



**GOVERNMENT OF HUNGARY**

**HUNGARY**

**2021 NATIONAL REFORM PROGRAMME OF HUNGARY**

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## Tartalom

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# 1. Introduction

The epidemiological emergency caused by the coronavirus (COVID-19) resulted in an unprecedented global shock, with uncertain social and economic impacts. To prevent a mass epidemic, in March 2020 the Government implemented a number of immediate public health, safety measures, which it complemented in April with the substantial restructuring of the budget and the announcement of a three-stage Economy Protection Action Plan to avert an excessive economic downturn. The Action Plan for Restarting the Economy was launched in January 2021 to set the economy on the path of growth. The National Reform Programme of 2021 accordingly begins with the detailed presentation of these steps.

Hungary and the European Union have the common goal of ensuring competitive sustainability and cohesion. The European Semester is a key elements of reinforced common economic governance, aimed at strengthening the coordination of economic policy; in line with the practice of recent years. Its central elements – environmental sustainability, increased productivity, strengthened equity and macroeconomic stability – are reflected by the National Reform Programmes submitted by all Member States. Hungary is committed to achieving common goals, therefore, as in previous years, in the 2021 National Reform Programme we present in detail the main policy programmes and prioritised investments supporting both European goals and the long-term future of Hungary. These are steps supporting competitiveness, improving the business environment and digitisation, measures aimed at further increasing employment through job creation, education, family policies, and those supporting social inclusion and environmental sustainability. When presenting individual key policy measures in the 2021 National Reform Programme, we also aimed at presenting links between the various measures and the main strategic objectives, results achieved so far and those expected from new measures.

In line with customary practice, the 2021 National Reform Programme was drafted in line with the new Convergence Programme and the Recovery and Resilience Plan (“RRP”) providing a response to the coronavirus epidemic and the related economic crisis. At the end of the Programme we describe the key institutional approval and preliminary consultation mechanisms.

## 2 Macroeconomic context

### 2.1 Development of the macroeconomic environment

*This chapter contains a brief description of the medium term macroeconomic context, 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, they built on each other, and the two were submitted simultaneously to the European Commission. Taking into account that the macroeconomic path for the 2021-2025 period is detailed in the Convergence Programme, the medium term macroeconomic context presented below only summarises the macroeconomic path detailed in the Convergence Programme.

**Key indicators of the medium term macroeconomic path**

	2020	2021	2022	2023	2024	2025
<i>percentage, change in volume relative to the previous year</i>						
<b>Gross domestic product</b>	-5.0	4.3	5.2	4.1	4.0	4.2
<b>Household consumption expenditure</b>	-2.3	3.2	5.8	3.9	3.9	4.1
<b>Gross fixed capital formation</b>	-7.3	4.2	7.2	6.1	4.3	4.5
<b>Export</b>	-6.8	6.4	10.5	7.0	6.7	7.1
<b>Imports</b>	-4.4	5.2	10.0	6.7	6.2	6.5
<i>percentage, annual average</i>						
<b>Unemployment rate (15-74)</b>	4.1	4.2	3.3	2.9	2.7	2.6
<b>Employment rate (20-64)</b>	77.5	78.1	79.2	80.0	80.5	80.9
<i>percentage, proportionate to the GDP</i>						
<b>External financing capacity</b>	2.1	3.5	4.1	4.1	4.2	4.5
<i>Percentage, annual average</i>						
<b>Consumer price index</b>	3.3	3.6	3.0	3.0	3.0	3.0

*Source: HCSO, calculations by the Ministry of Finance*

In the year passed since the 2020 Convergence Programme, tasks related to the health management of the coronavirus epidemic and to offsetting its adverse economic effects have globally strained the economic policies of countries.

The Government of Hungary took decisions in time that were essential for successful and immediate protection against the epidemic, and complementary or new, extended measures were also regularly implemented, necessitated by new waves of the epidemic. The Budgetary Act for the year 2020 was modified within the framework of the above, taking into account aspects of public finances and the

need to provide a budgetary background for protection against the epidemic and for subsequent recovery.

After adoption of the Budgetary Act for 2021, trends in the macroeconomic environment in 2020 were less favourable than expected, resulting in a worse baseline for the year 2021. This year the performance of the economy is still not expected to reach the level measured for 2019. Under such circumstances it is justified to provide more firm support of economic recovery with budgetary instruments. During the year, due to the third wave of the epidemic, the costs of protection significantly exceed the targeted amount originally planned for this purpose, substantially increasing our contribution to the EU budget. Based on the foregoing, the new deficit target is 7.5 percent for 2021, which indicates a decrease over the previous year, notwithstanding additional funds necessary for protection against the epidemic, enabling reduction of debt to 80.1 percent.

As a similarly positive development, at the end of last year, the economic protection measures adopted in relation to the coronavirus crisis significantly supported growth in investment: development showed a further upturn during Q4 2020, as it increased by 1.3 percent in annual comparison. The renewed upswing in investments is mainly attributable to growing budgetary and household activity, boosted by double digit growth in real estate activity, public administration, education and – partly related to the epidemic – the health sectors in the fourth quarter. Overall, the rate of investment consistently ranked among the best in the EU, large volume capacity increases in progress, and the attractive corporate tax environment suggest that investment performance may further gradually strengthen in 2021.

Going forward, the gradual normalisation of economic circulation is expected in parallel with the expanding immunisation of the population. First, the above trend can already be observed in the previous quarters, as economic operators learned to adjust to the epidemic under the given circumstances. This is clearly indicated by the fact that restrictive measures in the first quarter of this year had a weaker impact on economic performance compared to the low in the spring of last year. In this regard, industry is a notable sector, which almost complete came to a halt last spring and is now producing without interruption. Additionally, the most severely hit sectors (e.g. tourism, cultural and recreational activities) can restart as a result of lifted restrictions, potentially giving a further boost to economic growth.

This trend is further strengthened by the high 6.1 GDP-proportionate saving rate, on the one hand, and by the second lowest rate of indebtedness in the EU, on the other, resulting in significant growth reserves through consumption in the coming years. Increasing demand is satisfied by success in preserving much of capacities on the supply side as a result of government measures.

Notwithstanding the negative impact of the crisis, the exceptionally high, GDP-proportionate 27.3 percent rate of investment may further rise after the crisis as a result of corporate investments increasing on the basis of Hungary's economic competitiveness. This trend is boosted by growing household and government investments, not least because of the use of funds from EU cohesion funds and the Next Generation fund. As proof of the above forecast, since the outbreak of the epidemic, a number of investments of substantial value have been announced by businesses in Hungary, moreover private investments may pick up pace after the uncertainty comes to an end. All of the above

projects the additional increase in production capacities, resulting in the further growth of exports and a rise in Hungary's share of the global market.

As a result of these trends, if the baseline scenario is realised, 4.3 percent GDP growth is expected this year, followed potentially by acceleration of growth to 5.2 percent in 2022, as the negative impact of the epidemic will not even partially affect the next year.

## 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.*

Among the key government measures adopted since publication of the 2020 Convergence Programme, the Economy Protection Action Plan aimed at preventing adverse economic effects of the coronavirus epidemic, amounting to 17 percent of the GDP – the effects of which were analysed – is the most substantial one. Furthermore, the expenditures of the Epidemic Containment Fund and Economic Protection Fund increased since April 2020 and measures of the Action Plan for Restarting the Economy were also covered by an impact assessment.

The above measures support economic processes primarily by strengthening investment activity and by dynamically increasing employment, thereby boosting household consumption. Capacity extensions improve the growth potential of the economy in the long run as well, since beginning from their completion; they stimulate GDP growth through additional channels, primarily through export and labour incomes. On the whole, these government measures have a modest inflationary impact.

In terms of quantified effects, the government measures taken since April 2020 improve economic output by 4.1 percent this year and by 4.6 percent next year. It is important to emphasise that the measures will support economic performance by 4.0–4.7 percent even after 2022.

### Macroeconomic effect of measures

	2020	2021	2022	2023	2024	2025
<b>GDP</b>	1.8	4.1	4.6	4.0	4.4	4.7
<b>Household consumption expenditure</b>	3.2	3.2	4.1	3.9	4.3	4.3
<b>Investments</b>	3.2	14.8	15.0	6.2	6.6	7.3
<b>Export</b>	0.0	1.7	2.3	3.4	4.0	4.5
<b>Imports</b>	1.2	2.1	2.4	2.1	2.2	2.2
<b>Inflation</b>	0.0	0.5	0.6	0.2	0.3	0.4
<b>Employment in private sector</b>	0.5	1.9	1.7	0.7	0.8	0.9
<b>Gross average salary in private sector</b>	0.2	1.4	1.9	2.5	2.8	3.1

\*Percentage point difference compared to baseline scenario

Source: Calculations by Ministry of Finance

## 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 government sector deficit was below 3 percent from 2012 to 2019, and the government debt-to-GDP ratio accordingly decreased each year. The debt ratio fell from 80.4 percent in 2011 to 65.5 percent by the end of 2019. Responsible management, the implemented fiscal buffer and accumulated budgetary reserves provided substantial manoeuvring room for managing economic difficulties caused by the coronavirus pandemic.

During the response to the crisis, fiscal policy applied a targeted, sufficiently flexible approach to implementing appropriate responses and the necessary anti-cyclical stimulation of demand.

In line with the above, as a result of epidemiological and economic protection expenditures, tax measures aimed at mitigating burdens of the crisis and the operation of automatic stabilisers, the budget deficit amounted to 8.1 percent, while government debt rose to 80.4 percent of the GDP. This fiscal policy was based on the economic premise that the budget deficit should be kept low and debt reduced in good times, while in bad times the State should intervene to mitigate the negative effects of an economic crisis, agreeing to the temporary worsening of balance indicators. Under the extraordinary circumstances caused by the pandemic, developed countries and EU Member States took similar steps.

### 3 Measures in response to the COVID-19 outbreak

*The following chapter provides a summary overview of measures taken in relation to the epidemic in the breakdown of individual topics. The relevant chapters detail the specific measures.*

#### Measures aimed at managing the epidemic

The Government responded to the special situation created by the new coronavirus epidemic in 2020 by carrying out a major restructuring of the budget and implementing a wide-ranging package of measures aimed at protecting the population and the economy. The **Operational Group Responsible for Containment of the Coronavirus Epidemic** was set up at the end of January 2020, is responsible for managing government measures related to the epidemic and for coordinating public bodies.

During 2020 the **Government introduced restrictions in consideration of epidemiological trends**, aimed at protecting the population and preventing excessive loads on the health system, with restriction of the activity of economic operators to the extent that enables rapid recovery after easing of the epidemic. In the middle of February 2021, the Government launched online national consultations on the possible timetable of opening after lifting of restrictions related to the coronavirus epidemic. The majority of respondents (88%) supported a gradual opening. From 8 March 2021, to curb the rising third wave of the epidemic in Europe, the Government again ordered tightened protective measures. According to such restrictions, shops were required to remain closed with the exception of shops selling essential goods (grocery stores, pharmacies, petrol stations, drug stores), all services were suspended (except for private health care, social, financial, postal, vehicle servicing services), and kindergartens and primary schools remained closed until 7 April, the end of the spring break. The evening curfew remained in force from 8 p.m. to 5 a.m.; exemption was granted only for documented proof of work. Wearing of masks was mandatory in all streets of residential areas and in public spaces. The Government bound the lifting of restrictions to the vaccination rate of the population. The first step of loosening – determined by the Government by decree – was 2.5 million vaccinated people. The population reached the required vaccination rate in early April; within the framework of introduced easing measures, the period of the curfew was shortened (from 10 p.m. to 5 a.m.), and shops were allowed to open with a limited number of customers (1 customer per 10 square meters). The opening hours of shops were extended to 9:30 p.m., but catering establishments were still permitted to only offer take-away meals. Kindergartens and lower levels of primary schools reopened on 19 April. Restrictions were to be further lifted after reaching a vaccination rate of 3.5 million, followed by 4 million people. The fixed reopening timetable aimed to enable businesses to plan ahead for the coming period.

The Hungarian **vaccination campaign** was launched on 26 December, when the first vaccine delivery arrived. Vaccination is voluntary and free; vaccination registration is offered on the [www.vakcinainfo.gov.hu](http://www.vakcinainfo.gov.hu) website. Upon appointment by the Operational Group, the Vaccination Working Group monitors vaccination progress and expected vaccine deliveries. Based on the vaccination program, the first vaccines for immunity were administered to health workers, followed by residents of retirement homes, the elderly, people with chronic illness under the age of 60, workers employed in law enforcement and critical infrastructure, kindergarten, school and nursery employees and then the registered population under the age of 60, whose vaccination is still under way. Up to



16 April, Hungary contracted more than 31 million vaccine doses, which is enough for vaccinating 17.6 million people. Among the contracted vaccines, currently 5 types (Pfizer, Moderna, AstraZeneca, Sputnik, and Sinopharm) are available, and the contracted Janssen and Curevac vaccines will also be soon available. On 23 April the number of people receiving at least one dose passed 3.5 million, which was the second highest vaccination rate in the European Union at the time. To keep the vaccination program on schedule, an online time reservation system was launched on the same day, where all registered and unvaccinated citizens can reserve a place and time for vaccination. As the number of registered people passed 4.3 million in the final week of April, the Government launched a promotional campaign to increase their number. With the current vaccination speed, all those citizens who registered were very likely to have received their first vaccination by the first week of May. After 5 million administered vaccines new regulations are to be put in place allowing for much more freedom, among them annulling the obligation to wear a mask in public places.

### Measures supporting protection and restarting the economy

The Government announced the first stage of its **three-stage Economy Protection Action Plan** on 18 March 2020: reduction of social security contributions and taxes, support for private entrepreneurs and a moratorium on loan, credit and lease repayments. On 7 April, the Government announced the second phase of the Economy Protection Action Plan. An Epidemic Containment Fund and an Economy Protection Fund were set up and five schemes were launched: job protection, job creation, financing of enterprises, protection of families and pensioners, as well as key sectors' programmes to be implemented in the third phase of the Action Plan.

The Government established three open-ended funds for coverage of costs necessary for protection against the coronavirus epidemic. The budget for the year 2021 allocates around HUF 3,000 billion for the Health Insurance and Epidemic Containment Fund, which is necessary for operation of the health care system and containment of the epidemic. This year the Government is appropriating HUF 2,550 billion for the Economic Protection Fund to finance programmes necessary for the protection and restarting of the economy. The Fund for Epidemic Containment Funds from the European Union manages EU funds serving containment of the epidemic. The measures and the programmes launched by the National Bank of Hungary accounted for roughly 30 percent of the GDP. As a result of slower than expected economic recovery, due to measures taken to protect the economy, in 2020 the budget deficit reached 8.1 percent, which may decrease to 6.5 percent in 2021.

The large-scale **Action Plan for Restarting the Economy** was launched in January 2021, aimed at setting the economy back on the path of growth in 3 stages. As part of the plan, one quarter of the gradually reintroduced 13th month pension was paid in February, interest-free credit of HUF 10 million with 10-year maturity and a 3-year grace period was made available in the SME sector, and additional aids will be available through the Hungarian Village Programme for business development in villages with a population of less than 2,000 inhabitants. In the second stage, the Government will provide substantial support for reforming higher education, making available thousands of billions of forints in funds in the third stage for facilitating the green transition and digitisation.

## ***Specific measures taken within the framework of the action plans***

### *Tax, financial measures*

To mitigate the consequences of the epidemic, the Government aimed to support the business sector with a number of **tax reliefs**. The small business tax and social contribution tax rates decreased, and the local business tax rate was maximised at one percent for most businesses in 2021. Tax return requirements were also simplified, or allowed deferral during the epidemic, in parallel with an accelerated VAT reclaiming procedure. The State is providing tax relief to employers and employees in sectors particularly hit by the epidemic. The reduction of the VAT rate of food for take-away and home delivery to 5 percent is important in terms of consumption. The social contribution tax exemption of SZÉP Card top-ups in H1 2021 and the raising of the cafeteria budget for public and private sector employees supports the tourism sector. Overall the contribution cuts implemented under coordination of the Ministry of Finance generated approximately HUF 420 billion for beneficiary enterprises in 2020.

To slow the spread of the coronavirus, **conditions for using bank cards improved**. From March 2020, the HUF 5 thousand limit for the mandatory use of PIN codes in payments was increased uniformly to HUF 15 thousand, which reduced physical contact in shop purchases by around 90 percent. To support more frequent use of electronic payment solutions, as of 1 January 2021, the availability of electronic payment options is mandatory in parallel with use of online cash registers.

To provide financial assistance to households and businesses, in March 2020 the Government **ordered a credit moratorium** applicable to all existing credit, loan and finance lease payment obligations. After expiry of the payment moratorium, the amount of instalments may not increase, but the maturity period is extended. At the end of 2020, in response to persistent high demand, the Government extended the moratorium until the end of H1 2021. As a result of the credit moratorium, an amount corresponding to 3.5 percent of the GDP remained within the economy in 2020, significantly contributing to the mitigation of the economic downturn.

### *Support of enterprises*

In support of business development, to mitigate the economic effects of the pandemic and to provide additional funds necessary for restarting, **a number of discounted credit and capital programmes** are available to enterprises. **To maintain the financial stability of businesses**, loans with state interest rate subsidies and guarantees are available in the amount of more than HUF 2,000 billion. The Interest-free Restart Fast Loan was introduced in March 2021, which offers flexible credit to businesses. Four new, low-interest credit products of the Széchenyi Card Programme are expected to support businesses until the end of 2021. As part of the crisis credit schemes, 16 thousand credit transactions were concluded in the value of HUF 435 billion in 2020. The Hungarian Development Bank (MFB) modified several of its credit products, enabling businesses to access funds for their investments, current assets, loan conversions and liquidity. During 2020 the joint commitments of the MFB and its member companies exceeded HUF 1,700 billion; its economic stimulus activity contributes around 0.8 percent of the Hungarian GDP. The aid programme offered to medium-sized and large companies – maintaining their export capability despite the crisis – and the credit schemes of Eximbank operating with Hungarian funds contributed to **maintaining positions on foreign markets** through support of investments in the value of around HUF 500 billion and HUF 300 billion, respectively. The National Bank

of Hungary expanded the budget of the FGS Hajrá! credit programme; up to early April more than 31 thousand micro, small and medium-sized enterprises accessed funds with favourable interest rates in the value of over HUF 2,044 billion. The survival of agricultural small holdings is supported with an overall budget of HUF 2.5 billion.

In response to the coronavirus, **the tender portfolio and funding priorities of the NRDIO (National Research, Development and Innovation Office) have been modified**; the Office also supports research and innovation projects with simplified procedural rules and extended deadlines. The Investment in the Future Fund and COVID Fund were established with NRDIF (National Research, Development and Innovation Fund) funds; these were mainly responsible for supporting research tenders aimed at managing the COVID-19 pandemic and its repercussions. The RDI wage subsidy was announced to manage employment issues resulting from the epidemic.

### *Employment*

In the area of **employment**, sectoral **wage subsidies** provide targeted assistance to sectors affected by restrictive measures for job retention. The **enhanced flexibility of labour law rules** (more flexible working hours, home office and teleworking), and further education and training aids also serve job retention. In addition to wage subsidies, the Government also supports businesses and employees with taxation instruments and interest-free credit schemes in sectors affected by restrictions.

### *Education*

From the end of September, **education continued according to a digital schedule**, outside of classrooms, necessitated by the need to mitigate the strengthening waves of the epidemic. The Government will maintain online education – whether partially – until justified by epidemiological data. So-called **smart textbooks** have become available in March 2020, which are used daily by tens of thousands of students through the National Public Education Portal; the Educational Authority also supports online education with a collection of continuously expanded methodologies. After assessing the teachers' and students' **need for equipment**, in the spring of 2020 the Government provided assistance for the procurement of around 8 thousand pieces of equipment; at the end of 2020, the Klebelsberg Centre additionally purchased 18 thousand items. **Free internet access** provided by internet service providers also supports digital education; it has been used by 98 thousand subscribers so far. During the 2020/2021 academic year, 9,700 teachers and educational support staff in the most disadvantaged municipalities received a one-off **bonus**. Additionally, during digital education it is still possible to organise **individual and small-group consultations** and practical sessions, while school psychologists and social workers also assist in maintaining contact with students with disadvantages and multiple disadvantages.

**Higher education** institutions have also shifted to **online education**. To avert potential risks associated with the start and continuation of studies during the pandemic, the Government also expanded existing **student loan** schemes. The Student Credit Plus product provides a single, freely usable credit of HUF 500 thousand to students in higher education, and credit in the single amount of HUF 1.2 million is offered to participants in specific, so-called restructuring adult education courses. The student credit schemes are also available to participants in vocational and adult education for the financing of training costs. Successful graduation is also supported by exemption from the foreign language examination for students successfully taking the final examination. To mitigate the shortage

of health care professionals and for gaining experience, **students participating in medical and health education may be assigned** specific duties related to protection against the coronavirus epidemic aligned to their skill level, for remuneration.

