher education, infrastructure development is also supported by the RRP, while in the support of digitalisation, the development of general civic competences and sectoral data assets is supported by DROP Plus, while institutional digital development is supported by the RRP through central digital training content development and professional development programmes. The development of the higher education accreditation system is supported exclusively by the RRP. In the area of digital content development in vocational education and training, EDIOP Plus and RRP funds are separated by specific professions, so that the digitisation of learning materials is implemented across all sectors of vocational education and training, using the different funds. In addition, the development of RRP vocational training examination centres is to complement the EDIOP Plus investments by specific professions.
- The cost-effective operation of **health** institutions and the reduction of energy overconsumption are supported by the RRP and structural and investment funds together, in

a coordinated manner in institutional development strategies, with a separation in professional content. In the field of basic healthcare services, the RRP supports the development of the equipment needed for the extended competences of general practitioners and the operation of general practice partnerships, separating the technical content from the TSDOP Plus local health and social infrastructure developments.

14. Institutional processes

As in previous years, the National Reform Programme 2023 only presents measures that have already been developed by the responsible experts and decided on their implementation—so they have already been subject to public consultation. In the RRP, the Hungarian Government undertakes to set out the framework for consultation with stakeholders involved in the implementation of the RRP. The draft RRP was available on the tender website from 2 December 2020. In **October 2022, Hungary amended Act CXXXI of 2010 on the Social Participation in the Preparation of Legal Regulations** in order to improve the Commission's acceptance of the measures of the RRP and the quality and enforceability of legislation. **However, the legislation does not apply to framework documents, including the National Reform Programme.**

Thus, public consultations relating to measures of the National Reform Programme 2023 were carried out in cooperation with ministries responsible for such measures. Practices established in the given professional fields may change according to the parameters of measures. The relevant ministries conducted necessary consultations in accordance with laws applicable to the preparation and planning of laws, programmes, and other measures. Consultation concerning legislation was typically carried out based on the provisions of Act CXXXI of 2010. 90 per cent of draft legislation covered by the Act (Jet) must be submitted for public consultation, together with summaries of their preliminary impact assessments. The fact that there is a significant public interest in the urgent adoption of the draft cannot be used as justification for omitting public consultation. At least 8 days shall be provided for to express opinions and at least 5 days to consider those opinions. The Government Control Office (GCO) shall publish a public report on the implementation of this commitment by 31 January each year. The GCO performs inspections on whether the obliged ministries comply with the Jet rules. The GCO imposes a fine for failure to comply. The GCO shall also report on the results of the inspections and the fines. The process is described in detail in chapter *4.5 Justice system, social consultation*. Public consultation takes the form of sharing opinions through the contact channel provided on the website (general consultation) and direct consultation with the persons, institutions and organisations invited by the minister responsible for the preparation of legislation (direct consultation).

In relation to measures financed by **EU programmes** in the 2014–2020 programming period, the public consultation process was conducted in accordance with provisions of Government Decision No. 272/2014 (XI.5.) on the rules of using aids provided from certain EU funds. Consultation applies both to the planning and the selection process. For the purpose of public consultation of EU projects and tenders, managing authorities request the opinion of stakeholder social and professional bodies based on the subject-matter of the call. In relation to EU programmes, in addition to disclosure, Monitoring Committees of certain operational programmes review and approve in advance annual development budgets. Social partners, civil society organisations and NGOs also nominate members to monitoring committees of operational programmes. Thus, social partners and NGOs monitor the entire selection and evaluation process of projects. Within the framework of the RRP, the calls of individual projects—some of which are already under preparation—are coordinated similarly to the tenders of structural funds. The RRF Monitoring Committee was also set up for reviewing calls in parallel with public consultation. The draft calls will be published on www.palyazat.gov.hu.