#### *Family protection*

In order to ensure the **income security of families** raising small children, expiring childcare allowances, childcare benefits and child-raising benefits will be extended until the end of the state of danger. During the state of danger, judicial foreclosure and enforcement by the tax authority are suspended, and a moratorium is introduced for evictions and auctions of residential property. During the state of danger, the Government has facilitated conditions for receiving certain benefits by families planning or raising children. As of 1 July 2021, the amount of the infant care allowance (CSED) will increase from 70 percent of eligible income to 100 percent, and the Home Renovation Programme was launched on 1 January 2021 with a budget of over HUF 300 billion appropriated by the Government.

#### *Health care*

The **digitisation of health care** is a key priority in the Hungarian health sector; the Government will support this process in the coming period with a number of measures and tenders. The main goal of these digitisation projects is the improvement of efficiency in preventive care, diagnostics and patient care by use of information and communication technologies. During the restrictions introduced in relation to the epidemic, the writing of e-prescriptions – already used on a wide scale last year – and the retrieval of patient data from the Single Health Platform proved to be significant assistance. In April 2020 the multi-stage drafting of the legislative background of telemedicine care – not requiring the personal presence of patients – commenced. By establishing options for telemedicine, the rate of contact by telecommunications significantly increased during the COVID-19 epidemic. In response to the coronavirus epidemic, the Government of Hungary launched the **Health Industry Aid Programme** with the aim of developing the production of pharmaceutical products and medical devices in Hungary with a HUF 50 billion budget to support the investments and development of Hungarian enterprises. Based on the decision of the Government, the **National Coronavirus Vaccine Plant will be established** in cooperation between the University of Debrecen and the National Public Health Centre; production of the Hungarian coronavirus vaccine is expected to begin at the end of next year. The National Public Health Centre is **establishing the National Security Laboratory** with a budget of HUF 12 billion financed by the EU and Hungary. As a unique leading institution in the region, it will have the task of identifying new, hazardous pathogens, to conduct immunological and disease progression research, and to participate in the testing of new vaccines.

## 4 Economic stimulus policies

### **Programme for a More Competitive Hungary**

*As a key economic policy objective of the Government, growth of the Hungarian economy should exceed the economic growth of the European Union in the long term as well, as this could ensure convergence with more developed Member States. The package of measures called “Programme for a More Competitive Hungary” – adopted by the Government to accurately assess challenges facing the Hungarian economy and to take the necessary measures – aims to establish conditions for dynamic economic growth in the long term as well by comprehensively improving the Hungarian economy’s competitiveness. The economic restrictions resulting from management of the epidemic negatively affected both cyclical growth and the full implementation of the Programme, while the structural challenges have mostly remained unchanged. For these reasons, implementation of the Programme now bears even greater relevance. The originally drawn up 42 actions recommend specific measures in six key areas including taxation, employment, public sector, health care, education and the business environment. The tax measures of the programme primarily aim to shift the economic structure toward value-adding companies by improvement of labour incentives and economy whitening measures. When adopting the Programme, groups less present on the labour market were included in the focal point of employment measures. The epidemic’s negative impact on the labour market may be mitigated by reform of the employment classes, although the convergence of groups with low employment remains the most appropriate means of increasing the employment rate. A priority will still be assigned to improving the efficiency of health care, the strengthening of basic care and development of the financing system, in parallel with strengthening of potential capacities responding to the epidemic. Educational measures aim to provide knowledge meeting labour market demand, improve the quality of education and to reduce inequalities. The epidemic posed major challenges for education as well, but it also opened up opportunities for integrating experience during the implementation of measures. Major progress has been achieved in relation to the business environment; vocational training and adult education has undergone reform, university model shifts are progressing faster than the Programme schedule, and integration is also well progressing in relation to public transportation. Comprehensive strategies have been drawn up in relation to several measures; their implementation, monitoring and evaluation is a priority. A more efficient State is essential for a more efficient economy. The rationalisation of public sector functions and the digitisation of State processes significantly reduce administrative burdens for companies, also widening fiscal manoeuvring room for more robust support of growth in place of financing State administration. Additionally, digital solutions can facilitate the greater digitisation of companies. The significant increase of wages in public administration positively affected economic growth, particularly in light of the fact that notwithstanding rising expenditures, Hungary managed to implement substantial tax cuts even on an international scale. Additionally, the digitisation of public administration reduced the administrative burdens of businesses and citizens by potentially more than HUF 10 billion.*

## 4.1 Business development

Within the global economy shaped by the coronavirus pandemic, the strengthening of the competitiveness of Hungarian small and medium-sized enterprises has become even more important. Therefore, beyond mitigation of economic damage caused by restrictions, the **objectives defined** – after broad consultations – **in the document “Strategy for Strengthening Hungarian Micro, Small and Medium-sized Enterprises (2019-2030)”** adopted in 2019 and drawn up within the framework of joint work with the OECD **represent the foundations of the Hungarian Government’s business policy**. The cornerstones of such policy are the technological shift, digitisation and improvement of productivity through innovation, establishment of adequate financing opportunities and support of entry to foreign markets.

Additionally, in line with the industrial development objectives of the Irinyi Plan, industrial parks are currently under development or existing facilities are developed in 15 cities. The total value of investments implemented within the framework of the Modern Cities Programme is around HUF 100 billion.

### Measures aimed at improving productivity

In 2020, within the framework of a scheme implemented with cohesion funds, **supporting micro, small and medium-sized enterprises in adapting to modern business and production challenges**, more than 4 thousand businesses applied successfully for funds enabling the improvement of productivity and the retention of employees in the value of more than HUF 100 billion. In 2021 companies can apply for similar funds within the framework of the new EU development cycle. The discounted credit programme of the Hungarian Development Bank, operated since 2018 with cohesion funds, also supports the technological modernisation of small and medium-sized companies and expansion of their innovation capacities; nearly one thousand loan contracts were concluded in 2020 in the value of over HUF 31 billion under the programme. In 2021 the target is the conclusion of more than 400 additional transactions. The 6 capital funds managed by Hiventures Kockázati Tőkealap-kezelő Zrt. – operating also as part of the MFB Group – since 2017 with an overall amount of HUF 155 billion offer capital investment for the financing of start-ups, SMEs and larger companies. Innovative, R&D focussed start-ups at the incubator, seed or growth stage can access financing of between HUF 15 million and HUF 1 billion. For Hungarian and foreign acquisitions, and for a successful generational change, small and medium-sized enterprises, and larger companies can access funds of HUF 50 million to HUF 3.1 billion, and between HUF 500 million and HUF 7.5 billion, respectively. In 2020, Hiventures placed HUF 13.6 billion from 6 capital funds, within the framework of 88 transactions, with the placement of HUF 23 billion planned for 2021 as part of 116 investments.

The Supplier Development Programme operating since 2017 facilitates the transfer of technology and knowledge between large companies and smaller firms operating as their suppliers. In 2021 HUF 2 billion in funds are available for this purpose. The Labour Intensity Enhancing Programme launched in November 2020 aims to support the intensive capacity increases and technological development of SMEs, contributing to improving the qualifications of employees. Budgetary funds of HUF 5.1 billion are available for achieving these goals.



**Several sectoral funds** also support the development of companies in various sectors. The Irinyi Plan, an industrial strategic aid programme, supports the R&D, innovation and capacity increasing investments of small and medium-sized companies with deficient capital, operating in sectors with outstanding development potential. In 2020, 19 aid documents were issued within the framework of the programme; the projects received a total of HUF 2.4 billion in aid from budgetary resources. The Industry 4.0 programme supports the digital transformation of the manufacturing industry and infocommunication services sector based on intelligent solutions with budgetary resources. Since 2018, 24 projects received aid in the amount of HUF 4.3 billion, including 4 projects receiving HUF 1.3 billion in aid in 2020. The Food Industry Supplier Development Programme launched at the end of last year with an overall amount of HUF 35 billion aims to support investments that results in a higher share of products of Hungarian food business operators on the shelves of retail chains. EU funds in the amount of HUF 5.1 billion within the framework of a different scheme are also available to medium-sized companies in the food industry for complex development projects. The Fashion and Design Industry scheme announced at the end of last year, assisting micro, small and medium-sized enterprises in adapting to modern business and production related challenges with HUF 15 billion in cohesion funds contributes to strengthening export performance and the competitiveness of fashion and design SMEs with a major role relating to low-qualified employees and employment in disadvantaged regions. The scheme announced in February of this year, aimed at supporting developments of micro, small and medium-sized enterprises serving the production of health products, receiving HUF 23 billion from the budget of the Economic Development and Innovation Operational Programme, strengthens the competitiveness of small and medium-sized enterprises essential in terms of the security of supply.

### Export incentives

**Support of the more efficient operation of companies with major growth potential and their presence on foreign markets** remains a key objective. Within the framework of the Hungarian Multinationals Programme III, operated with cohesion funds, 57 manufacturing enterprises showing exceptional growth potential received a total of HUF 6 billion in aid in 2020 and 2021 for implementing complex development projects. The Hungarian Multinationals Programme IV, also implemented with cohesion funds, with an overall amount of over HUF 40 billion, focuses on supporting Green National Champions. It aims at assisting the international success of manufacturing enterprises capable of serving energy efficiency investments, manufacturers using raw materials from secondary sources, and companies serving improved water efficiency and electro-mobility investments from the industrial side.

The **Fit for Export Programme** supports small and medium-sized enterprises in accessing international markets through targeted, company-tailored consulting, training and individual preparation, in addition to promotional activities. In the 2021 phase of the programme managed by the HEPA Hungarian Export Promotion Agency, with an overall amount of HUF 1.5 billion in EDIOP (Economic Development and Innovation Operational Programme) budgetary funds, members of the target group are selected and the aid contracts are concluded. The Export Academy series of programmes also organised by the HEPA with HUF 53 million in budgetary funds contributes to the professional preparation of exporting enterprises and those interested in exporting. In 2020, 1,300 company

managers and export specialists took part in the training courses; 2,500 participants are targeted in 2021 through online training.

As part of the Economy Protection Action Plan, the **National Export Protection Programme** launched in 2020 with Hungarian budgetary resources supports micro, small, medium-sized and large companies within the framework of two tenders in accessing foreign markets, maintaining their export performance and their production investments implemented abroad. Under the Foreign Market Access Aid pillar of the programme, 82 tenderers received a total of HUF 3 billion in aid for marketing activities, development of online sales channels and for consulting related to foreign investments. The other Foreign Market Growth Aid pillar of the programme with an overall amount of HUF 73 billion is under implementation. It supports the launch and development of foreign activities of Hungarian companies.

### Schemes aimed at managing the pandemic

The **Competitiveness Improvement Aid Programmes** launched in 2020 with Hungarian budgetary resources in response to the coronavirus crisis, and currently operating, provide aid to **medium-sized and large companies in the manufacturing industry and business services sector** that have been adversely affected by the downturn caused by the epidemic but nevertheless resolved **investments** in the value of at least 150 thousand EUR, or 1.6 million EUR in relation to large companies, and are committed to retaining existing jobs. Within the framework of the programmes more than HUF 290 billion has been awarded so far.

A number of discounted credit and capital programmes are available to enterprises to mitigate the economic effects of the pandemic. The **Interest-free Restart Fast Loan Programme** launched in March 2021 with REACT-EU funds aims to assist the restarting of the economy and to support businesses struggling as a result of restrictions. The maximum HUF 10 million credit is available to companies interest-free, with 10-year maturity, without own contributions, and a grace period related to three-year repayment. One of the key business development instruments of the Government of Hungary, the **Széchenyi Card Programme**, financed with Hungarian budgetary resources, was expanded in 2020 with four new credit products, which are available to enterprises until the end of 2021, to maintain the operation of micro, small and medium-sized enterprises. As part of the crisis credit schemes, more than 25 thousand credit transactions were concluded in the value of HUF 702 billion up to March 2021.

As part of the programme implemented with the EDIOP budget, aimed at supporting the **development of micro and small enterprises operating in disadvantaged municipalities**, companies could apply for non-reimbursable funds of HUF 2-10 million with a 70 percent maximum aid intensity. Up to the deadline in March of this year, 182 applications were submitted in the total value of nearly HUF 9 billion. As continuation of the programme, enterprises implementing development projects in free entrepreneurship zones and outside of these in municipalities with less than 5 thousand inhabitants are supported with an overall amount of HUF 25 billion within the framework of the **enterprise restart sub-programme of the Hungarian Village Programme**. The funds may be spent on many purposes, including wages, machinery, workshops, information technology development and training. The Government is expecting to provide support to at least 2-3 thousand companies under the enterprise restart programme.



Within the framework of the Economy Protection Action Plan, enterprises taking part in cross-border cooperation are eligible to receive non-refundable aid provided with Hungarian funds to implement their cross-border investments. The investment value implemented through the development projects is expected to reach around HUF 120 billion by completion of the programme.

The four schemes drawn up or modified by the **Hungarian Development Bank** to mitigate the economic effects of the epidemic provide – through financial intermediaries – credit for investments, current assets and loan conversions, which may also be used by enterprises to finance their liquidity. Within the framework of the various schemes, more than 600 credit agreements were concluded up to 31 March 2021 in the total value of almost HUF 50 billion. The entire guarantee portfolio of *Garantiqa* Hitelgarancia Zrt. – belonging to the MFB Group – increased by 66 percent in 2020, with over 23 thousand guarantees undertaken up to March of this year in the value of HUF 854 billion, within the framework of the Crisis Guarantee Programme launched in the spring of 2020 in response to the coronavirus crisis. Under the programme of *Eximbank*, currently still operated with its own funds, in 2020 around one thousand exporting and supplier companies accessed current asset and investment credit with discounted interest in the value of approximately HUF 300 billion for improving their liquidity. As a result of the fund management regulations of the **Széchenyi Funds** – managing a total capital budget of HUF 103 billion in its six State-owned funds – modified in 2020, it can expand its investment activities under more flexible conditions for supporting the development of Hungarian enterprises.

## 4.2 Research, Development and Innovation

**Research and development (R&D) expenditures** steadily increased in Hungary in the past decade, which as a result **reached 1.48 percent of the GDP in 2019<sup>1</sup>**. In 2019, more than one half (53 %) of R&D expenditures were financed by enterprises, one third by the central budget and a little more than 13 percent by foreign sources. The share of business funds moderately increased (by 6 percentage points) in the past 10 years, while the share of public financing decreased by a similar rate. The business sector leads in the use of funds, 75 of every 100 forints spent is used in this sector, while 14 percent and 10 percent is used in higher education and by publicly funded research establishments, respectively. The Hungarian R&D and innovation (RDI) sector is territorially concentrated in the capital, which accounts for 61 percent of expenditures, 54 percent of R&D staff and 41 percent of research establishments, and the highest share of innovative enterprises.

In recent years the Government has been using budgetary and EU funds to provide substantial RDI aids; as a result, by 2019 **the number of R&D enterprises has increased by one and a half times, their expenditures tripled** in the past ten years. R&D activities, however, continue to show concentration; large businesses accounting for only 17 percent of research establishments generate around two thirds of R&D expenditures (68 %). Foreign-owned businesses continue to dominate the business sector, accounting for 60 percent of expenditures.

In 2019 there were a total of 3,555 R&D establishments registered in Hungary. **R&D staff increased to 48.6 thousand persons** in parallel with their rising number, more than one and a half times the figure

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<sup>1</sup> HCSO data (2020)

for 2016. As an additional positive development, **younger age groups play a growing role** among research staff. The size of the 35-54 age group at publicly funded and higher education research establishments increased by an average of 23 percent between 2010 and 2019, while the share of researchers under the age of 45 had already been 75 percent in 2010 at business research establishments.

Based on the combined innovation index of the European Commission, similarly to other V4 countries, Hungary is considered a **moderate innovator**. Based on the 2020 EIS survey, convergence of innovation performance to the EU average was not successful in recent years; in 2019, Hungarian performance equalled only 66.4 percent of such average. Substantial progress, however, was made in certain sub-segments, particularly in relation to corporate investments, where the indicator of *R&D expenditures in the business sector* improved from 57 percent to 91 percent relative to the EU average. In other areas Hungary even outperforms the EU average, e.g. in development of an innovation friendly environment, non-R&D based innovation expenditures, employment effects, share of high- and medium-high-technology exports, and broadband coverage. The share of innovative companies, however, still failed to increase in recent years. Based on data of the recent statistical survey<sup>2</sup>, between 2016 and 2018, 29 percent of enterprises employing more than 10 employees considered themselves to be innovative, which corresponds to the V4 average, but falls short of the EU figure (51 %). Large companies play a dominant role; a larger share of these companies proved to be innovative (50 %) compared to medium-sized (33 %) and small enterprises (25 %). **Cooperation of Hungarian enterprises in innovation improved**, however, which the Government also aimed to support in recent years (e.g. cooperation programmes between industries and universities, agreements on competitiveness and excellence). In the 2016-2018 period, almost 10 percent of all enterprises carried out some form of RDI cooperation, which may fall short of the EU average (12 %), but indicates an improvement over the 6 percent figure for the previous period. Overall 36 percent of innovative enterprises carried out RDI cooperation.

### Government aids aimed at increasing R&D investments

In 2020 and 2021 as well, the Government of Hungary has been assigning a priority to supporting RDI investments. The main challenge in 2020 was related to the emergence of the coronavirus; the aid scheme attempted to respond to these circumstances in parallel with the continued availability of programmes that had been operated for years. The EDIOP/CCHOP programmes co-financed by the EU and programmes financed with the National Research, Development and Innovation Fund (NRDI Fund) remain the two main channels for RDI funding by the State. In 2020 the NRDI provided funds amounting to around HUF 47 billion for RDI<sup>3</sup> The promotion of corporate RDI activities was a focal point of **NRDIF funding**; the SME Start tender procedure was launched in 2020 (with a HUF 8 billion budget) for the co-financing of the market-oriented innovation projects of micro and small enterprises, with approximately 200 funded projects annually. Additionally, the Startup Factory programme specifically aims at setting early-stage enterprises on the path of rapid growth (approximately 50 enterprises, with a budget of HUF 2 billion). In 2020, **funds co-financed by the EU** supported the adaptation of micro, small and medium-sized companies to modern business and technological

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<sup>2</sup> Community Innovation Survey, 2018.

<sup>3</sup> www.nkfi.gov.hu.

challenges, with special programmes targeting the creative industry, food industry and green technologies, in addition to the manufacturing industry. The total budget of the programmes reaches HUF 160 billion, enabling the funding of more than 4 thousand projects up to the beginning of 2021.

### Government efforts to strengthen the Hungarian knowledge base

The **Co-operative PhD Programme** was first announced in 2020, which aims to combine corporate/industrial knowledge and academic/scientific knowledge, and to provide new generations of researchers. In 2020, 246 students were awarded scholarships; the target is to support an additional 100 students in 2021. The Hungarian Startup University Program was prepared in 2019 with NRDIF funds and announced in 2020 with a HUF 20 billion aid budget with the aim of raising awareness of entrepreneurship and innovation among students of higher education, and to increase the number of innovative enterprises launched by them. The second round of the call for tenders aimed at strengthening university innovation ecosystems was held in 2021 (with an additional HUF 1.5 billion after the first round). This programme contributes to the transfer and uptake of knowledge through closer linkage of the higher education sector and businesses. The scientific and innovation parks currently under preparation will also contribute to this goal; they will be created in the coming years at the largest Hungarian universities. The tender supporting the establishment of National Laboratories was launched last year (with HUF 189 billion in Hungarian and EU funds) to establish outstanding scientific “hubs” and internationally competitive, leading knowledge centres in several fields. So far 17 such centres have been financed, and the Ministry of Innovation and Technology and the NRDIO are planning the establishment of additional ones in 2021. The wages of researchers were increased in 2020 within the organisation of the Eötvös Loránd Research Network to prevent attrition and brain drain, and the structural shift relating to financing proportionate to tasks was also strengthened (HUF 11 billion in 2020, HUF 22 billion in 2021).

### Measures adopted to manage the pandemic

In response to the coronavirus, the tender portfolio and funding priorities of the NRDIO have been modified. As a result, the Investment in the Future Fund and COVID Fund were established with NRDIF (National Research, Development and Innovation Fund) funds; these were mainly responsible for supporting research tenders aimed at managing the COVID-19 pandemic and its repercussions. The **RDI wage subsidy** was announced to manage employment issues resulting from the epidemic (within the framework of funds co-financed by the EU), aimed at protecting jobs in the RDI sector. Within the framework of the above, employers were eligible to receive a subsidy for up to three months, adjusted to employee wages, but maximum HUF 318,920, if they agreed to further employ their employees for a period corresponding to at least the duration of the subsidy. The subsidy was announced in April 2020 in the first round and in January 2021 in the second round, with an overall amount of HUF 34.4 billion in both rounds. In the second round the subsidy was also supplemented with a job creation wage subsidy of an overall amount of HUF 18 billion for enterprises agreeing to hire registered job-seekers for RDI jobs, resulting in an increase in staff size. In both rounds around 1,100 enterprises applied for the job protection aid in relation to 20.6 and 15.5 thousand employees, while 31 employers received job creation aid for employment of 41 employees.

## Policy orientation of science, technology and innovation in the next decade

The previous **Research, Development and Innovation Strategy** (RDI Strategy) and, in accordance with the above, the **National Smart Specialisation Strategy** (S3 Strategy) were renewed in 2021. Preparation of the RDI Strategy in effect in the 2021-2030 period and its coordination with the relevant strategies commenced in recent years, and as a result of the process, adoption of the final document by the Government is expected in the second half of 2021. Its primary aim is to contribute to strengthening a knowledge-based, balanced and sustainable economy and society of high added value in all territories of Hungary. To achieve this aim, it defines comprehensive objectives to ensure the creation, flow and use of knowledge, additional horizontal objectives to strengthen an innovation friendly environment, such as susceptibility to innovation, encouragement of regional, social and economic cohesion, establishment of an innovative business environment, a stable RDI financing system, challenge-driven policies and equal opportunities between the sexes.

In line with the development cycle of the EU, the S3 Strategy, focussing on the 2021-2027 period, defines 8 national economic priorities: a) leading edge technologies, b) health, c) digitisation of the economy, d) energy, climate, e) services, f) resource-efficient economy, g) agriculture, food industry and h) creative industries. Beyond the above, two horizontal priorities – support of innovation in training and education, and in the public sector and at universities – aim to establish an internationally competitive RDI system through strengthening of specific regional characteristics.

### 4.3 Digitisation

In the 2020 country report on the level of digital development issued by the European Union, Hungary is **ranked overall 21st** in the Digital Economy and Society Index (DESI), **moving up one place compared to its score in 2019**. Within overall picture, the 7th place in the ranking of the level of infrastructure development is positive, but Hungary is in the bottom half of the EU ranking in other areas: 19th in digital skills, 24th in digital public services, and only 26th in relation to the integration of digital technologies by companies. With regard to the aggregate results, the pace of development in Hungary in the past year is similar to that of the EU. As regards sub-dimensions, Hungary moved 9 places up in relation to internet access, improving 1 place in relation to the human capital dimension, 2 places in relation to digital public services, but falling 2 places in relation to the integration of digital (corporate) technologies over the year 2019.

As indication of major progress in 2020, the **draft National Digitisation Strategy (NDS)** for the 2021-2030 period was completed and submitted for partnership consultations in June 2020. As the comprehensive goal of the NDS, Hungary should implement coordinated measures in areas of the economy, RDI, and public administration for advancing digitisation, as a result of which Hungary's level of digital development reaches or even passes the EU average by the middle of the decade. The objectives and instruments of the National Digitisation Strategy are built on four pillars: digital infrastructure, digital skills, digital economy and digital services. The strategy sets measurable targets in relation to all pillars.

## Government measures supporting digitisation

### *Development of infrastructure*

The Government has set the prioritised goal of ensuring the availability of wired and wireless digital infrastructure of appropriate service capabilities and quality, through access to a 1 gigabit broadband connection in the entire territory of Hungary, including the development of State networks. To this end, the targeted Government digital infrastructure development measures launched earlier will continue in a renewed form, with new elements and schemes, and particular regard to regulation. The new digital network development programmes will be launched in Q2 2021 mainly with funds under the Digital Renewal Operational Programme (DROP). The measure aims to ensure that the share of public bodies and households capable of establishing a gigabit connection, with broadband network coverage, reaches 75 percent by the end of 2026.

### *Digital skills*

The systematic development of digital literacy and skills, targeted Government measures launched earlier to reduce the digital divide will be continued in a renewed form, with budgetary funds of HUF 6 billion. The training programmes will be prepared by the end of 2021 in all relevant fields. The measure is expected to reduce the share of the population lacking digital skills (share of 16-74-year-olds not using the internet) to 2 percent by 2030.

The pandemic further emphasised the importance of acquiring digital skills. Within the framework of the Economy Protection Action Plan, the Government announced the restructuring adult education programme to ensure that employees adversely affected by the state of danger and job-seekers can acquire new competencies, and can change careers. Within the framework of the programme financed with HUF 9.9 billion in EU (EDIOP, CCHOP) funds, development of the digital curricula of at least 20 professions and the IT training of one thousand people supporting restructuring is planned.

During the epidemic, public education and higher education shifted to online curricula. In addition to the central KRÉTA and Neptun applications, other cooperation platforms are also used for educational activities. The Educational Authority published methodological recommendations for organising education outside of classrooms, according to a digital schedule.

### *Digital economy*

A prioritised Government objective also defined in the National Digitisation Strategy is to improve the digital preparedness of businesses, primarily of SMEs employing the majority of workers, and the integration of digital technology in all sectors. The spread of corporate digital solutions should be commenced in time and on a wide scale among SMEs; they should be encouraged to commit to the digital transition. To this end **new corporate IT programmes** will be launched in Q3 2021; the new participation of more than 2 thousand enterprises is planned by the end of the year mainly with cohesion funds. The ultimate goal of the measure is to increase the share of enterprises reaching the highest level of digital intensity to 25 percent by the end of 2026.

To promote digitisation in Hungarian agriculture, in December 2020 the Government adopted a decision<sup>4</sup> on the **detailed action plan of the Digital Agricultural Strategy of Hungary (DAS)** and on budgetary resources necessary for the performance of tasks under the first priority. Implementation of the measures specified in the action plan will begin in 2021 with HUF 5.7 billion budgetary funds.

### *Digital State, digital public services*

From 2020, major progress has been made in relation to development laying the foundation for **State electronic administration** and supporting a higher level of electronic solutions in the workflows of organisations. Additionally a number of development projects were implemented to support electronic administration options for citizens. The chapter on Public Administration contains the detailed description of development. In response to the current COVID-19 crisis, use of completed applications and the role of online administration has significantly increased within the population.

The spread of digital solutions in health care reflects a global trend; their spread created greater opportunities and new demand in the field of health care as well. The **government decree setting out rules of telemedicine**<sup>5</sup> was one of the emergency measures introduced in the spring of 2020 in response to the coronavirus epidemic, which enabled this form of care on a wide scale. Thereafter, decrees relating to the longer term and detailed regulation of telemedicine were adopted: the decree on minimum professional conditions necessary for providing health services<sup>6</sup> and the decree on the settlement and financing of performance<sup>7</sup>.

Within the framework of the National Agricultural Information Centre (NAIC), the aim is to develop new electronic services based on artificial intelligence. Establishment of the National Agricultural Data Centre facilitates development of digitisation for all farmers, significant improvement of the efficiency of calling EU funds with support of artificial intelligence, which may further improve the safety and quality of food production in Hungary, and agriculture's export performance in a sustainable manner. The technical specifications of the project with an overall amount of HUF 6 billion have been drawn up, and the technical documentation is under preparation.

The **RRP also defines expansion of State digital capacities as a key objective**, taking into account that there is still a significant gap between use of e-administration service providers and the range of full online administration possibilities. According to plans, Union funds will be used to continue development of the government network, broaden the networks of health institutions, increase bandwidth and to ensure adequate IT protection.

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<sup>4</sup> Government Decision No 1895/2020 (XII. 9.)

<sup>5</sup> Government Decree No 157/2020 (IV. 29.)

<sup>6</sup> Decree No 60/2003 (X. 20.) of the Minister of Health, Social and Family Affairs

<sup>7</sup> Decree No 33/2020 (IX. 16.) of the Minister of Human Capacities



## 5 Business environment, regulation

The increasingly favourable changes to the Hungarian business environment in recent years are mainly evidenced by investment trends. Before the crisis, the GDP-proportionate rate of investment was one of the highest in Hungary among EU Member States; this rate did not decline in 2020, either, once again reaching around 27 percent, which is an outstanding result in the whole of Europe (third best in the EU). Notwithstanding the crisis, last year Hungary was the choice of several international companies: the largest investments include the HUF 700 billion investment – calculated at the current exchange rate – of the South Korean SK Innovation, the HUF 75 billion investment of the South Korean Doosan company, the HUF 66 billion investment of Semcorp from China, all related to the manufacture of batteries for electric vehicles, and Mercedes is also expanding its production line in Kecskemét this year to serve production of EVs. The consistently dynamic growth in investment and high GDP-proportionate rate of investment may be a good basis for the fast recovery of production in 2021.

### ***SRSP project: Development of the economic environment in areas of international competitiveness evaluated by the World Bank***

*The Ministry of Finance launched the project based on the results of the World Bank's Doing Business survey. According to such results, the procedure and cost of building authorisation (108th place) and connection to the electrical grid (125th place) in Hungary is long and high compared to both neighbouring countries and Western Europe. The project submitted within the framework of the Structural Reform Support Programme is aiming to achieve tangible and significant improvement in practice in these two areas to develop the operational environment of businesses. The European Commission has engaged KPMG Tanácsadó Kft. to implement the project. Close professional consultations were held between the Ministry of Finance and KPMG in the course of reviewing processes and drafting proposals. The project produced ten proposals; their implementation can lead to substantial progress in relation to building authorisation and connection to the electrical grid.*

*The Government approved the project's proposals by way of Government Decision No 1906/2020 (XII. 15.) on competitiveness based measures relating to implementation of investments; a working group has been set up to implement the decision. If the proposed efficiency enhancing measures are implemented, average duration of the building authorisation procedure in relation to simple industrial building projects is expected to decrease from 184.5 days to 127.5 days, while the number of administrative contact points needed for developers will decline from 22 to 11. Similarly, duration of the electrical grid connection procedures is expected to decrease from 182 to 103 days, with a decline in the number of administrative contact points from 5 to 4. This would also mean that in the Doing Business ranking Hungary would move up from 108th to 19th place in relation to the prior procedure and advance from 125th to 55th place in relation to the latter indicator.*

## 5.1 Tax system

### Competitive taxation

The taxation policy objectives of the Government are not overwritten by the coronavirus pandemic, either; **the principal objective of Hungarian tax policy remains the retention and bolstering of the competitive tax structure in parallel with the increase in employment and reduction of tax burdens.**

The heavy tax burden on labour has been a basic problem of the Hungarian economy for decades. The tax wedge was one of the highest among OECD countries, still equalling 49 percent in 2013. As a reduction of taxes on labour, the tax wedge has declined each year, equalling only 43 percent since July 2020.

The Government **aims to assist small and medium-sized enterprises with low taxes and simple tax regulations.** The *small business tax (KIVA)* is gaining popularity; it is one of the most competitive types of tax in the European Union, generating exceptional tax savings even on a Union level for companies planning growth and expansion. As part of the Government's tax cut policy, the small business tax rate decreased by 1 percentage point as of 1 January to 11 percent. Up to the end of last year, companies choosing the KIVA tax saved a total of HUF 185 billion. The KIVA tax is also a flexible type of tax, as it can be chosen any time during the year. Beyond reduction of the tax rate, the awareness-raising campaign of the Ministry of Finance also contributed to the popularity of the KIVA tax: compared to 2016, by the end of February of this year, the number of KIVA taxpayers increased tenfold to 65 thousand.

The limits of *development tax benefits* of small and medium-sized enterprises further decreased from 2021 (compared to the earlier limit of HUF 200 million and HUF 300 million, as of 2022, investments of HUF 50 million and HUF 100 million are eligible for the benefit). The development reserve available for corporate tax may be used for up to the full amount of profit before tax – after elimination of the earlier 50 percent limit, then the increased HUF 10 billion limit – if a future investment is undertaken.

The *VAT rate of new housing* decreased to 5 percent as of 1 January 2021 (until 2026 in relation to building permits issued up to 2022) to encourage construction investments and support home purchases. In rust-belts the VAT rate is 5 percent instead of 27 percent on the sale and rental of new homes (up to a useful floor area of 150 square metres).

### Tax simplification

As a result of the **three-stage digitisation of tax administration** (e-PIT, e-VAT, eFIP (single channel employer's data provision)), in a few years Hungary may be one of the countries with the easiest tax administration in the European Union.

The top-up obligation of local business tax was abolished as of 15 July 2020 (in the past, advance tax already paid had to be topped up to the amount of expected payable tax in the last month of the tax year).

Under the structural reform support programme of the European Commission, the Ministry of Finance was successful in two tenders for the professional support of simplifying taxation. The SRSP project



aimed at measuring costs related to tax administration and the further development of the set of performance indicators of the National Tax and Customs Administration (NTCA) was successfully completed in the summer of 2020. The aim of the project launched in 2021 within the framework of the technical support instrument (TSI), the successor programme of the SRSP, is the professional preparation of implementing single channel data provision to reduce employers' administrative burdens.

### Combating tax avoidance

As of 1 July 2020, the limit of the **online invoice data reporting obligation** was reduced to HUF 0, therefore **it is applicable to all invoices issued between resident VAT taxable persons**. As of 4 January 2021, the obligation also applies to invoices issued to non-VAT taxable persons (e.g. natural persons) and non-resident VAT taxable persons, thus essentially all invoices have to be reported to the tax authority. Once in possession of the above information, from the middle of 2021 the tax authority will be able to prepare the draft VAT returns of taxable persons.

The *ATAD2 Directive* (second phase of the EU's anti-tax avoidance directive) has been transposed in relation to rules of managing hybrid instruments (tax avoidance instruments resulting from differences in the varying legal qualification of the same facts) and capital withdrawal.

Hungary signed the *Multilateral Convention adopted to prevent base erosion and profit shifting* in 2017. According to the country-specific recommendation, Hungary needs to strengthen the tax system against the risk of aggressive tax planning. The Convention sets out rules against tax avoidance that contribute to fulfilment of this objective. The Convention has been ratified and promulgated in Act III of 2021.

Hungary has transposed the *DAC6 Directive* (2018/822/EU) in Act XXXVII of 2013, which amends Directive 2011/16/EU. Pursuant to the amendment, as of 1 July 2020, data on certain cross-border tax planning schemes must be reported to the tax authority, such information to be shared between the Member States concerned.

The *list of States not cooperating in taxation* has been drawn up and is applied as of 1 January 2021. The purpose of the list is to advance the fight against tax avoidance by placing States on a public list and possibly sanctioning them, which are not making progress in important areas related to tax avoidance, or completely refuse to make such progress, or even operate measures, tax regimes encouraging tax planning.

### Measures introduced in relation to COVID-19

To mitigate the consequences of the epidemic, the Government aimed to support the **business sector** with a number of tax reliefs. The small business tax rate decreased to 11 percent as of 1 January 2021, while the social contribution tax rate was cut from 17.5 percent to 15.5 percent as of 1 July 2020. The deadline for submitting annual reports and related tax returns (corporate tax, local business tax), and for paying taxes was modified from 31 March 2020 to 30 September 2020. Until the end of the state of danger, wage costs are not considered in the KIVA base in sectors most affected by the coronavirus crisis. A business tax rate of maximum 1 percent is applicable to SMEs with turnover or a balance sheet

total of less than HUF 4 billion for the tax year ending in 2021. The deadline for payment of reclaimed VAT has been reduced from 75 days to 30 days in relation to standard taxpayers, and from 30 days to 20 days in relation to reliable taxpayers.

In relation to **preferential sectors** (e.g. culture, sport, forwarding, entertainment, tourism and the food service sector), the social contribution tax, employees contribution payment, rehabilitation contribution, employers' training contribution obligation and the lump-sum tax obligation of taxpayers subject to small business lump-sum tax (KATA) has been fully remitted until 30 June 2020. In the preferential sectors, employees were only required to pay minimum contributions until 30 June 2020. The VAT rate of take-away and home delivered food decreased to 5 percent. The top-ups of the SZÉP Card are exempted from social contribution tax in 2020 and in H1 2021. The tourism tax and tourism development contribution does not have to be paid until the end of the state of danger.

To support coverage of extraordinary fiscal burdens, in 2020 all credit institutions were required to pay a one-off 0.19 percent epidemiological **special tax** on the base of the bank tax in excess of HUF 50 billion. The paid tax can be deducted from the bank tax in equal instalments during the next 5 years. The banded progressive special retail tax was introduced on 1 May 2020; the tax base is the amount of net turnover from retail.

## 5.2 Public Administration

The COVID-19 crisis pointed to the importance of developing e-administration, which in addition to supporting epidemiological protection, offers an effective solution for both State actors and the private sector.

Within the framework of Union financed (PADOP - Public Administration and Services Development Operational Programme) projects aimed at developing government office processes, as a result of efforts serving the **reduction of bureaucracy of businesses**, Government Decree No 668/2020 (XII. 28.) amending certain government decrees imposing administrative burdens on customers was enacted. The easing of bureaucratic burdens based on non-administrative procedural rules, but affecting businesses aims to reduce documentation (record-keeping, reporting, data provision, statement) obligations mainly affecting the operation of businesses, which may contribute to improving their competitiveness.

As part of **development projects providing the basis for electronic administration**, the *National Commercial Register (NCR)* was established for integration of earlier local registers, and the *Register of Public Administrative Sanctions (RPAS)* was set up in the value of HUF 470 million, which facilitates implementation of a gradual approach in the sanctioning activity of acting authorities. Development of the *new single Public Administration Knowledge Base* is in progress in the value of around HUF 2.8 billion, which will cover – in addition to public administrative cases – judicial, municipal administrative cases, tax matters and cases related to public services.

The *workflow of at least 200 case types in territorial public administration* will be developed within a national single framework and the Single Central Electronic Document Management System (SCEDMS) will be uniformly introduced in territorial public administration at a cost of around HUF 5.5 billion. In the course of *developing the Single System Supporting Administration of Social Benefits (SSSASF)* – at

a cost of HUF 2.8 billion – the digitisation of procedures relating to benefits, care in the field of social and child protection services will be implemented, whereby administrators can access all information in the given procedure through a single, easily accessible method. By way of the further development of the *National Environmental Information System (NEIS)* at a cost of HUF 1.3 billion, with the electronic administration of administrative procedures relating to nature conservation, environmental protection and waste management, the efficiency of the internal operation of government offices will improve and the administrative burdens of customers will decrease.

Implementation of the *HR Workflow* system (HUF 66 million) aims to ensure that the HR activities of government offices are carried out according to a model uniformly developed in each country, capable of following legislative and other changes. A *single administrator access system* is also under development (with a budget of HUF 1.1 billion) to enable the dynamic transfer of personnel capacities where necessary; its absence currently effectively hinders operation. Development of the *Operation Management System* with a budget of HUF 361 million aims to establish single, efficient and economical operation in the field of both informatics and building operation by creating an appropriate management, coordination, process organisation and IT background. The *Government Office Integrated Management Support System (GOIMSS)* is developed for supporting the fiscal management of government offices, covering all management processes, drawing up a single accounting framework policy for government offices, and ensuring the enabled processing, analysis of data for different levels of management. By implementation of the *single government office network architecture* in the value of HUF 3 billion, all specialised systems used by government offices will be accessible, administration will speed up through, among other things, the administrator's ability to access all databases and specialised systems necessary for administration.

The Government Customer Service mobile app (in the value of HUF 200 million) is among development projects **supporting electronic administration options for citizens**, which makes services of the renewed client gateway popular and convenient; it enables the reservation of appointments, virtual lines with a serial number, indication of the type of case, preparation of administration, tracking of processes and the helpdesk function. By integration of the *Virtual Labour Market Portal (VLMP)* with the Government Customer Service mobile app, all information related to employment cases will be available through the mobile app. Development of the *Specimen Signature-based Document Authentication System (SSDAS)* in the value of HUF 3 billion can enable development and broad introduction of the new, currently the most widespread form electronic authentication based on signatures by hand at all government customer services. Representations are authenticated on the basis of biometric data of traditional signatures made by electronic means, thus in addition to people with client gateway access and an electronic signature, other customer groups can be covered in the electronic administration process.

Government customer service administrator training and examinations (GCS training) will be overhauled with the aim of **developing the availability and operation of government customer services**; this serves to enhance appropriate qualifications of government customer service administrators primarily coming into contact with customers with administration provided with more efficient, uniform and faster professional requirements. The *development of general customer service skills* (HUF 86 million) serves similar purposes by providing personnel who are both professionally and mentally prepared. The *conversion of offices of government issued documents into government customer services* (HUF 680 million) aims at serving a wider range of customers in a facilitated, faster

form, at a higher standard. In 2021 six offices of government issued documents will be converted to government customer services. The *Mobile Government Customer Service* (HUF 120 million) is very popular among the public; the buses serve a large number of customers at flexible small municipalities, therefore this activity is currently under expansion.