The **following social dialogue forums** operate in relation to the labour market and wage negotiations:

By way of the **Standing Consultation Forum of the Private Sector and the Government (PGF)**, the Government provides an organisational framework for Hungarian employers and employees in the private sector for holding regular consultations on the mandatory minimum wage, minimum guaranteed wage, and the annual amount and rate of the recommended wage in the following year. The PGF met eight times in 2022, during which the parties discussed the minimum wage in three rounds. The agreement on the minimum wage and minimum guaranteed wage for 2023 was signed on 21 December 2022. As a result of negotiations, in 2023, the minimum wage increased to HUF 232 thousand and the minimum guaranteed wage to HUF 296,400. In addition to wage negotiations, topics on the agenda included, for example, Government measures responding to the coronavirus pandemic and the Russian–Ukrainian war situation and other economic stimulus measures, as well as consultations on the amendment of the Labour Code. By operating the **National Public Service Conciliation Council (NPSCC)**, the Government provides an institutional framework for operating national social dialogue and concluding agreements relating to incomes policies, wage policies, labour and employment matters concerning all public service employees. It supports enforcement of the right of review of interest representation organisations set out in the act on legislation. In 2022, two NPSCC plenary sessions were held, during which the parties discussed the expected impact of the 2023 state budget on the civil service and the planned increase in civil service earnings in 2023. The **National Labour Council of Public Servants (NLCPS)** is the national, intersectoral forum of the Government and of delegated representatives of trades unions representing public servants, municipalities operating institutions that employ public servants concerning labour, employment, wage and incomes policy issues. It provides an institutional framework for operating social dialogue at national level concerning labour matters affecting all public servants. In 2022, the NLCPS held one plenary meeting to assess the representativeness of public sector unions.

The **following best practices in public consultation** are applied in other areas:

- During the preparation of the **EU project** for the **data change-management service**, there was extensive public consultation with the relevant utility and telecom operators, six working groups were set up and the working groups oversaw the planning, preparation, regulation, and implementation of the service.
- Prior to the creation of the **"Development of workers' accommodations" labour market programme**, several local governments expressed their intention to set up workers' accommodation on the basis of the needs of businesses in their area, by converting their properties or building new properties, and to receive public support for this. Based on the experience of the first two calls of the programme, and taking into account comments and feedback, significant facilitations were introduced: for example, the level of own contribution to be provided was reduced from 40 per cent to 20 per cent, the deadline for starting the development was extended from 3 months to 4 months, and the scope of the aid was extended to include companies wholly owned by local governments and associations of local governments, and then to private companies.
- The **National Talent Programme**: At its meeting on 20 January 2022, the National Talent Coordination Forum adopted a submission on the calls for proposals launched in 2022 and the proposal for the allocation of resources. Before the calls for proposals were launched, the content of the calls for proposals was agreed between the ministries and NGOs.

- The **National Water Utility Strategy (NWUS)** and the draft Environmental Assessment were published on the government website on 13 August 2021. Four comments were received within the deadline for comments, i.e. by 12 September 2021. These were largely adopted and incorporated into the NWUS and the Environmental Assessment. As a result of the comments, the NWUS was supplemented by an elaboration of the obligation to supply minimum water needs in deprived areas. The information was updated, the figures were clarified, the definitions were added, and the current state of the European Commission's impact assessment procedure on the Waste Water Directive was presented.
- **Support for residential solar power systems**: the Call for Proposals was open for comments online and a technical consultation on the draft Call for Proposals was held in autumn 2021 with 20–30 professional organisations.
- **Abolition of the language exam act**: consultation with the National Union of Students in Hungary and with tertiary education institutions.
- **Support for the care and education of children and pupils with special educational needs, under permanent medical treatment or under the care of the special pedagogic service**: the maintainers of affected institutions have been consulted and surveyed in 2020. The in-depth survey had been carried out in January till February 2023; it is being processed currently.
- **The extension and improvement of the IPSIS system**: organisation of events and roadshows to reach representatives of local governments with the aim of spreading information on the renewed IPSIS system. Furthermore, an item with current topics on system usage is publicised every month in the (online) Newsletter for Municipalities. Users of the system may receive information on substantial milestones and events on the IPSIS website.
- **Implementation of commitments made under milestones 213–216 of RRP**: The public consultation of the draft legislation had been carried out from 18 January till 3 February 2023. Representatives of the Ministry of Justice consulted the institutions and bodies having made substantial written comments during the consultation orally (on 7 February 2023 with representatives of the National Judicial Council, the National Office for the Judiciary and the Hungarian National Supreme Court (the Curia); on 8 February 2023 with representatives of Amnesty International Hungary, the Eötvös Károly Institute and the Hungarian Helsinki Committee, on 10 February 2023 with representatives of the Association of Administrative Judges, the Hungarian Association of Judges, the National Association of Labour Court Judges and the Union of Judiciary Staff). The draft was modified based on comments made on the public consultation and by the European Commission.