### 5.3 Regulation

The **immediate payment system** was launched on 2 March 2020 in Hungary; it is perhaps the largest investment and innovation relating to payments in the past three decades. Based on data provided by the system operator GIRO Zrt., around 115 million transactions were performed immediately in one year in the total value of HUF 17,400 billion, with an average of more than 313 thousand transfers daily in the value of approximately HUF 47.5 billion. The system was launched on a mandatory basis, simultaneously at all payment service providers. Last year around 30 percent and roughly 13 percent of payments in number and value, respectively, were processed within the immediate payment system. As an additional innovation of the immediate payment system, it is capable of managing secondary identifiers, i.e. bank account numbers can also be addressed on the basis of an e-mail address, phone number, taxpayer identification number and tax number. The former identification may be mainly useful for payments between natural persons, while the latter for corporate, official payments, and may simplify the addressing of transactions. As a further new feature of the immediate payment system, transfers can be made not only weekdays, but also on weekends, and at times other than between 6 a.m. and 5 p.m. By building on the features of the system, the banking sector is developing new, innovative solutions facilitating recovery of the system's investment costs and the maintaining of their competitiveness.

Pursuant to a legislative amendment of 2020<sup>8</sup>, as of 1 January 2021 the **availability of electronic payment options is mandatory in parallel with online cash registers**. Based on data of the National Tax and Customs Administration, 213 thousand online cash registers were operated in Hungary in September 2019. According to data of the National Bank of Hungary (MNB), at the end of June 2020, 152 thousand bank card POS terminals were operated at 112 thousand points of sale. Thus, the option of electronic payment had to be provided in relation to around 60 thousand online cash registers by January 2021. In addition to making electronic payment available to a growing number of consumers, this measure also serves the whitening of the economy by restricting the use of cash.

One of the most important programmes supporting mitigation of payment difficulties of businesses during the epidemic was the introduction of the **credit moratorium** in March 2020. Pursuant to the relevant decree, all debtors, businesses and private individuals are granted a moratorium on payment obligations arising from credit, loan and financial lease contracts concluded before promulgation of the decree. As a result of the credit moratorium, an amount corresponding to 3.5 percent of the GDP remained within the economy in 2020, significantly contributing to the mitigation of the economic downturn. The option offered by the measure was accepted by around 50 percent of retail customers and 38 percent of corporate customers. Households accepted the option of deferred instalments even in the last month of the year in relation to more than one half of the total credit volume; this rate was somewhat lower in relation to businesses, with around 40 percent. In consideration of persistently

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<sup>8</sup> Act LXXVI of 2020

high demand, on 22 December 2020 the Government extended the moratorium – uniquely in Europe – until the end of H1 2021.

## 5.4 Public procurement

In 2020 **competition continued to strengthen on the public procurement market**. Under the EU rules of procedure, the value of single tender procedures relative to the value of all procurements declined to 18.4 percent; the total value of non-competitive procurement amounted to 3.5 percent (in 2019 the two indicators equalled 20.9 and 8.2 percent, respectively). Under the national rules of procedure, the total value of single tender procedures only reached 9.2 percent in 2020, while the total value of non-competitive procurement amounted to only 0.4 percent (in 2019 the indicators equalled 12.2 and 0.6 percent, respectively). As further indication of growing competition, while an average of 5.2 tenders were received in 2019 for public procurement calls, this figure was 6.7 in 2020.

The SME sector continues to play a major role on the public procurement market. In 2020, SMEs were awarded 84 percent of public procurement contracts, equalling 56 percent of the total value of public procurement.

Hungarian **public procurement information is considered to be one of the most transparent** in the European Union. According to the Internal Market Scoreboard of the European Commission for the year 2019, the transparency of information relating to public procurement procedures is 98 percent in Hungary. To ensure legality, in September 2020 the Public Procurement Authority launched an anonymous information channel enabling anyone to anonymously share information with Authority staff on assumed or factual infringements of public procurement laws.

### Development of public procurement procedures

Act CXLIII of 2015 on public procurement (“Public Procurement Act”, “PPA”) was amended in December 2020 to **simplify** and develop **public procurement legislation**. The amendment aims to simplify and accelerate procedures by reducing administrative burdens. In addition to other means of simplification, the requirement of eligibility will not be mandatory for public procurement conducted under national rules of procedure, which often imposes unnecessary burdens on participants in relation to more simple procurements. In the future, assessment of a disproportionately low price will not necessarily be mandatory under the national rules of procedure, either. To further reduce the burdens of contracting authorities, in place of earlier bidirectional data provision, contracts and related data only have to be recorded by single gateway data provision in the Electronic Public Procurement System (EPPS); data are transferred by an automatic data link to the public electronic contract repository (CoRe) operated by the Public Procurement Authority. This modification also simplifies the public disclosure of contract data.

By amendment of the PPA, **rules relating to rules of procedure for assessing tenders are also simplified**. Thus, as a general rule, the contracting authority is required to verify electronic databases serving proof of fulfilment of requirements relating to grounds for exclusion and eligibility only for the eventual successful tenderer. The more flexible option of reversed assessment and the increase of

options for modification of the summary (enabling remedy without the remediation procedure for rectifiable infringements) also serves acceleration of procedures.

Several changes have been made to **further strengthen the regularity of using EU funds**. The launch of procedures without a public call is no longer permitted in relation to public procurements of future construction projects implemented with EU financing. By way of this modification, negative practices relating to artificial lots created for contracts can also be prevented. According to the modification affecting deadlines for remedy, institutions participating in the use of EU funds may request the *ex officio* procedure of the Public Procurement Arbitration Board from becoming aware of the infringement by a 90-day deadline instead of the current 60-day one.

**Government Decision No 1027/2021** on measures necessary for improving the efficiency of public procurement, adopted in February 2021, aims **to further increase the efficiency of public procurement and the level of competition, and to support the enforcement of sustainability criteria**. Based on the decision, the drafting of measures aimed at increasing successful participation of micro, small and medium-sized enterprises in public procurement, and of a comprehensive methodology serving measurement of public procurement efficiency is in progress. The measures to be drawn up also aim to improve the efficiency of using EU funds, reduce correction related risks associated with public procurement, and to develop closer cooperation with the Hungarian Competition Authority for more effective protection of the fairness of competition and combating agreements restricting economic competition.

For the purpose of supporting the spread of **green public procurements**, Hungary has submitted an application to the European Commission for receiving professional assistance within the framework of the technical support instrument (TSI). The Commission has accepted the application, the green strategy is expected to be finalised in 2021, and the TSI project is expected to begin in May-June 2021.

### Digitisation of the public procurement system

**Expansion of the functions of the Electronic Public Procurement System** also continued last year. The *Public Contract Repository* has been implemented, which provides broad search and querying options. To reduce administrative burdens, *linking of the EPPS with several other specialised systems* has also been implemented, and implementation of additional links is in progress as well. A data link between the EPPS system and the Development Policy Database and Information System (DPDIS) has been established, thus contracting authorities are able to send public procurement procedures and procedural steps recorded in the EPPS, and data on requests to participate/tenders, and documents attached within the framework of the above directly from the EPPS. The link with the database on taxpayers with no public debt has also been established, while the link with systems of the Public Procurement Authority should be implemented by 1 July 2021. For supporting policy-making and monitoring the public procurement market, the Business Intelligence module in the testing phase will enable the automatic collection of data and their retrieval for statistical purposes from the EPPS system.



## 5.5 Fight against corruption

In its decision of June 2020<sup>9</sup>, the Government adopted the medium term **National Anti-corruption Strategy (NAS) for the 2020-2022 period**, and the related action plan. The main purpose of the Strategy, considered to be continuation of the National Anti-Corruption Programme (NAP) ending at the end of 2018, is the establishment of a framework enabling and supporting timely detection and management of cases of corruption for all stakeholders in public administration and society. Additional strategic objectives include enhancing the competence of anti-corruption activities, strengthening integrity awareness and reduction of risks underlying administrative processes.

To fulfil these objectives, the Strategy **defines technology, rule and value based areas of intervention** to which specific measures, instruments, owners and schedules may be assigned.

Similarly to previous years, digitisation development projects are continued in 2021 in public administration, contributing to improved transparency and reduced opportunities for abuse in public administration. Based on the action plan of the Strategy, the minister of the interior will be responsible for implementing a **pilot project** by the end of 2021, in relation to procedures falling within his competence, which is aimed at the **development of an automated decision support system** for ensuring improvement of the transparency, verifiability of the decision-making process and thereby the corruption-free conducting of administrative procedures. In the future the projects may provide guidance for implementing a decision support system of extended scope within broader public administration. The concept of a new IT system will also be drawn up with involvement of the minister of finance, which is necessary for the appropriate functioning of the internal control system and facilitates cooperation between bodies.

In relation to the objectives of the NAP, in recent years the National Protective Service (NPS) has held **anti-corruption training courses** jointly with the International Education Centre, in which more than 600 specialists of the police, the NPS and the public prosecutor's office deepened knowledge necessary for investigating crimes of corruption, gaining insight to today's international corruption trends and the law enforcement practices of other countries. As advancement of the objectives and achievements of the NAP, the NPS continues to set the goal of training law enforcement authorities involved in the prevention of corruption related crime. As a result, this year 12 training courses will be launched with 552 participants, with emphasis placed on international bribery.

The new strategy prescribes establishment of a **case inventory of corruption crimes** for recording evidentiary methods and practical experience relating to various corruption crimes, which may then be used by law enforcement and judicial authorities, and educational institutions.

Similarly to the NAP, according to the Strategy and the related action plan, **jobs and positions particularly exposed to corruption and integrity risks will again be assessed** this year in relation to state administration bodies. Work carried out by the National Protective Service (NPS) – established in 2011, currently operating with 660 employees – in the prevention of corruption continues to focus on integrity checks, which was ordered in the case of 972 persons in 2020. During such checks the persons concerned are checked whether they are compliant with their official duties stipulated by law.

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<sup>9</sup> Government Decision No 1328/2020 (VI. 19.)

Pursuant to the legislative amendment entering into force on 1 January 2021, in the future, integrity checks may be performed at the vast majority of budgetary authorities under the control or supervision of the Government or member of the Government, and of all employees of the National University of Public Service.

Pursuant to the **amendment of the Penal Code**<sup>10</sup> (“Penal Code”) entering into force on the first day of this year – consistently with provisions of the new act on legal status in health care – informal payment provided or promised to health care workers, or to someone else on their behalf, in relation to the provision of health care services constitutes bribery punishable by imprisonment of up to one year. The legislation sets out cases and limits where gratuity is deemed to be lawful or unlawful, i.e. a criminal offence. If accepting informal payment, physicians/health care workers may thus be subject to actual criminal liability. Lawful behaviour will be checked with integrity checks carried out by the new 50-member unit of the NPS.

The **IX Integrity Round Table Meeting** was held on 26 November 2020 – in an online form due to the epidemic – where participants (Ministry of the Interior, State Audit Office, Public Procurement Authority, Curia, Prosecutor-General's Office, National Bank of Hungary, National Office for the Judiciary and, as a new participant, the Hungarian Competition Authority) presented anti-corruption activities performed in the previous year and agreed that the **pandemic may also increase corruption risks**, therefore public unity for the integrity of public affairs, and as such, compliance with regulations and orderliness is particularly important during the coronavirus epidemic. In the press release concluding the Round Table Meeting, participants affirmed their continuing commitment to combating corruption.

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<sup>10</sup> Section 290 of Act C of 2012



## 6 Employment

In the past decade, Hungary has been a top performer in the EU in increasing employment: based on HCSO data, the employment rate of people aged between 20-64 years grew by 15.4 percentage points between 2010 and 2019. **The employment rate was 75.3 percent for the whole of 2019, the last year before the crisis, resulting in fulfilment of the 75 percent employment goal set in the EU 2020 strategy.** In the wake of the coronavirus pandemic, the Government focuses its employment policy on protecting the results achieved pre-COVID-19 and on retaining as many jobs as possible. As indication of the success of introduced measures, the **crisis only moderately affected employment in Hungary;** the employment rate in the 20–64 age group only decreased by 0.3 percentage points to 75.0 percent. In 2020 the number of employed fell (in the 15-74 age group) by 52 thousand people to 4,460,000, the number of workers on the primary labour market decreased by 16 thousand, the number of public employees fell by 19 thousand and the number of workers working at foreign sites declined by 16 thousand over the year 2019.

### Development of the employment institution system

The burden on the employment institution system significantly increased during 2020. At the end of the year there were 316 thousand registered job-seekers, 65 thousand more than in the same period of 2019. Between January 2020 and January 2021, the number of job-seekers increased most in Budapest, Győr-Moson-Sopron and Pest counties. The national extension of the **Labour Market Reform Programme** – launched in 2018 with Hungarian funding of HUF 2.04 billion to improve the efficiency of employment offices – was completed by the end of March 2020, resulting in the higher efficiency of employment departments at twenty county government offices and 173 district offices. Segmentation was a key element of the reform programme, aimed at increasing familiarity with customers and the provision of tailored services. During the programme approximately 80 thousand jobseekers registered in the employment system were placed on the primary labour market. As a result of the increased use of electronic administration related to protection against the epidemic, however, the option of segmentation based on personal interviews developed within the framework of the reform programme diminished during last year.

A **new information portal** ([www.munka.hu](http://www.munka.hu)) was launched on 20 April 2020 to increase awareness of the National Employment Service (NES). The user-friendly portal provides a single source of information to both jobseekers and employers. In addition to the general portal, the **KarrierM portal** was completed in December 2020, which aims to develop and operate a complex consulting organisation, where in addition to use of the employment agency function, personal consulting and call centre support are also available. The programme is implemented with HUF 2.8 billion in funds; the number of enterprises submitting job offers exceeded one thousand.

The **EU-financed programmes supporting development of the National Employment Service are continuing** (with a budget of HUF 5.8 billion); in addition to the further development of a new image and portal, the **fine-tuning of the Customer Categorisation System** is continuing, which is aimed at offering active labour market instruments adjusted to the individual circumstances and characteristics of individual customers. Additionally, at least 400 people will receive training in 2021 within the framework of the human resources development projects of the NES. To complement the activities of

the NES, the programme **supporting labour market services of non-State organisations** is continued, which assists jobseekers in finding jobs based on local economic opportunities or needs arising from individual disadvantaged circumstances. By the end of 2020, with participation of 93 thousand people, 16.7 thousand people found jobs with help from the programme; the programme will be implemented with a HUF 6.7 billion budget in 2021. The **employment coordination programmes (pacts)** are also continuing, which have assisted 63 thousand jobseekers in finding jobs since their launch in 2017 (with a HUF 98.6 billion budget). The programmes aim to provide appropriate labour that meets local demand, improve the employability of job seeking disadvantaged persons; their support training based on employer needs and employment. Most programmes have been completed, with an additional 90 projects ending in 2021-2022.

### Active labour market instruments

**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 *Road to the Labour Market* programme, supporting jobseekers under the age of 25, inactive persons, persons leaving public employment, has been extended until the end of 2022; during the 2015-2020 period, 219 thousand people were engaged with a budget of HUF 246.8 billion. Until the end of February 2020, more than 155 thousand young people under the age of 25 across the country joined the *Youth Guarantee Programme*, which encourages the activity of young people under the age of 25 on the labour market with a budget of HUF 177 billion. The *programme supporting jobseekers and young people in becoming entrepreneurs* offers an alternative with training and capital grants necessary for starting a business. The training courses were held from 2019, the grant decisions were taken in January 2021, after successful completion of training; within the framework of the project more than 10 thousand people received training and over 8 thousand people received capital grants (from a budget of over HUF 51 billion).

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 employment has further diminished**. In 2020, there were 92.5 thousand people employed in the public sector on an annual average, indicating a 12.9 percent decline over the year 2019<sup>11</sup>. **Taking into account the crisis**, the annual budget of public employment increased to HUF 165 billion in 2021, which enables the public employment of around 114 thousand workers and also covers wage raises. **Public employment wages increased by more than four percent from March 2021**. Additionally, programmes aimed at transitioning people from public employment and at training public employees continue to assist public employees in finding jobs on the open labour market. Within the framework of the *From Public Employment to the Private Sector* programme launched in 2017, in 2020 around 1,400 people received a placement allowance at a cost of HUF 0.26 billion, thus, since its launch the programme has supported the employment of over 18 thousand public employees on the primary labour market (with a 2021 budget of HUF 0.5 billion). The programme will be continued in 2021 with budgetary funds. Up to the end of 2020, over 99 thousand people have participated (4.8 thousand people in 2020) in the *priority training programme for low-qualified workers and public employees* running since 2016; the

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<sup>11</sup>[https://kozfoaglalkoztatas.kormany.hu/download/9/c5/b2000/Havi%20jelent%C3%A9s\\_2020\\_dec\\_%28port%C3%A1l%29.pdf](https://kozfooglalkoztatas.kormany.hu/download/9/c5/b2000/Havi%20jelent%C3%A9s_2020_dec_%28port%C3%A1l%29.pdf)

programme has been extended until the end of 2022 with a budget of HUF 35.8 billion. Within the framework of the *regional economic stimulus programme* launched in 2019 and expanded in 2020, the job creation programme may continue at 100 disadvantaged municipalities with high unemployment on the basis of production capacities created in public employment and by support of local economic initiatives. The HUF 10 billion budget prescribes 5 years of operation and 3 years of employment.

The fifth call of the central labour market programme *Development of workers' accommodation*, launched for **mobilising the labour force**, was announced in the autumn of 2020 with a budget of HUF 5 billion. In relation to the first four calls, the Government supported the creation of 4,500 places at 35 workers' accommodation establishments in the value of HUF 11.5 billion. To ensure the success of aid, the new call has been facilitated in several respects compared to the previous ones (own contribution of 20 percent instead of 40 percent, 4-month deadline for launching implementation). In addition, the previously introduced key labour market programmes promoting mobility will continue (Road to the Labour Market, Youth Guarantee) as well.

A number of measures were introduced in recent years to **bring women and parents raising small children to the labour market**. **Programmes increasing nursery capacities and reducing the cost of day care centre services** are continued; the chapter on family policy contains the relevant details. Parents raising small children, who have low skills or no professional qualifications are a prioritised target group of the **training programme** launched at the end of 2020 for parents raising small children; within the framework of the programme they are offered professional, foreign language and IT training (available budget of HUF 3 billion).

Beyond programmes directly targeting employees, several programmes targeting employers (Encouragement of Boosting Employment, Support of Workplace Training) also support the increase of staff and retention of qualified labour at companies. The programme **encouraging the increase of employment**, targeting micro, small and medium-sized enterprises, is operated with a budget of HUF 16.5 billion, providing aid to enterprises (460 tenders) that are committed to creating at least three new jobs for 2 years in regions where employment is worse than the national level. In relation to the "Road to the Labour Market" and "Youth Guarantee" programmes, the programme providing **labour force subsidies to enterprises** provides a 50 percent wage subsidy for the employment of 3,500 registered jobseekers under the age of 25 and/or those with low educational levels. The "*Labour Intensity Enhancing Programme*" will also be launched this year with a budget of HUF 5.1 billion, aiming to support the capacity increasing and technological development projects of SMEs and, through these, the raising of the qualification levels of employees applying new technologies and the added value of produced products/services, enabling higher wages.

The **summer student work programme** – operated since 2013, supporting the inclusion of young people on the labour market with wage subsidies – is expected to continue in 2021; in 2020, around 30 thousand students participated in the programme with a budget of HUF 3 billion. The **PIT exemption of people under the age of 25** – expected to enter into force in 2022 – may significantly increase the income and employment of young people. (There are approximately one million people in this age group; based on their activity, one third of them are present on the labour market, with

around 280 thousand people continuously employed. The fiscal effect of the measure is estimated at HUF 130-160 billion.)<sup>12</sup>

## Responses to the COVID-19 epidemic

Within the framework of the Economy Protection Action Plan, the Government has launched a number of programmes aimed at retaining jobs at risk as a result of the epidemic and at the creation of new jobs.

The **job protection wage subsidy** aims at preventing lay-offs at businesses struggling as a result of the epidemic and at providing compensation for lost employee income. The subsidy was paid for 3 months (with one month's further employment) in relation to employees whose working time decreased by 15-75 percent on the date or after declaration of the state of danger. Applications were accepted between 16 April 2020 and 31 August 2020. The subsidy contributed to retaining the jobs of 198 thousand people at 16.6 thousand company sites with an overall amount of HUF 32.8 billion (EU funds). Retention of highly qualified specialists in the RDI sector is a key element of the Economy Protection Action Plan, as this is essential for restarting the economy. To this end the Government also launched an RDI wage subsidy programme simultaneously with the job protection wage subsidy. Its initial stage aimed at protecting jobs of employees in the RDI sector; the second stage was complemented with job creation opportunities subject to commitment to further employment. (Details of the subsidy are described in the R&D chapter.) Between 18 May 2020 and 31 August 2020, the **job creation wage subsidy** was provided for 6 months to businesses to increase their staff, subject to three months' further employment (targeting, from July 2020, people under the age of 25 or jobseekers seeking jobs for more than 6 months). The subsidy applied to the full amount of wages and social contribution tax. The aid awarded in the amount of HUF 44.5 billion (EU funds) contributed to the employment of 38.8 thousand people.

By replacing the first scheme, the **sectoral wage subsidy** provides targeted wage subsidies in sectors affected by restrictive measures and lockdowns aimed at managing the epidemic. The Government plans to maintain the programme until the end of the given sectoral restrictions. The subsidy amounts to 50 percent of wages, but up to 150 percent of the mandatory minimum wage, thus the Government is paying around two thirds of paid wages together with waiver of contribution payments. Up to 21 April 2021, 145 thousand employees of 23 thousand employers received HUF 84 billion in subsidies (EU funds) from the available budget. The Government is continuously expanding the subsidy; if additional sectors are also affected, advance payments of subsidies are also provided. The **"Let's act immediately!" programme** aims at retaining the employment capacities of businesses and preventing mass lay-offs with a 25-50 percent wage subsidy from November 2020. The HUF 6 billion budget available for 2020 has been used for providing wage subsidies in relation to 12 thousand workers, subject to retention of 28 thousand workers.

To retain jobs, in addition to wage subsidies, the Government also supports businesses and employees with taxation instruments and interest-free credit in sectors affected by restrictions (these are detailed in the Taxation and Business development chapters). The enhanced flexibility of labour law rules also serves job retention, enabling modification of the work schedule to the extent necessary and the

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<sup>12</sup> [http://www.ksh.hu/docs/hun/xstadat/xstadat\\_eves/i\\_mef004l.html](http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_mef004l.html)

ordering of working from home or teleworking. To achieve full employment, in the coming years the Recovery and Resilience Facility (“RRF”) of the European Union aimed at eliminating negative social and economic consequences of the coronavirus pandemic will **finance substantial State public investments**, which will ensure continuous orders until Q3 2026 in the construction and renewable energy sectors playing a key role on the labour market, while the implemented infrastructure will create new jobs.

## 7 Family policy measures

The demographic challenges faced by the European Union are a cause of concern; their management is essential for sustaining the social care systems in the future. As indication of the severity of the situation, the birth rate<sup>13</sup> necessary for maintaining population numbers is not approximated by any EU Member State.<sup>14</sup> **In response to the worrying demographic trends, the Government of Hungary has set the goal of stopping demographic decline in a self-sustainable form, by strengthening the role of families. It has also launched a comprehensive family support programme** – unique in the European Union – that provides new forms of relief each year to families raising children.

The results are clearly supported by the most recent statistics<sup>15</sup>. The number of marriages – comprising the basis for long-term family commitment – has nearly doubled since 2010, from around 35 thousand in 2010 to 67 thousand in 2020, based on preliminary data, despite the epidemic. In line with expectations, the rise in marriages positively affected the birth rate; the **willingness to have children has increased in Hungary by 24 percent between 2010 and 2019**, which is the highest rate increase in the European Union for the ten-year period. As a result, natural population decline has slowed and the annual 1.25 fertility rate in 2010 – the lowest in the EU – has significantly improved. With a 1.57 rate for 2019, Hungary has reached the mid-range of EU countries, producing the best value in the past 25 years. The year 2020 is also encouraging, producing the second highest birth rate in the past decade, notwithstanding the coronavirus epidemic. The trends project even better results after overcoming the epidemic.

### Family support measures

In addition to a number of earlier, continuing family support measures, the **Family Protection Action Plan** launched in 2019 has provided substantial aid to more than 200 thousand families. From January 2021, the programme has been expanded with eight additional measures, so the amount of budgetary funds allocated to supporting families this year equals 5 percent of the GDP.

The **cash aid** scheme assisting families with small children (maternity aid, family allowance, child care allowance, child care fee, child raising support, child care fee extra) has been supplemented with the grandparent child care fee, and the amount of the infant care allowance has increased. Payment of the child care fee on behalf of grandparents – supporting the parents’ return to work – is available from 1 January 2020. The infant care allowance will be increased as of 1 July 2021 to 100 percent of

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<sup>13</sup> total fertility rate=2.1

<sup>14</sup> [demo find] Last update: 12-03-2021

<sup>15</sup> Source: STADAT - [22.1.1.1. Key population, population movement indicators \(ksh.hu\)](#)

income comprising the basis of the contribution base, so the benefit received by mothers will be higher than their former net salary.

Facilitation of acquiring an independent home is another key element of aids. Until the end of 2020, the Family Housing Subsidy Scheme has been provided to 157 thousand families with children for the purchase, construction or expansion of own homes. As of 1 January 2021, the **Home Creation Programme** has been expanded with additional elements, with planned budgetary funding of HUF 300 billion. The new home renovation aid provides significant assistance to even families with only one child; they may reclaim - without own contributions – one half of the cost of all exterior and interior works on their home for up to HUF 3 million. The necessary bank loans have a maturity of maximum 10 years, discounted notarial fees and 3 percent interest. The 27 percent VAT rate for newly built housing has been reduced to 5 percent, and it may be reclaimed for up to HUF 5 million in relation to land purchases serving own construction. The aids – combined with the family home-start subsidy – can be complemented with additional elements: the purchase of new homes can be fully exclusive of VAT and duties, while in response to public demand, aid corresponding to the Family Housing Subsidy Scheme provided for new homes is available for building in the lofts of multi-generational single-family houses, if these have a separate entrance and are converted to own property.

The **village Family Housing Subsidy Scheme**, launched in 2019, is aimed at improving the living conditions of families living in rural small municipalities; it was finalised in 2020 after gaining broader awareness, with 16 thousand families submitting applications. The subsidy may be used for the renovation and expansion of existing homes at 2,679 preferred small municipalities. Beneficiaries of the subsidy have to undertake that the property serve as residence or living conditions improve within 90 days from the last disbursement.

In addition to general programmes available to everyone, the Government also pays attention to **the special needs of specific groups**. To remove biological obstacles of having children, bolstering of the State-owned assisted reproduction centres has begun within the framework of implementing the National Human Reproduction Programme, and medicinal products and treatments used in infertility treatment have become free of charge. Development of the equipment and services of centres is a priority in the coming years. Within the framework of the Tiny Treasures of Hungary programme, a new form of service is established with the Child Expecting Houses to support pregnant women. A complex package of measures is being drawn up for single-parent families, single-parent children and step-families. To combat domestic violence, several preventive and victim-assistance programmes will be launched, such as the “Safe Outpatient Points”, “NO to domestic violence and human trafficking!” Additionally, in September 2021 an awareness-raising campaign will be launched to recognise the invisible work performed by women on the basis of the action plan prepared for the European Union, “Strengthening the role of women in the family and society”, for the 2021–2030 period.

**Other members of the family**, such as **young people and the elderly** will also receive special attention. Children’s meals and school supplies, driving licenses for those under the age of 20 are continuously supported, and people under the age of 35 may reclaim the fee of their first foreign language examination. These aids are complemented with tax exemption of the employment of young people under the age of 25 from 2022 for up to the amount of the national average wage. It may increase the income of 1 million young people in the 15-25 age group by up to HUF 500 thousand annually. Support of children reaching adulthood in acquiring basic skills and ensuring the possibility of tax exempt



employment contributes to enabling such children to lead independent lives as soon as possible. As a priority objective, pensions of retired family members should maintain their purchasing power and they should be able to independently enjoy a fair living standard. To this end, the gradual reintroduction of the 13th month pension (in 4 years) – providing significant assistance in the past – will begin in 2021.

The Government aims to facilitate the return of parents, particularly of **women to work with nursery and kindergarten programmes**, and **with financial support of parents** returning to work. The capacities of nurseries and kindergartens have therefore been steadily increased since the overhaul of these benefits in 2017: In 3 years, around 4 thousand and 7 thousand new places were created in nurseries and kindergartens, respectively. Thus, nurseries, mini nurseries and family nurseries had the capacity to receive 50 thousand children in 2020; similarly to kindergartens, the increasing number of places are encouraging a rise in enrolled children. Development of nurseries will be supported with future measures, within the framework of the HROP Plus, through the training of nursery employees, increase of capacities at State institutions and the further encouragement of establishing family and workplace nurseries, which provide more reserves. Owing to the rapid development projects of recent months, in early 2021, more than 53 thousand nursery places were available. Within the framework of the programme reducing costs of daytime care, to increase the number of children enrolled in nurseries, parents returning to work are eligible to receive financial aid from 2019 until the end of 2021, which has contributed to the return of over 3 thousand parents to the labour market up to early 2021. Daytime care for families with three or more children remains free of charge at both nurseries and kindergartens.

## 8 Poverty, social inclusion

Poverty indicators have improved significantly **in the past decade**; by 2019 **more than 1 million Hungarians have moved out of poverty**, therefore Hungary's commitment to achieving a target of 450-500 thousand people undertaken in 2010 in the National Action Plan in relation to the Europe 2020 strategy, relative to the 2008 base year, has been significantly surpassed. The share of the population exposed to the risk of poverty or social exclusion is decreasing each year; in 2019 this figure was 17.7 percent of the total population (1,695,000 people), 118 thousand people less than in 2018. Within this segment, all three sub-indicators improved further: in one year the share of income poverty decreased from 12.3 percent to 12.2 percent, severe financial deprivation declined from 8.7 percent to 8.0 percent, and the share of households lacking employment fell from 3.7 percent to 3.6 percent<sup>16</sup>.

The **income of families with children improved exceptionally well** even in European comparison. The *poverty rate of households with children* fell below 10 percent in 2019 (9.4 %) as a result of the Government's family policy measures (Family Protection Action Plan); such levels were observed only in four EU Member States in earlier years. The consumption of households with children increased by 7.9 percent at real value in 2019 (HCSO). The *number of people with severe material deprivation* decreased by 1,530,000<sup>17</sup> persons in the period since 2010. The improvement measured in the final

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<sup>16</sup> [https://www.ksh.hu/stadat\\_files/ele/hu/ele0001.html](https://www.ksh.hu/stadat_files/ele/hu/ele0001.html)

<sup>17</sup> [https://ec.europa.eu/eurostat/databrowser/view/t2020\\_53/default/table?lang=en&page=THS\\_PER](https://ec.europa.eu/eurostat/databrowser/view/t2020_53/default/table?lang=en&page=THS_PER)

year is essentially attributable to the sharp decline within the Roma population (from 43 % to 31 %). Within this indicator, the share of the population who are unable to sufficiently heat their homes is now under 5 percent, which is the second lowest level (after Poland) within the EU. Beyond rising incomes, the indicator's positive trend was supported by the regulation of household electricity and gas supplied under universal service by ministerial decree. (In comparison of European capitals, in early 2021, the price of electricity and gas was lowest in Budapest in the European Union.) As regards the third sub-indicator measuring poverty, the *share of the population living in households with low work intensity*, Hungary is in leading position in Europe, with only a few other countries (Czechia, Poland, Malta and Slovenia) managing to reduce the share relative to the total population to below 4 percent.

**The benefit and tax schemes encouraging employment are the most effective means of fighting poverty.** Opportunities to raise the standard of living, extending well beyond the welfare system are available to the 300 thousand people moving out of unemployment since 2010<sup>18</sup> and 100 thousand people moving out of social assistance<sup>19</sup>. Even without further intervention, the Hungarian minimum wage ensures that people working full time can take home at least net HUF 111 thousand, i.e. they can live above the current poverty line. Between 2014 and 2020, the share of the population living in Roma families with very low work intensity decreased by one third (from 45 % to 15 %) and, in parallel, the share of the Roma population living in relative income poverty nearly halved (from 68 % to 35 %).

In the past year (February 2021), **public employment** – offering a transition for people unable to find employment on the primary labour market, typically having only primary school education – provided wages for commonly 85-95 thousand people, which are significantly higher than aid substituting employment. Wages in public employment also increased from March 2021, therefore the above group can take home gross HUF 85 thousand for full time work, while workers with higher qualifications can take home gross HUF 111 thousand.

## Social security system

The **State redistribution system** effectively contributes to reducing poverty; after social transfers, by 2019 the share of the population with income below 60 percent of median income decreased to 12.3 percent, which is the 5th best value in the European Union. The social security system reduces the relative poverty rate by around 40 percent (from 20 percent before transfers), therefore, based on this indicator, this is the 10th highest level of State assistance in the European Union.<sup>20</sup>

The **focus of the social security system** – based on the above presented, leading poverty and employment indicators – has improved significantly; in 2019 fewer than 80 thousand people received minimum income benefits, and the number of unemployed in the 15-64 age group fell to around 160 thousand people. In 2020, despite the epidemic, only a limited increase was observed.

Steps were taken to **improve the adequacy of social benefits**. The forms of targeted benefits have been expanded; the children's home care allowance and exceptional disability benefit have been newly introduced. To facilitate the care of children with a long-term sickness, in 2019 the Government introduced the children's home care allowance, the amount of which (gross HUF 100 thousand) was

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<sup>18</sup> [20.1.1.2. Economic activity of the population aged 15–74 based on sex \(ksh.hu\)](#)

<sup>19</sup> [25.1.1.21. Income compensation social assistance \(ksh.hu\)](#)

<sup>20</sup> Eurostat ilc\_li02 and ilc\_li10 tables



even initially significantly higher than the care allowance. The children's home care allowance was raised in both 2020 and 2021, equalling over HUF 147 thousand as of February 2021. The goal is for the allowance to reach the amount of the prevailing minimum wage from 2022. It provides substantial assistance to around 20 thousand families. The amount of the nursing fee – received by more than 30 thousand additional families – was increased by 5 percent in both 2020 and 2021. The basic amount of the disability and rehabilitation benefits – provided as part of the health insurance system from 2012 to people with incapacity for work for health reasons – increased to HUF 107,540 in 2021, equalling the rate of the pension increase. The number of people receiving benefits between 2011 and 2019 was around 250-300 thousand, indicating a declining trend in recent years. Beyond the above, the amount of the nursing fee – received by more than 30 thousand families – was increased by 5 percent in both 2020 and 2021. Additionally, the exceptional disability benefit was introduced in 2018 for those lacking the minimum required insurance period.

**During the epidemic**, introduction of **the credit moratorium** in March 2020 provided immediate financial assistance in relation to around 750 thousand contracts. Extension of the moratorium at the end of the year was essential for social purposes, because in December families accounting for over 50 percent of the total retail credit volume still decided to accept the option of deferring payment of instalments.

### Programmes supporting convergence

Major targeted programmes funded by the EU (HROP, Operational Programme Supporting Deprived Persons (OPSDP)), with a total budget of around HUF 40 billion each, such as “Complex programmes aimed at eliminating segregated life situations” and “Support of deprived persons”, have been supporting **improvement of the lives of people struggling with sociocultural disadvantages, including, *inter alia*, the Roma population** for years. Several programmes also support improvement of the prospects of children, most of whom regularly receive child protection benefits, such as the Integrated Regional Child Programmes with a budget of HUF 15 billion and the “Solid Start Children's House” programme financed with over HUF 5 billion. The draft **Hungarian National Social Inclusion Strategy 2030** has been drawn up – under review – in line with the European Roma framework strategy, which builds on results achieved in the past ten years, the implemented institution system and instruments of convergence policies, also accounts for social problems arising as a result of the coronavirus, and sets the goal of combating poverty and the convergence of the Hungarian Roma population.

In line with the concept of the European Commission, within the framework of the **Long-term Programme for Converging Municipalities (PCM)**, the Government has identified 300 of the most disadvantaged municipalities in Hungary, where immediate social assistance is needed, and requested the Maltese Aid Service to coordinate the programme. The programme was launched in 2019 at 31 municipalities, and 37 additional ones were included in 2020. This year the inclusion of an additional 51 municipalities is planned. The Programme provides assistance, for example, in the renovation of dilapidated houses, health screenings, childcare, and even in basic agricultural production, in consideration of local particularities. During the epidemic it provides assistance in shifting to digital education and functions as a social crisis centre. Planned activities are defined in relation to specific municipalities, within the framework of so-called diagnoses, which are prepared with involvement of

local populations in a questionnaire survey. The programme was launched in two phases with HUF 2 + 4 billion. From 2021, with launch of the third phase, the focus will mainly be on improving living conditions under the RRP, with the above funds for the next six years.

Tenders of the **Hungarian Village Programme** mainly targeted development of public services available at rural small municipalities. In 2020 and 2021, the sub-programmes were jointly operated with a budget of HUF 75 billion and HUF 60 billion, respectively. Within the framework of tenders announced in early 2021, HUF 30 billion are available for the development of medical practices, kindergarten buildings, communal services, community spaces, employer-provided apartments, and the procurement of necessary equipment.

## 9 Education

In the years before the epidemic, Hungary was one of the fastest growing economies in the European Union. A competitive educational system, aligned to the needs of the 21st century is essential for maintaining economic development and strengthening social cohesion. **In the next years the Government is prioritising education**; major development projects and reforms await both public education affecting the entire population and higher education. Within the framework of the Action Plan for Restarting the Economy, an unprecedented development programme will be launched in Hungary to modernise higher education and improve its competitiveness.

### Development of infrastructure

To ensure availability of educational institutions laying the groundwork for quality education, with modern equipment, in the coming years the Government will allocate substantial amounts to developing the infrastructure of public and higher education institutions. Within the framework of the Modern Cities Programme launched by the Government of Hungary in 2015, between 2020 and 2022 a total of around HUF 140 billion are spent on institution development, capacity increasing investments, with HUF 101 billion provided by budgetary resources. In the 2020-2021 period, HUF 23.6 billion is spent on renovating classrooms (in 18 schools) in rural small and medium-sized municipalities, especially in disadvantaged regions, while HUF 11 billion are additionally allocated to developing gymnasiums and gym rooms (in 17 schools).

Within the framework of RRP development projects, digital tools aligned to needs of 21st century technology are provided to ensure conditions of equal access to digital education. By 2023, 324 thousand ICT devices will be purchased for use by students and teachers in public education.

### 9.1 Public education

Hungary has drawn up its **public education strategy for the 2021-2030 period**. The strategy defines the general directions of development in public education for the next decade to ensure that conditions for the long-term development of Hungarian society are established even within a changing

external environment. The **following five specific objectives serve the comprehensive goal** of the strategy and **implementation of equitable, modern and national public education**:

- Ensuring the internal balance of education;
- Development of human resources in public education, as State public service providers;
- Equitable public education that takes into account individual characteristics;
- Public education responding to challenges of the 21st century;
- Development of the education of Hungarians living outside of Hungary and ethnic minorities in Hungary.

### Policy measures

The strategy states that in the course of developing the knowledge, skills and capabilities of young people, successful management of future challenges, adjustment to changing labour market demands and the external environment is possible if in addition to passing on knowledge, schools also focus on the application of learned knowledge, and development of creativity, problem solving, contemplating thinking and health conscious behaviour. The **modified National Core Curriculum (NCC)** launched during the 2020/2021 academic year reflects this recognition. The objective of the new NCC is to make education more modern, effective and successful. The general and detailed examination requirements for the secondary school diploma will be revised from the spring examination period of the 2023/2024 academic year, resulting in **greater emphasis on students' creativity and independent problem solving skills**, with textbook knowledge replaced by exploration of correlations and active problem solving. New forms of assessment will therefore be introduced in relation to several subjects; at medium level, projects may also be prepared for science subjects (geography, chemistry, biology, and physics). In the above case, in place of traditional practical examination exercises, students complete a project during the school year, which they have to defend at the final examination.

Within the framework of the RRP, a programme supporting the pedagogical application of procured digital education equipment and related methodologies, aimed at encouraging and motivating teachers will also be implemented, contributing to integration of **digital education methods** in day-to-day educational practice. By 2022, around 3 thousand teachers will have participated in the incentive programme supporting the pedagogical application of digital education equipment and methodologies.

The success of educational systems primarily depends on **teachers**, it is therefore essential to raise the level of their competence and appreciation. The teacher promotion scheme introduced in 2013 served this purpose, as a result of which teacher wages increased by an average of 50 percent between 2013 and 2017. From July 2020, recognition of the work of around 170 thousand teachers was further enhanced with the 10 percent sectoral professional supplement introduced by a decision of the Government. School management carries out an important function in the efficient operation of schools and the further raising of their standards. To encourage management performance, the managerial supplement of heads of institutions and their deputies was introduced in 2020 for 6 thousand heads and 9 thousand deputies.

### Equal opportunity, desegregation

In Hungary, the public function of developing, publishing and distributing textbooks is carried out by the State. The final phase of the free supply of textbooks, operated in a scaled system, was implemented in 2020, so **from 2020, all students in public education will receive textbooks free of charge**. In the 2020/2021 academic year, the free supply of textbooks also applies to grades 13–16 in vocational training, for acquiring the first professional qualification. The Government provides HUF 13.8 billion annually for the programme. Additionally, the majority of special educational, conductive educational institutions were eligible to receive HUF 15 thousand for each child with special educational needs, for the purchase of textbooks and textbook adaptations (commonly Braille), and development tools. In January 2021, the Government will additionally provide a total of HUF 44 million to vocational schools and skills development schools for purchasing equipment for professional, practical training. As a result of the measures, the families of around 1.2 million students are exempted from the burden of buying textbooks.

In the EU project implemented between 2017 and 2021, aimed at development of institutions at risk of early school-leaving students, public education equal opportunity action plans at operator level were drafted and underpinned, desegregation action plans were further developed in 2020 according to the new methodology provided within the framework of the project. Implementation of the action plans and development of a new training methodology aimed at preventing early school-leaving – expected to be applied by 240 institutions – will take place in 2021. Several positive changes indicate the success of the project. By the end of the 2019/2020 academic year, the rate of students at primary schools and grammar schools at risk of early school-leaving decreased by an additional one percentage point<sup>21</sup> compared to the previous year. The improved performance of students is also a positive development. According to results of the national competency test, reading comprehension and mathematics skills points improved in all measured grades over the last test, and the share of low performers also decreased upon comparison of PISA2015 and PISA2018 assessed results. According to the PISA2018 assessment, 19.1 percent of differences in performance are attributable to the impact of family background on school performance, compared to 21.6 percent in 2015 and 26 percent in 2009. Thus, **Hungary managed to improve the capability of education to create opportunities**; the impact of family background on students' school performance has weakened.

Another EU (HROP) project supports the development, quality assurance and accessibility of **methods serving the development of children** participating in integrated forms of education, **with special educational needs (SEN)**, and struggling with integration, learning, behavioural difficulties by bolstering the supporting role of special education institutions. In 2020 there were 476 thousand children receiving services of special pedagogic service institutions, and 2,523 students participated in developmental education. A total of 37 tenderers received aid within the framework of the project; most successful projects are still in progress.

From the 2020/2021 academic year, the **early signalling system** introduced to ensure the successful school progress of students **at risk of early school-leaving** is complemented with monitoring

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<sup>21</sup> The share of primary school students at risk of early school-leaving, participating in the project, equaled 21.3 % in the 2018/2019 academic year and 20.3 % in the 2019/2020 academic year. These figures are 4.1 % and 3.1 % in these two academic years in grammar schools (2nd semester data).

information on pedagogical supporting activities serving vulnerable, disadvantaged students. The share of students at risk of early school-leaving equalled 6.8 percent in 2020.

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 (“tanoda”) – financed by the central budget, assisting in the academic convergence of students – reach 5.5 thousand children annually. Within the framework of the Provisions Scholarship Programme, enhancing the success of disadvantaged primary and secondary school students, around 10.5 thousand students received a scholarship in the 2020/2021 academic year, and at least as many students may receive scholarships in the next academic year. 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 Roma young people in their university and college studies. In the 2020/2021 academic year, 327 students commenced studies in the special colleges.

From September 2020, **school guards** were posted in public education and vocational training institutions in a critical situation, where heads of the institutions request this to ensure uninterrupted teaching. Before beginning work, guards participated in a 120 hour training course also covering complex, pedagogical and psychological knowledge, concluded with an examination. School guards are present in 450 public education and vocational training institutions. Based on the feedback, almost all institutions are very satisfied with the work of school guards.

## 9.2 Higher education

Overhaul of higher education is a matter of national strategy; in the coming years, the **Government plans to make higher education the engine of the economy**. A number of major development projects have been implemented within the framework of the RRP aimed at the structural reform of higher education. The goal is to develop an institution system that is more open to the needs of the economy, which cooperates more effectively with companies, with the aim of laying the groundwork for the competitiveness of Hungarian universities. The modern, inclusive and high-quality higher education system evolving as a result of development will become sustainable and capable of providing immediate responses and interventions during a future economic crisis. The Government’s goal is for Hungarian universities to be ranked among the world’s 500 best universities.

### High-quality, competitive higher education

A **model change** is a key element of overhauling higher education; its general purpose is to ensure that universities can respond flexibly to local social and economic development needs by providing the training, research and innovation background necessary for the competitiveness of Hungary and the given regions. By way of the model change, the legal status and operating model of universities will change, and the given public functions will be organised within a regulatory framework outside of public finances. The infrastructure directly necessary for performing functions will be transferred to the ownership of universities, while operator rights will be transferred to asset management foundations established for this purpose. The financing of higher education institutions will change; the basic principles and guarantees of funding functions related to core activities in higher education, and rules of cooperation are set out in long-term framework agreements of a term of minimum 15,

maximum 25 years between the State and the operator. The measure contributes to improving the liquidity of higher education institutions.

The **sectoral modernisation of higher education** will also be implemented within the framework of reforms under the RRP, aimed at overhauling universities. The planned measure aims at reforming the training system of higher education with a focus on practical training in prioritised fields, the establishment of cooperation with vocational training in certain fields, and reinforcing the further training, upskilling and retraining schemes in higher education, aligned to demands on the labour market.

In addition to ensuring competitive knowledge, another important goal of higher education is to support and nurture highly talented young people to help them make the best of their talent. Tenders of the **National Talent Programme** with funds of HUF 3.3 billion in 2020, aimed at fulfilment of these objectives, enable the long-term, continuous support of around 2 thousand young people.

Within the framework of the **technical support instrument** (TSI) of the European Commission, the Ministry for Innovation and Technology launched a project under the title “**Planning and experimental elaboration of support services for improving the internal quality of Hungarian higher education institutions**”. Within the framework of the project implemented with external expert assistance, standards and processes relevant and applicable in Hungarian digital higher education, and quality assurance services are defined, and higher education institutions receive funding for application of these.

### Globalisation of Hungarian higher education

Demand for globalisation has significantly increased in recent years in Hungarian higher education. Among the 24 university associations successfully participating in the tender launched by the European Commission for establishing the **European University Association** within the framework of the **Erasmus+** programme, 6 projects had Hungarian participants (Budapest University of Technology and Economics, Semmelweis University, Szent István University, Széchenyi István University, University of Theatre and Film Arts, University of Debrecen), which is a high rate. The Ministry for Innovation and Technology (MIT) provides an average 20 percent own contribution in relation to 5 State universities and 1 university operated by a foundation. In 2020 consultations began with Hungarian members of international university associations awarded tender funding. The monitoring of projects and drafting of necessary legislation will take place in 2021.

To ensure flexible implementation of **international joint training**, Act CCIV of 2011 on national higher education has been amended in relation to procedures involving the launch of bachelor, master, and higher level training. **Flexible regulation in force from 31 July 2020** enables the launch of several international joint training programmes, contributing to the globalisation of higher education and to raising the standard of education.

Based on the decision of the Government, Hungary has joined the European Quality Assurance Register for Higher Education (EQAR). **As of 1 January 2021, Hungary is governmental member of the EQAR general assembly.** As a result of the measure, this field will be able to substantially influence the quality assurance policies of the European Higher Education Area.

## Covid-19 epidemiological measures in education

The coronavirus epidemic imposed new tasks on the educational system. In response to the state of danger, from the middle of March 2020, the Government introduced a new **digital work schedule** for educational institutions, outside of classrooms, and classes again switched to a digital work schedule in the second wave of the epidemic in the autumn of 2020. To support education outside of classrooms, in March 2020, more than 80 so-called smart textbooks – developed in recent years – became available to everyone on the National Public Education Portal. TV programmes broadcast on public TV channels, produced for different age groups, also supported the school progress of students. The Digital Pedagogical Methodology Centre assists digital teaching held outside of classrooms with a comprehensive pedagogical knowledge base and webinars.

From November 2020, students and teachers participating in secondary education **receive free internet service** – if requested – for the duration of digital teaching, and from March 2021 in relation to primary education. So far around 100 thousand subscribers used free internet service.

During the first wave of the epidemic, operators assessed the **equipment needs** of students and teachers. As a result, in the spring of 2020 the Government provided assistance for procurement of around 8 thousand pieces of equipment; these were delivered to schools through the operators. At the end of 2020, the Klebelsberg Centre additionally purchased 18 thousand items for such purpose. Most teachers managed to learn use of digital tools and online platforms. By using the opportunity created by the new situation, many teachers achieved significant progress in learning new methodologies and competencies for using tools.

Mindful of the need for **supporting groups of disadvantaged students**, individual and small group consultations, and organisation of practical activities are still possible with observance of health safety measures. The Educational Authority has published a regularly expanded collection of methodologies for teachers and supporting specialists, which provides practical assistance for reaching and supporting groups of students at risk of falling behind in studies after introduction of online learning.

Taking into account the increase in pedagogical duties performed during the epidemic to assist progress in studies and prevent early school-leaving, during the 2020/2021 academic year, teachers and educational support staff involved in educational work in the most disadvantaged municipalities received a one-off bonus. The bonus was provided to 9,700 teachers and educational support staff.

In consideration of the state of danger, the Government exempted – by decree – all students from the obligation to pass the foreign language examination required for receiving the diploma, who passed the final examination by 31 August 2020.

To avert the risk of not continuing or not started studies resulting from negative financial effects caused by the pandemic, students in higher education are eligible to a one-off, any purpose, **interest-free credit** of HUF 500 thousand (“Student Credit Plus”).



## Role of higher education in protection against the epidemic

Within the framework of protection against the coronavirus epidemic, **students participating in medical and health science training may be posted to perform tests set out by government decrees.** Posting is performed with cooperation between universities and government offices, with 6 participating universities. Students receive a work fee for the duration of posting, which is exempted from tax, contributions and social contribution tax. Students also carry out voluntary activities at the National Ambulance Service, for which they receive a public life scholarship. The H-UNCOVER national representative survey was conducted between 1 May and 16 May 2020, managed by Semmelweis University, with participation of the University of Szeged and University of Pécs, cooperation of the Hungarian Central Statistical Office, and support of the Ministry for Innovation and Technology, for the purpose of creating an objective, cross-sectional view of the national spread of the epidemic and the true number of people infected and incidence of the coronavirus.

### 9.3 Vocational training

With enforcement of the Vocational Training Act, development of the new institution system of vocational training – launched in September 2020 – will be continued. The goal of reform is to enhance the appeal of vocational training, widen the scope of participants in dual education, develop the training workshops of vocational training centres, and to strengthen the key competency development capacities of vocational training institutions, thereby contributing to reducing the number of early school leavers without diplomas.

The institutional structure of vocational training has changed since September 2020. In the summer of 2020, the **institution system of vocational training** was adapted to the new legal framework entering into force at the beginning of the year. The 2020/2021 academic year commenced at 46 vocational training centres with more than 500 new vocational training institutions. The vocational grammar schools providing 4+1 years of training were replaced with technical schools (“technikum”), which jointly provide a secondary school diploma and technician certificate to young people within the framework of 5-year continuous training (in professional and general knowledge). Additionally, young people can learn professions in 3-year vocational schools. Interoperability is ensured between the two forms of education. As means of facilitating the transition from the technical school to higher education, the professional examination taken in technical subjects at technical schools is equivalent to the advanced level secondary grammar school diploma in the admission procedure. As a result of the reform, significantly more people are choosing technical schools and vocational grammar schools, reaching the number of students choosing grammar schools. In 2020, the number of students applying to technical schools and vocational schools increased by 16 and 11 percent, respectively, over the previous year: **approximately 88 thousand new students commenced studies in vocational training, with 68 thousand students receiving a scholarship** in the new vocational training system. In relation to the above, over HUF 11 billion in additional benefits is provided annually to vocational training participants. **Between 2010 and 2019, the number of students in dual vocational training also rose significantly, from 48 thousand to 66 thousand.** In the 2020/2021 academic year, 258 thousand students are participating in vocational training.

**The structure of qualifications was simplified as of September 2020;** the National Qualification Register (NQR), which previously consisted of more than 600 qualifications, is replaced by the **Vocations Register** consisting of 175 vocations taught in the school-system education. The new Vocations Register is adapted to the needs of the modern digital age, ensuring interoperability among vocations. Training at technical schools and vocational schools commenced in September 2020 on the basis of training and output requirements, programme curricula drawn up according to EU norms. Professional training courses in adult education may be launched from January 2021 on the basis of 363 additional programme requirements (training under the old NQR system could be launched for the last time in December 2020). Establishment of the Vocations Register – laying the foundations of the new structure of qualifications – is the result of the joint work of sectoral skill councils operating with involvement of economic operators, economic chambers and the ministries concerned.

Following the sector-specific basic exam, students may participate in specialised block education at dual training establishments (knowledge centre, sector-specific or corporate training centre). Reform of the **vocational training scholarship scheme** is a central element of changes. From September 2020, general **vocational training scholarships** have been introduced for students at vocational schools (equalling HUF 8,000 a month at technical schools, during sector-specific basic training, and HUF 16,000 at vocational schools). Within the scaled system, all students participating in sectoral basic education and specialised education, studying at vocational training institutions are eligible for scholarships, which is replaced, in dual education, by wages based on a **vocational training employment contract** (participants of dual education can expect 25-60 percent of the minimum wage, which may even reach 100 percent in the final year). Students successfully completing training and acquiring qualification are eligible to receive the **one-off career-starting benefit**. As of April 2021, the incentive scheme is also complemented with the **Student Credit scheme**, available in the past in higher education, which has been **expanded** to vocational training and adult education with a projected budget of HUF 13.3 billion (accounting for 29 thousand new applications). The any purpose Student Credit Plus product – introduced because of the epidemic – is also available in relation to adult education undergoing structural reform to ensure that commenced studies are not at risk (the total requested amount of the latter equals HUF 18.5 billion together with higher education, available until July 2021). Companies participating in dual education are still eligible for **tax exemption in relation to students** participating in apprenticeships, which may be increased with involvement in successfully preparing students for professional examinations (by an amount equalling 20 percent of the tax benefit claimed in relation to vocational training employment contracts). To **ensure conformity with requirements of dual education establishments and bolster corporate participation**, a vocational training centre may establish a sectoral training centre – operating in the form of a company – with several economic operators. **Development of the infrastructure and equipment of sectoral training centres**, and the programme supporting related training will be implemented with HUF 8.6 billion in the period from August 2020 until the end of 2022. To distribute training activities, knowledge centres and corporate training centres may also be established in cooperation with higher education institutions.

It is necessary to have available teachers with adequate qualifications to operate more effective and practice-oriented dual vocational training. To this end, from July 2020, the employment of teachers of vocational training schools is replacing their legal status as public servants. The **wage raise** and assessment scheme **of teachers** is a key element of vocational training reform. HUF 35 billion are available to raise wages and hourly rates, allowing a 30 percent average wage raise for 32 thousand

teachers working in vocational training. The new teacher system ensures flexibility for agreement between the employer and employees; a **teacher assessment scheme** was introduced to support the above. The vocational training system will be monitored by a quality control system set up by vocational training institutions on a mandatory basis, as well as by a mandatory external audit conducted every 5 years.

In the European Union an average 10.2 percent of students terminate studies early; in 2019, Hungary had a higher share (11.8 percent) of students dropping out of the educational system without a diploma. **To reduce early school-leaving**, several new measures have also been introduced in the context of this new system. The competence assessment of pupils in 8<sup>th</sup> grade helps them make the right choice in terms of where to continue studies in secondary education, while vocational schools have the possibility to organise a so-called orientation development year before starting vocational education. The **Leap Programme and workshop school training** serves convergence of students at risk of early school-leaving from September 2020, providing a new chance for young people dropping out of the traditional educational system. The Leap Programme enables development of basic competences necessary for people not completing primary school; workshop schools may be attended after completion of the programme. The workshop school represents a new approach to vocational training: a professional and a pedagogical mentor support the training of students until they acquire partial qualification. The Leap Programme will also be available in adult education, mainly offered to students not completing 8th grade, but over the age of 16. The new type of workshop school training is already provided in the form of a pilot project at nine vocational training institutions and two religious, charitable organisations. Experience gained so far suggests that workshop schools offer an effective and gap-filling option.

In parallel to restructuring vocational training, **adult training is also reformed**. In adult vocational training, schools will introduce shortened training periods – taking into consideration already acquired knowledge – and will strengthen new forms of education, including the possibility of e-learning. In adult education for the labour market, education and examinations are separated, and qualification exams can be taken at accredited exam centres. In adult education, qualifications listed in the Vocations Register (vocations that can only be taught in the school-system), including sub-vocations, advanced vocation levels and qualifications with registered training programme requirements, may be taught. The system was launched in the autumn of 2020. Adult educational activities will become more dynamic and flexible in relation to training based on programme requirements defining the substance of vocational training courses. Within the new legislative framework, the State enables the acquisition of two vocations and one qualification in relation to studies pursued at vocational training institutions free of charge (persons with a secondary school final examination or diploma may also study with State aid), which also supports the retraining of adults struggling with employment problems.

The programmes set out in the RRP are related to the comprehensive reform of vocational and adult education launched last year. With regard to needs of the new examination system in reformed adult education, a central examination centre equipped with state-of-the-art equipment, with nationwide access, will be established. As a key element of the **complex overhaul of the system**, vocational training institutions operated by the State, teaching four fifths of students, should be able to provide an attractive learning environment capable of responding to labour market demands. Within the framework of the complex programme aimed at development of vocational training institutions, the energy development of buildings of fifteen institutions will be implemented with use of renewable

energy sources, and in the course of developing school workshops, IT and other physical equipment will be procured to support vocational training.

## 10 Health care

The recent period in health care passed with combating the coronavirus. Similarly to most countries around the world, in 2020 and 2021 the Hungarian health care system was put to an unprecedented test in managing the impact of the epidemic. Related efforts are supported by the Government with priority funds: In 2020, a total of HUF 1,127 billion in additional funds were reallocated to health care from the epidemic combating fund and the economic protection budgets, beyond those provided under the Budgetary Act. This budget provided funds for the procurement of health equipment, infrastructure development, job retention and the creation of new jobs, as well as the one-off HUF 500 thousand benefit provided to health care workers. In 2020, total health expenditures approximated HUF 3 thousand billion. The health insurance and epidemic combating funds appropriated for 2021 also amount to HUF 3 thousand billion; these are not limited and may thus be exceeded, if necessary. Notwithstanding the exemplary performance of health care workers, the epidemic has revealed, more than ever before, the deficiencies of the health care system and the general poor health of the population. These developments accelerated the reform measures already planned by the Government and prompted the health care system to take new steps that may ensure its resilience against similar potential crises in the future.

In 2018 the Government adopted the **five National Health Programmes for the 2019-2030 period**, aimed at the comprehensive overhaul of health care; these cover diseases with relevance for public health – vascular, tumorous, locomotive, mental, and paediatric diseases – affecting most of the population in Hungary. Beyond prevention, diagnosis and therapy, the programmes also extend to institutional structures, research and education. **The coronavirus pandemic has drawn attention to the need for drafting a new national health programme – the National Communicable Disease Control Programme.** The new programme plans implementation of a national communicable disease control system, and provides a high-level structure, infrastructure, human resources and professional knowledge for overcoming the COVID-19 epidemic, and for the prevention of future epidemics, related treatment and rehabilitation.

The **“Healthy Hungary 2021–2027”** sectoral health strategy for the next seven years has been completed in early 2021; its inter-ministerial coordination is under way. The programme aims to implement the comprehensive reform of health care on the basis of 6 objectives: 1. Healthy start of life and protection of children's health; 2. Promotion of a healthy lifestyle; 3. Reduction of the burdens of chronic diseases through professionally well-founded health development and prevention services; transparent, healthy clinical pathways; 4. Protection of the population from epidemics, environmental hazards; 5. Improvement of the health of disadvantaged populations; 6. Reinforcement of the public health system.

The **extraordinary challenges posed by the coronavirus epidemic also created opportunities for change**, leading to the **structural reform of the health care system** launched in 2020. Beyond

budgetary resources, implementation of the reforms also significantly relies on RRF funds and other EU funds.

## Measures aimed at overhauling the health care system

### Health care system

Experience related to managing the coronavirus epidemic underscored the vulnerability of the current health care system. As the key element of the new management system, the **National Directorate General for Hospitals (NDGH) was established** in November 2020 as a central office with a separate budget, also taking over functions of the earlier National Healthcare Service Centre (NHSC). The NDGH is responsible for monitoring the operation of the health care system, laying the groundwork for strategic government decisions relating to its review; in this process it takes part in developing a single and transparent new national health care management system. Within the scope of its diverse functions, it enforces, or – by also providing methodological assistance – procures enforcement of and verifies fulfilment of requirements relating to public functions, and the regular and efficient management of resources.

**The financing structure of health institutions will also change.** As opposed to current area-based distribution, more flexible, dynamic, **case-based financing frameworks will be introduced**, which follow patient movements and professional particularities. The projected annual budget is based on the assessment of case numbers of the previous year. In contrast with distribution in the past, the new financing structure is even more adapted to monitoring patient needs and the performance of service providers, enabling payments by the health insurance body based on actually performed work. The reform of the public financing structure adapted to actual health care needs improves the efficiency of allocation, resulting in substantial progress in the sustainable management of institutions carrying out additional functions.

To ensure professional support for enhancing the efficiency of health care financing, in the 2021 period of the technical support instrument of the European Commission, the Ministry of Human Capacities submitted an application entitled “Joint improvement of the efficiency and quality of health care services”. The project aims to test the possibility of introducing batch financing methods, integrating several levels of care, and the drawing up of a new concept relating to national (qualitative) management.

### Human resources

The Hungarian health care system is **struggling with enormous challenges** relating to human resources; **the profession is ageing at a rapid rate, and there is significant outward migration of young and middle-aged physicians.** The Government is attempting to reverse the negative trend with wage raises, surplus financing of the basic health care system, and by improving the working and living conditions of rural general practitioners. The Government has raised physicians’ wages in several steps in recent years, which has moderately reduced their outward migration, but continuation of this process is essential. As an encouraging sign, in the 2015 and 2020 age structure, the number of new generation physicians in the 25-29 and 30-34 age groups is increasing. If efforts to keep younger

physicians within the health care system are successful, the distribution of age groups may even out in 20-25 years, putting an end to the years-long trend of a shortage of physicians.

**Act C of 2020 on health service status (“Health Service Status Act”)** entered into force on 1 March 2021 to resolve the problem; it provides more transparent employment conditions for physicians entering into a contractual relationship, and an unprecedented wage raise implemented in three phases. The Government has planned a budget of HUF 300 billion for implementing the phased wage raise programme. The act regulates in detail the employment of health care workers; under such regulation, health care activities may be carried out by health care providers only within a legal relationship of health service. Workers employed by health care providers operated by the State or local authorities on the effective date of the act, who agreed to the new legal relationship, fall within the scope of the act. The act is applicable to public servants working in both primary care and specialty care. Pursuant to a milestone provision of the act entering into force on 1 January 2021, the provision and acceptance of informal payment constitutes a criminal offence. The **elimination of informal payments** from the system ensures equal access to health services for all Hungarian citizens.

**In a separate decision<sup>22</sup> the Government is providing HUF 96.1 billion in additional funds in 2021 to people working in general medical practices**, affecting around 18,400 physicians, dentists and health care professionals in primary care with a total financing requirement of HUF 96.1 billion in 2021. The wage subsidy will first be paid in early April 2021, retroactively including January 2021; its amount is adjusted to physicians’ and health care professionals’ pay grades, therefore the amount of subsidies will increase from 1 January 2022 and 1 January 2023 (a wage raise valid from 2022 has been resolved in relation to health care professionals).

### Measures supporting development of primary care

The health of the Hungarian population is not in a good state; despite an increase in both life expectancy at birth and in healthy years in recent years, the figures are still below the EU average. The Government aims to promote a healthy lifestyle, ensure the availability of screening to the extent possible, and improve the accessibility and quality of primary care. To fulfil these goals, the **boosting of the primary care systems – with a focus on public health – is a central element of the new sectoral strategy**.

The Government’s primary objective is to **establish and expand at national level general practice partnerships** in primary care. The government decree relating to general practice partnerships<sup>23</sup> is an important step in this process; it defines their legal and organisational framework, their forms of operation and membership requirements. The general practice partnership is voluntary horizontal cooperation between general practitioners with general practice rights, which may also include additional employees. The purpose of general practice partnerships is to ensure that only patients who cannot be treated in primary care are admitted to outpatient or inpatient care. To this end, it is possible to provide auxiliary services, which general medical practices would not be able to independently provide (e.g. physiotherapist, dietician, psychologist, preventive nurse, public health coordinator). General practitioners in general practice partnerships **have to provide dedicated office hours for**

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<sup>22</sup> Government Decision No 1848/2020 (XI. 25.)

<sup>23</sup> Government Decree No 53/2021 (II. 9.) on general practice partnerships



**prevention** that facilitate early diagnosis of diseases. With early diagnosis of diseases, treatment may also begin earlier, leading to an increase in the number of healthy life years.

Currently there are 117 general practice partnerships; the establishment of at least 210 partnerships until the end of 2021 and 610 partnerships until the end of 2024 is planned. The establishment of **mobile modular general medical practices** contributes to reducing inequalities in access; these help general practitioners of general practice partnerships to provide necessary care even in relation to medical practices that are vacant in the long term. In the on-call duty system of general practitioners, the differentiated increase of territorial multipliers offers a possibility for resolving acute problems. Based on the differentiated increase, remuneration of service providers providing on-call duty care in municipalities with less than 3 thousand inhabitants will increase by around 50 percent, and by over 35 percent in municipalities with less than 20 thousand inhabitants.

The bolstering of health care near homes is a top priority in the development of the health care system. To this end, funds are reallocated for primary and outpatient care. In 2021, the Government appropriated HUF 117 billion for developing general medical practice infrastructure.

## Prevention

**Public health screenings** represent the other cornerstone of primary care and prevention, which are carried out in Hungary as part of the National Cancer Control Programme. There are two key national screening programmes: *colon screening and the “Local Provision of Screening Examinations” programme*. The results are very encouraging: up to early February 2021 (since November 2018) an **Agreement on Cooperation was concluded on performing colon screening** with 1,770 general practitioners and 55 gastroenterological laboratories. The distributed unit packets were received by 258 thousand people within the framework of the programme. Among them, 226 thousand people have already sent samples to the laboratory of the National Public Health Centre. Under the “Local Provision of Screening Examinations” programme, in 2019 more than 10 thousand people in 128 municipalities underwent examinations in the screening buses, including 2,329 people in the 31 most disadvantaged municipalities. In 2020, around 5 thousand people in 66 municipalities, including 2,740 people in 35 converging municipalities, were examined. Due to the COVID-19 epidemic, **currently the testing buses carry out rapid virus testing and PCR screening, such as the mobile sampling stations of the National Ambulance Service (OMSZ)**.

Within the framework of the **Healthy Budapest Programme**, in the course of 5 years (from 2019 to 2024), the Government is adding HUF 10 billion in aid to the existing HUF 40 billion budget of districts of the Local Authority of Budapest to support programmes aimed at the early diagnosis and early treatment of tumorous diseases.

The **encouragement of Hungarians to lead healthy lifestyles** is a prioritised government objective aimed at preventing civilisation diseases caused by a lifestyle involving little exercise and at reducing the rate of existing diseases, including childhood obesity. The Government aims to ensure that all age groups can access sports opportunities in Hungarian municipalities; to this end new school gymnasiums, learner pools and sports parks have been built in Hungary in recent years as part of



prioritised investments. In 2021, **60 sport investments<sup>24</sup> will be implemented around Hungary with budgetary funds** of HUF 425 billion; these include 5 national, large-scale sport investments, 17 gymnasiums, 17 learner pools, 5 handball halls, 11 sports parks, 5 military sport centres. At least **20 sport investments** will be additionally implemented in cities **as part of the Modern Cities Programme** with HUF 328 billion in State funds.

### Investment and innovation in the health industry

**Digitisation of the health industry is a key priority in the Hungarian health care sector**, as a modern and well-functioning health care system is inconceivable without the widespread use of **e-health solutions**. The health component of the RRP details the health digitisation project plans. The main objective of health digitisation projects is the use of information and communication technologies in prevention, diagnostics and patient care, and to improve monitoring, including system development enabling the remote health monitoring of the elderly. The **health care system will be coordinated**, operated on a rational basis and developed **within the framework of the Strategy for the Digital Development of the Health Industry**.

After the outbreak of the coronavirus epidemic, the multi-stage drafting of the legislative background of telemedicine care – not requiring the personal presence of patients – commenced. In April 2020, the Government adopted a decree on certain health measures ordered during the state of danger<sup>25</sup>, which enabled remote consultations in practice. In the autumn of 2020, at the start of the epidemic's second wave, the decree of the health administration regulated in detail the legal framework necessary for the long-term availability of telemedicine<sup>26</sup>. In early 2021, during the third wave of the epidemic, the Government adopted another decree on telemedicine<sup>27</sup> enabling facial image identification during the state of danger, based on video technology. By establishing options for telemedicine, the rate of contact by telecommunications significantly increased during the COVID-19 epidemic, raising the number of physician-patient contacts in certain areas of specialty. After the epidemic, telemedicine may also contribute to improving the service capabilities of areas struggling with difficulties of access, and to patient safety in the longer term.

The coronavirus epidemic drew the attention of the Government to the need of establishing Hungarian manufacturing capacities for critical health equipment. Therefore, in response to the epidemic, the Government of Hungary launched the **Health Industry Aid Programme** with the aim of developing production of pharmaceutical products and medical devices in Hungary through more manufacturing facilities and improved efficiency. The programme is not merely a response to the current crisis, but a part of the Government's long-term economic policy plans aimed at **preparing the Hungarian health care system for post-epidemic times**, to ensure it is not exposed to international markets in case of potential future epidemics and health emergencies. The first pillar of these plans is the HUF 50 billion budget appropriated by the Ministry of Finance, providing non-refundable aid for the investments and development projects of Hungarian enterprises. By way of the corporate investments implemented through the Programme, in a matter of a few months, Hungary became self-sufficient in masks and

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<sup>24</sup> As at 23 April 2021

<sup>25</sup> Government Decree No 157/2020 (IV. 29.)

<sup>26</sup> Decree No 33/2020 (IX. 16.) of the Minister of Human Capacities

<sup>27</sup> Government Decree No 57/2021 (II. 10.)

gloves, followed by production of Favipiravir, the tablet used to fight the coronavirus. By shifting the production of the companies concerned, the investments also contributed to retaining a number of jobs. By building on Hungarian developer know-how and industrial capacities, the manufacture of ventilators in Hungary was launched in the autumn of 2020.

The **National Coronavirus Vaccine Plant** implemented in the industrial park of the University of Debrecen was declared a national economic priority by the Government. The plant – expected to be completed by the end of 2022 – will manufacture the Hungarian developed coronavirus vaccine and other vaccines. A Hungarian-owned state-of-the-art laboratory will also be established at the same location to ensure epidemiological security. The Government is allocating HUF 12 billion in Hungarian and EU funds to **establish the National Security Laboratory** to be built by the National Public Health Centre. As a unique leading institution in the region, it will have the task of identifying new, hazardous pathogens, to conduct immunological and disease progression research, and to participate in the testing of new vaccines.

## 11 Sustainable economy

### 11.1 Environmental protection

Hungary is committed to implementing a sustainable economy and to protecting the environment. To this end the **environmental policies of the Government focus on reducing environmental pollution, preserving biological diversity and on facilitating the transition to the circular economy**. To **professionally support** these objectives, the Ministry for Innovation and Technology (MIT), responsible for this area, has **initiated several projects, which have been approved within the framework of the structural reform support programmes (SRSP, TSI) of the European Commission**. The project aimed at drafting the National Circular Economy Action Plan was launched in 2020, and the project laying the groundwork for applying urban green/blue solutions was also launched. Both projects will be implemented until 2022 with expertise support from the OECD. **In 2021 two additional projects** will also be launched within the framework of the technical support instrument. The tender submitted in relation to **laying the groundwork for a governmental sustainability strategy** aims to draft the document preparing the governmental strategy based on the review of legal regulation in force, and to develop a related sustainability assessment scheme. The other project aims to lay the legal and financing groundwork for developing the **coordinated water monitoring system of Hungary**.

#### Measures aimed at reducing environmental pollution and at preserving biodiversity

The question of air quality is important not only in metropolitan areas, but also elsewhere, particularly in the northern and north-eastern parts of Hungary, due to the high concentration of particulate matter. The National Public Health Centre qualified the air to be unhealthy mainly in the northern part of Hungary and to be unsatisfactory in several large cities. By fulfilment of the EU obligations, in May 2020 the Government adopted the **National Air Pollution Reduction Programme**<sup>28</sup>. The complex programme sets out measures in relation to the agriculture, transport, industry and energy sectors,

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<sup>28</sup> OLP: Government Decision No 1231/2020 (V. 15.)

and households, the implementation of which ensures fulfilment targets for reducing pollutant emissions and is expected to improve air quality.

Measures aimed at reducing pollutant emissions include the paradigm shift in the procurement practice of the **public road operator**, which prioritises machinery with the lowest available emissions standard (EUR6) for procurements of both newly created engineering establishments and the replacement of used equipment. HUF 13.44 billion are available for ensuring sustainable and environmentally conscious corporate activities, with HUF 13.1 billion in State funds. Additionally, to protect the environment and nature, during the year, Magyar Közút NZrt. regularly also organises nationwide waste collection within the area of the national road network, for which a budget of HUF 4 billion is available as per the annual contract concluded with the MIT.

The 2016-2030 National Forest Strategy and the Kaán Károly Programme both support the reduction of effects of extreme climate change and the conservation of biodiversity, and assign top priority to **increasing forested land in Hungary**. Rendering areas suitable for forestation, which have lost their original function or are withdrawn from production, significantly contributes to fulfilment of targets set in the strategy, primarily for increasing national afforestation from 20.8 percent to 27 percent. Based on surveys conducted in 2020, from June 2021 until the end of 2024, the remediation of an area of ten thousand hectares may be carried out in an 850 thousand hectare area withdrawn from production. EU (EAFRD) funds are available for the programme with a total of HUF 25 billion in mainly State/local authority funds.

In line with the biodiversity strategy of the EU implemented up to 2030, targets and measures necessary for conserving or restoring biological diversity will be drawn up in 2021 within the framework of the **National Biodiversity Strategy**. Planning of the strategy's target system is in progress. Its draft version will be presented at a public conference after public consultations.

In the current long-term phase (2003-2030) of the **National Environmental Remediation Programme (NERP)** under way since two and a half decades, emphasis was placed mainly on rehabilitation of brownfield areas. In line with the 3rd areas of intervention of the EEEOP Plus, the necessary legislation and technical regulation (standards and directives) will be drafted, the RDI activities extended and the financing system of the NERP reformed until 2030. The total cost of remediating polluted areas and eliminating pollution sources exceeds HUF 1 thousand billion, requiring 30-40 years. The cost of remediation possible until 2030 is HUF 71.8 billion.

### Development of water management

The Water Framework Directive<sup>29</sup> (WFD) of the EU aims at attaining and conserving the good condition of inland surface waters and sub-surface waters. The **third review** of the **Hungarian river basin management plan** prepared for implementing the directive, in conformity with the EU obligation, **was completed in December 2020**. The river basin management planning process aimed at coordinating ecological, technical, social and economic criteria. Adoption of the plan relating to the 2022-2027 period is expected in December 2021, following public consultations and inter-ministerial

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<sup>29</sup> 2000/60/EC

coordination. The plan will be prepared not only for Hungary, but for the entire international catchment area of the Danube.

The protection and reasonable use of water reserves, and prevention of water damage is a priority of the Government of Hungary in the coming years, taking into account that as a result of climate change, growing areas of Hungary are exposed to the risk of drought and periodic floods. It is necessary to build main irrigation systems, new networks and systems.

During development of Lake Balaton's water management, the new operating framework of the tourism region – which is important even on a European scale – will be developed with HUF 37.7 billion in funds. The extension and further development of performed works (dredging, backfilling, regulation of bank protection, water quality protection) facilitates adaptation to climate change and laying the groundwork for reaching tourism targets.

An efficient and safe water supply is conditional on a water network infrastructure of adequate condition. Public consultations relating to the 2021-2027 National Public Water Services Strategy of Hungary are under way. HUF 228 billion in cohesion funds are available between 2021 and 2027 for development of the public drinking water and sewer networks within the framework of the EEEOP Plus. HUF 75 billion in national funds have been appropriated for development of main water supply system infrastructure.

### Measures aimed at transitioning to a circular economy

The transition to a circular economy is a key element of implementing the circular economy; the Government of Hungary has set the headline objective of facilitating such transition.

Waste management is a key area of the transition to the circular economy. Currently Hungary is underperforming with regard to the EU waste management objectives in relation to the share of both re-use and landfilling quantities. For laying the groundwork of the circular economy, a new **National Waste Management Plan** has been drawn up for the 2021-2027 period, for which HUF 72.6 billion in cohesion funds are available. Public consultations relating to the new plan will be held in the spring of 2021. In parallel with the adoption of the plan, the Waste Management Act was also amended in accordance with the Government's Climate and Nature Conservation Action Plan and Union directives, and selective waste collection and elimination of illegal landfills has also been expanded. The National Public Waste Management Plan was also completed in August 2020, which sets out directions of development of the Hungarian public service system relative to the 2019 base year and 2020 EU targets. The target for the quantity of total collected waste is 3.8 million tonnes in 2025 from 3.3 million tonnes in 2020, and 4.83 million tonnes in 2035. The necessary, proportionate targeted increase is significantly higher in relation to the quantity of separately collected waste: compared to the current quantity of 0.42 million tonnes, 1.33 million tonnes by 2025 and 3.14 million tonnes by 2035, which, compared to the current share of 13 percent, demands effective action for reaching the 65 percent share required by the EU<sup>30</sup>.

A HUF 43 billion State budget is available for the 2022-2026 period for the recovery of **industrial waste as secondary raw materials**. With the introduction of new technologies in Hungary, the treatment of 40 thousand tonnes of plastic waste is planned annually. In addition to supporting enterprises carrying

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<sup>30</sup> [https://nhkv.hu/wp-content/uploads/2020/09/OHKT\\_2021.pdf](https://nhkv.hu/wp-content/uploads/2020/09/OHKT_2021.pdf)

out the manufacture and distribution of plastic products with HUF 10 billion, preparation of the ban of single-use plastic products is under way.

The transition to the circular economy is also a priority in the Hungarian RRP plan; the Government plans to promote implementation of the transition by comprehensive reform in three areas: waste management, the industrial sector and wastewater treatment in small municipalities.

## Green financing

The National Bank of Hungary (MNB) has set the key objective of developing the green financial segment in Hungary and the orientation of funds in a green direction to support the ecologically sustainable development of Hungary. The professional preparation of the Sustainable Capital Market Strategy and Action Plan is under way within the framework of the SRSP project funded by the European Commission, with professional support from the EBRD and Deloitte. The main benefit expected from the strategy shaped on the basis of proposals put forward during the project is the increase of EU and Hungarian fiscal resources supporting implementation of environmental and energy policy targets with use of private funds of Hungarian capital market participants.

As a historical milestone, in 2020 the Government Debt Management Agency (GDMA) also issued **three green foreign exchange bonds**: In April a series valued at 1.5 billion EUR (approx. HUF 535 billion), with 15-year maturity, and in September two additional series, with 7 and 10-year maturity in the total nominal value of 20 billion JPY (approx. HUF 54 billion). Amounts collected from the green series are allocated by the issuer to finance and refinance certain green expenditures of the central budget: the planned development of buildings with high energy efficiency and installation of photovoltaic panels contributing to renewable energy consumption. By issue of the samurai bonds, in January 2021, Hungary received the Sustainable Finance Award in the international section of the non-profit Research Institute for Environmental Finance (RIEF), based in Tokyo, in the sovereign category. The economic press in Japan qualified the transaction as the third best samurai bond of 2020. In addition to government green bonds, the market of **Hungarian corporate green bonds** also grew in August. **Within the framework of the MNB Growth Bond Programme (GBP)**, CPI Hungary Investments Kft. was first to issue its first green corporate bond of a total nominal value of HUF 30 billion, with 10-year maturity.

The primary objective of the **Water Impact Private Equity Fund** – launched in 2019 – is water management, water and wastewater treatment, and the financing of clean technologies, where the positive social and environmental impact can be measured. By way of its investments, it supports innovative high-technology contributing to progress in resolving global problems in relation to agriculture, energy and efficient water management, particularly with regard to flood containment. The Water Fund is valued at HUF 5.5 billion, with ten-year maturity, consisting mainly of State funds.

## 11.2 Energy policy

In line with the 2030 climate targets and 2050 climate-neutrality targets of the EU, Hungary's energy policy is defined by the **2030 National Energy Strategy** adopted in early 2020, the **National Energy and Climate Plan, Act XLIV of 2020 on climate protection**, and the **Climate and Nature Conservation Action Plan**. The key objectives of Hungarian energy policy are the bolstering of energy sovereignty

and energy security, the climate-friendly transformation of the energy sector and maintained affordability.

## Energy production

Hungary aims to increase the share of carbon-neutral electricity production from the current 60 percent to 90 percent by 2030. It plans to achieve this through two sources: nuclear energy and renewable energy mainly from solar power stations. It is also making efforts to increase use of other available renewable energy sources, in consideration of the country's characteristics. Carbon-neutral nuclear energy accounts for roughly half of power generation in Hungary; this share can be maintained in the long term with the **Paks2** investment. The last of the currently operating units is expected to be decommissioned at the end of 2037, so only the two new units of the Paks Nuclear Power Plant – with a rated capacity of 1200 MW – will be operating in 2040. The facilities currently under the authorisation procedure are expected to be integrated in Hungarian power generation from 2029 to 2030. The new units built by Rosatom in the value of 12.5 billion EUR will save 17 million tonnes of carbon dioxide annually.

The lignite units of the **Mátra Power Plant**, accounting for 16 percent of power generation and 14 percent of CO<sub>2</sub> emissions in Hungary, will be gradually phased out and coal-fired generation shut down after 2025. The technological conversion of the power plant is built on four pillars; a 500 MW capacity combined cycle gas turbine plant and a 31 MW RDF/biomass-fired unit will be built, and a 200 MW photovoltaic park established in the recultivated areas of the two mines. For alternative use of lignite reserves, a pilot plant using clean coal technology will also be set up. The Ministry for Innovation and Technology and the competent executive agency of the European Commission signed a grant agreement in December 2020, with a total value of HUF 5.2 billion for implementing the “LIFE-IP North-HU-Trans” project within the framework of the EU's LIFE Programme. The project aims to implement the National Energy and Climate Plan, focusing on the sustainable and just transition of the Mátra Power Plant. Evaluation of challenges in the regions concerned, assessment and ranking of aid needs will be carried out within the framework of the Structural Reform Support Programme of the European Commission, on the basis of which the just transition plan – including customised policy measures – will be prepared.

The Climate and Nature Conservation Action Plan projects the sixfold increase of **solar power** capacities in the next 10 years, focusing on the promotion of building household small-scale power plants on roofs. Household solar power generation is currently also supported through subsidised loans and the system of net metering. The option of establishing new grid connections with net metering will cease as of 1 January 2024, with the introduction of gross metering. In the second round of the **METÁR tender** – supporting green energy – an overall amount of HUF 800 million was available. Subsidised investments may further increase environmentally friendly solar power station capacities, enabling the generation of a total of 343 GWh electricity annually from renewable resources. The overall amount of the EDIOP tender – targeting the use of renewable energy by micro, small and medium-sized enterprises, higher energy efficiency, supporting building energy development projects – increased to HUF 55.6 billion. Within the framework of the scheme, aid contracts have already been awarded in the value of more than HUF 28 billion. According to the forecast of the Hungarian Energy and Public Utility Regulatory Authority (HEA), installed photovoltaic panel capacities (PV) in Hungary will reach at least 6,000 MW by 2030, approximating 12,000 MW by 2040.



In parallel with increasing solar power capacities, major **grid development** will be implemented within the framework of the RRP aimed at integrating weather-dependent, renewable energy-based power generation, development of a flexible and secure electricity system to ensure that the power grid is capable of receiving generated energy and delivering it to customers.

**Geothermal energy is used in the district heating development** of a growing number of large cities (installed thermal capacity of 74.3 MW in Miskolc and 86 MW in Győr) in the past decade. Within the framework of the currently largest Hungarian project, with a total value of around HUF 22 billion, district heating in the city of Szeged is transformed. As a result of the project, expected to be completed in 2023, local geothermal energy will account for 50 percent of total district heating in Szeged, thereby reducing GHG emissions in the air of Szeged by 25 thousand tonnes of CO<sub>2</sub> annually.

As an innovation creating the basis for geothermal power generation, the world's first closed-circuit (mini) geothermal heat generating power plant was completed in Kiskunhalas and put into operation in March 2021, with funding from the NRDI, which was implemented in a dry well left behind from oil and gas drilling. Based on new **WeHEAT** technology (Wells for Heat Exchanging Advanced Technology), the cost-effective use of other decommissioned, existing deep holes will be possible in the future (there are 9,000 such potential holes in Hungary).

In 2020 the Hungarian Mining and Geological Service completed the **National Geothermal System** (OGRe), which provides authentic and up-to-date information and data on Hungary's geothermal energy reserves on a public online platform. It includes thematic modules and an interactive web map system, the latter also showing the physical properties of major thermal water source formations.

### Energy efficiency

On 1 January 2021, Hungary introduced the **energy efficiency obligation scheme**, and encourages use of energy efficiency based contracts, i.e. so-called ESCO-type financing solutions. The obligation scheme prescribes the introduction of programmes and measures for electricity and natural gas retail and universal service providers, businesses selling transport fuel that result in documented energy savings for end-users. Eligibility for a corporate tax benefit granted to businesses implementing investments and renovation serving such purposes also supports the increase of energy efficiency. With the introduction of the energy efficiency obligation scheme and modified regulation for verifying and monitoring alternative policy measures, a framework has been established that aims at fulfilling the European Union's key objective of increasing energy efficiency by at least 32.5 percent by 2030. The legislative act (Act CLX of 2020) introducing the energy efficiency obligation scheme also aims at eliminating obstacles and deficiencies on the energy market relating to the efficiency of the supply and consumption of energy.

To support **technological development and capacity building of micro, small and medium-sized enterprises** capable of serving energy efficiency development, in August 2020 a tender of an overall amount of HUF 10.75 billion was launched within the framework of the EDIOP Hungarian Multi "Green National Champions" programme.

**Improvement of the energy performance of buildings** is a key task in achieving the set targets. The main goal of the **Long-term Renovation Strategy** is for the national stock of privately and publicly owned residential and non-residential buildings to achieve 20 and 60 percent energy consumption



savings by 2030 and 2040, respectively, through deep renovation enabling sustainable, energy efficient and cost-effective operation, and for these to become decarbonised buildings with almost zero energy demand by 2050. Due to rules encouraging improvement of energy efficiency, it is necessary to comprehensively amend decrees on certification of building energy performance and on definition of building energy performance parameters.

The **“Warmth of Home” Programme** supports the improvement of building energy performance; between 2014 and 2020, more than HUF 70 billion of residential energy efficiency investments could be realized, with HUF 37 billion in non-refundable aid. The programme contributed to the energy modernisation of 310 thousand households, resulting in approximately 300 million kWh in household energy savings and a 140 thousand tonnes CO<sub>2</sub> emissions reduction annually. The credit programme supporting the energy efficiency of residential buildings and use of renewable energy was relaunched in 2021, with an overall amount of HUF 5 billion. The RRP appropriates substantial funds for modernising **residential heating systems**. In 2021 the Government is providing non-refundable aid of HUF 3 billion for modernising the heating of housing co-operatives and condominiums with district heat not yet equipped with regulated heating.

## 11.3 Transport

**The transport policy objectives of the Government of Hungary reflect efforts of the European Green Deal aimed at sustainable and intelligent mobility.** The measures focus on improving transport efficiency and reducing emissions, to be mainly achieved by development of the road network and public transportation, and the spread of alternative propulsion methods and digital technologies.

### Development of roads

The adequate level of development of transport infrastructure, including the road network, is essential for the competitiveness, regionally balanced development of Hungary, and its integration in European economic circulation as deep as possible. A developed road transport infrastructure also contributes to improving traffic safety and to reducing road transport emissions through shorter travel times. Recognising the above, Hungary has placed major emphasis on expanding and developing the road network for many years; as a result, the length of motorways and motor roads in 2019 exceeded 2,000 km (2,076 km)<sup>31</sup>, which is the 6th longest expressway network in the European Union.

The **Road Programme** launched in 2016 aims to ensure by 2024 access to all cities with county rank in a high-quality road network, extension of expressways up to the national borders and their connection to the international expressway network, and access to the 2x2 lane (expressways and main roads) road network within 30 minutes from any municipality in Hungary. In December 2020, after collection, review and professional assessment of **prioritised social needs** – in line with goals of the Road Programme – the Government adopted **74 additional road development projects** (Social Needs-based Road Development (SNRD)). In 2020, road development at a length of 180 km has been implemented, and an additional 135 km is expected in 2021 within the framework of the Road Programme and SNRD

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<sup>31</sup> Eurostat (2021):

[https://ec.europa.eu/eurostat/databrowser/view/ROAD\\_IF\\_MOTORWA/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ROAD_IF_MOTORWA/default/table?lang=en)

projects, carried out mainly with State and to a lesser extent cohesion funds of an overall amount of HUF 3,200 billion in relation to the entire period (2016-2024).

To remedy adverse effects resulting from the underdeveloped road infrastructure, after assessment of **prioritised social needs relating to road reconstruction**, the Government resolved execution of 82 urgent road reconstruction works and is also planning to designate additional urgent road reconstruction works. In 2021 the reconstruction of 56 road sections will be carried out along 405 kilometres, at a cost of HUF 108 billion, and the reconstruction of 26 road sections is expected in 2022 along 185 kilometres for around HUF 49 billion.

In parallel with the regular expansion of road networks exposed to increasing loads, modern and digital technologies – **Intelligent Transport Systems (ITS)** – are playing a growing role in putting to use existing capacities in the best ways possible. The **Crocodile corridor project** (Cooperation of Road Operators for Consistent and Dynamic Information Level) launched by the Government aims at establishing cooperation between road operators to ensure a consistent and dynamic flow of information. Within the framework of the project, the development projects are implemented along the TEN-T principal networks (installation of cameras, extension of system monitoring parking area capacities, installation of C-ITS radio transceiver devices), leading to fewer traffic jams, designation of alternative routes in case of accidents and faster restoration of traffic. Based on German-Hungarian and Austrian-Hungarian cooperation between road operators, and the sharing of joint experience, real traffic flows are digitally mapped for **establishing the “CCAM LivingLab”**. Development is also under way for enabling use of self-driving vehicles in traffic. Within the framework of the Connecting Europe Facility (CEF) and the **C-Roads project** financed by the Hungarian State (total cost: HUF 1.6 billion), road infrastructure development projects supporting self-driving and network connected mobility are implemented, and a joint platform operated by 16 member countries aims at preparing the technical regulation of services harmonised across the EU and ensuring interoperability between countries.

## Development of rail

Taking into account that the share of using public transportation and rail services in Hungary is higher than the EU average, development of their infrastructure and service standards is a priority in the Government’s plans. To ensure that rail can offer a competitive service over motorised individual transport, Hungary is drawing up a **comprehensive, interurban, urban and suburban rail development** programme within the framework of the RRP. The objective of the programme is to ensure that the entire suburban and interurban transport network operates as a single system with joint network and traffic management, integrated timetable structure and single ticket system, and institution system of transport organisation. Establishment of an adequate transit capacity in the vicinity of Budapest – as a hub for the carriage of goods in Central Eastern Europe – is also an objective.

In preparation for a comprehensive rail development programme launched in the coming years, investments aimed at the electrification and modernisation of railway tracks, establishment of new tracks and development of the related infrastructure will be implemented in 2020 and 2021 with HUF 375 billion in funds provided mainly by cohesion funds and to a lesser extent by Hungary. An **ETCS2 system** will also be implemented along the Sopron-Szombathely-Szentgotthárd line within the framework of project to be completed in 2021 at a cost of HUF 10 billion under the ITDOP, enabling the monitoring of trains travelling on lines modernised earlier with continuous radio data transmission,

and hence their guaranteed safety in the widest possible range of traffic and operational situations. An ETCS2 system will also be implemented along the Békéscsaba - Lőkösháza railway line within the framework of a comprehensive development project covering the line; construction works will begin this year.

To **prevent congestion**, the 54 km section of the Püspökladány - Biharkeresztes railway line will be reconstructed by 2023 with cohesion funds totalling HUF 70 billion, and capacity increases of 4 other railway lines will also be prepared between 2020 and 2022. The investments are aimed at also ensuring rail transport at a higher speed (120-160 km/h) and with a higher axle load along these lines. Development of the **Southern Railway Ring** of Budapest began in 2019 with launch of the project aimed at the modernisation of the southern connecting railway Duna Bridge.

### Urban public transportation

The **Modern Cities Programme** (MCP) launched in 2015 by the Government places major emphasis on transport development to ensure development of county capitals functioning as local economic hubs. The **establishment of intermodal hubs in cities with county rank** is aimed at ensuring access to urban long-distance and regional public transportation. An intermodal transport hub was first established at the end of 2020 in Kaposvár within the framework of the project, at a cost of around HUF 20 billion. Similar hubs are planned and implemented in seven other cities with funds totalling HUF 72.5 billion.

The **replacement of bus fleets** with vehicles equipped with more modern and environmentally friendly technology (electric, Euro VI diesel, CNG) is under way in several cities within the framework of the MCP and Green Bus Programme, in parallel with development of related infrastructure (railway stations, bus terminals, stations). Implementation of the **Tram Train** system between Szeged and Hódmezővásárhely is a key innovative project in the total value of HUF 75 billion in both Hungarian and EU funds, enabling connection of the railway between the two cities with a tram line, and a fast, and more importantly, transfer-free connection between the two city centres. The tram and electric railway construction works in Szeged and Hódmezővásárhely have been completed; 12 new diesel-electric rail-tram vehicles will be delivered between 2020 and 2022.

### Encouragement of alternative transport, electromobility

Transport emissions are a main source of air pollution, most of which is attributable to growing passenger car traffic. To reduce such environmental load, Hungary plans to encourage environmentally friendly transport and electromobility through the Climate and Nature Conservation Action Plan. In 2020 the Government launched the **tender scheme aimed at supporting the procurement of electric vehicles** (motor vehicles, motor scooters, bicycles) to make accessible opportunities and benefits of electromobility to as many people as possible. In contrast with previous years, the tender limits the purchase price of vehicles at HUF 11 million, and as a novelty, as part of opening in the direction of micromobility, companies and private entrepreneurs – especially couriers – are now also eligible to purchase electric cycles fitted with an auxiliary motor (mopeds). After conclusion of the tender, a total of 1,640 successful tenderers can make subsidised purchases of 1,503 new electric vehicles and 475 mopeds from an overall amount of around HUF 6 billion. The scheme aimed at funding purchases of electric pedal assist bicycles (pedelec) with HUF 1 billion in funds supports purchases of more than 2 thousand vehicles.

The state-owned **MVM Group** is investing HUF 35 billion to implement decarbonisation of the Hungarian transport sector and transit traffic, and to facilitate the spread of alternative propulsions. The measures planned by the Group are on a wide scale, extending, for example, to the development and expansion of the electric charging and CNG filling station network, to facilitating electrification of state-owned companies, and to enhance the competitiveness of existing biogas plants.

## 12 Rural development

In 2021, the Government adopted a number of strategic decisions and fiscal modifications for declaring that one of the biggest challenges of the next decade is the development of rural regions, the creation of locally accessible jobs, infrastructure and services that are also attractive to young people, and the improvement of the quality of life for the local population. Achievement of these goals is supported by a government decision that **increases – by a margin unmatched in the EU – the rate of Hungarian co-financing of the rural development pillar of the common agricultural policy from the current 17.5 percent to the maximum possible rate of 80 percent** in the 2023-2027 grant period. By way of surplus funding, a historical amount totalling HUF 4,265 billion in funds can be allocated to development of agriculture, the food industry and rural development, investments, environmental and climate protection in seven years.

The available funds offer an opportunity to eliminate the current lag in Hungarian agricultural profitability, to catch up the EU average, and to carry out the market-oriented modernisation of the food industry. The **new, currently negotiated 2021-2027 Agricultural Strategy will define the restructuring framework** of agriculture, with declaration of the priority of sustainability. During the environmentally friendly modernisation of agriculture, the goals include the transition to precision farming adapted to the place of production, laying the strategic groundwork for using Hungarian biomass, preservation of soil fertility, and reduction of emissions. By way of Government Decision No 1895/2020, in December 2020, the Government adopted the Action Plan of Hungary's Digital Agriculture Strategy. The 2021-2030 National Biodiversity Strategy is also being drawn up. The draft of the new strategy will be consulted with representatives of nature conservation and other interest representation organisations; it is expected to be adopted by the Hungarian Parliament in 2021. Act CXXIII of 2020 on family farms – drafted jointly with the Hungarian Chamber of Agriculture, Agri-food Economy and Rural Development – aims to facilitate generational renewal; as of 1 January 2021, it family farms will be offered more favourable tax conditions and greater manoeuvring room based on new corporate forms. The newly established and reorganised Hungarian University of Agriculture and Life Sciences will assist in providing tertiary teaching for the programme aimed at reforming agriculture.

### Programmes supporting the agricultural sector

**Income earning and bolstered employment** are essential for maintaining stability and quality of life in rural regions; a number of programmes support the agricultural sector for this purpose.

In 2020, around HUF 4 billion supported promotion of fish consumption in Hungary, encouragement of production and environmental investments in aquaculture, rehabilitation of aquaculture areas, and innovation in aquaculture within the framework of 6 tender notices.

In 2021, HUF 50 billion will be available for the development of crop storage facilities, dryers, seed production plants, programmes will be launched in the value of HUF 80 billion to develop livestock holdings, and HUF 30 billion will be used to develop horticultural plants. The afforestation programme will also be continued and expanded (in relation to areas withdrawn from cultivation), and HUF 2.3 billion will be available for promoting cooperation between irrigation communities. The LEADER Programme is implemented with an overall amount of HUF 63 billion, aimed at monitoring and supporting the local development strategies. To ensure equal opportunities in rural municipalities, local Leader action groups hold professional informative events relating to newly announced local calls and the implementation of already funded projects, and announce other new local calls in line with local needs, based on forums and consultations.

Aid in the overall budgetary amount of HUF 2.5 billion – assisting survival of agricultural small holdings – is among measures specifically taken to mitigate the economic effects of the coronavirus. The aid particularly assists small-scale agricultural producers with development potential based on their characteristics and ambitions in generating income and reliance on multiple economic activities. The aid equals the lump sum HUF equivalent of 15 thousand EUR provided for 5 years, disbursed in two instalments.

### Infrastructure programmes serving rural development

The **Hungarian Village Programme**, launched in 2018 and preceded by broad consultations, has become a central instrument of rural development in recent years. By the end of 2020, HUF 350 billion in central budgetary funds have already been disbursed for the 13 – mainly local infrastructure development – sub-programmes, with an additional HUF 250 billion allocated for 2021. The programme had three pillars up to 2021: the first pillar supports small-scale development projects to improve the quality of life in villages, the second one – village road fund – serves modernisation of the minor road network. The Family Housing Subsidy Scheme functions as the third pillar of the Hungarian Village Programme, within the framework of which around HUF 84 billion in subsidies were awarded to 15 thousand families until the end of 2020. The Programme operates a Village Civil Society Fund with an overall amount of HUF 5 billion, used for creating operating conditions of value-adding civil society organisations with a seat in the given municipality, and for funding their activities. The list of funded municipalities with less than 5 thousand inhabitants was extended on 1 January 2021 to include 2,678 municipalities eligible to access funds. As a result of the programme, based on experience gained so far, population decline in the small municipalities on the list decreased, and the population even increased in many municipalities.

Within the framework of the Hungarian Village Programme, **in 2021 a new fourth pillar is launched with an overall amount of HUF 45 billion**; municipalities with less than 2 thousand inhabitants may apply for tender funds from mid-April 2021 for the modernisation of **small shops** and their conversion into a multifunctional community space. The goal is to ensure that no municipality in Hungary lacks access to daily consumer goods for the local population. Among the tenders in the year 2021, two prioritised tenders relating to the development of real property owned by local authorities and the development of road, bridge and bicycle traffic facilities are available with a budget of HUF 20 billion each. The latter aims to reduce the disadvantages of small municipalities with 5 thousand permanent inhabitants or less, facilitate the daily activities of commuters through the development of appropriate traffic safety infrastructure in relation to workplaces and services located in other municipalities.

The **Modern Cities Programme**, focusing on the infrastructure developments of cities with county rank (road construction, industrial parks, schools, educational and cultural facilities etc.), aims to contribute to implementing sustainable economies in rural cities and surrounding small municipalities, and to improve the quality of life of local populations through more than 250 measures with a budget approximating HUF 4 thousand billion.

## Tourism

**To increase population-retaining power in rural areas, the Government is assigning an economic stimulus, job-creating role to tourism**, which has steadily gained relevance in the Hungarian economy in the past decade. As a strategic objective, the dominance of Budapest and Lake Balaton should be reduced and rural tourism boosted with inclusion of additional regions. The 2030 National Tourism Development Strategy aims to increase the direct and indirect contribution of Hungarian tourism to the GDP from 13 percent in 2019 to 16 percent by 2030. Within the framework of the **Kisfaludy Tourism Development Programme**, a budget of HUF 300 billion is available for establishing and modernising private accommodation establishments. The Széchenyi Rest Card (SzRC) – granting employer’s tax benefits – has become an effective instrument in boosting domestic tourism in recent years.

The equipment and infrastructure development projects necessary for developing the **Central Danube Ring** bicycle path network and for establishing interoperability between tourism related bicycle and waterway modes of transport (kayak, canoe, SUP etc.) serve the boosting of rural tourism. Within the framework of the programme implemented between March 2021 and March 2024, a 200 km long, interconnected cycling-enabled road network will be established with HUF 37.9 billion in State funds, which also serves convergence of underdeveloped regions through development of less known, rural tourist areas, in addition to recreational goals supporting a healthy lifestyle.

The **pandemic severely affected** domestic tourism. The Government supports struggling businesses in the sector with State wage subsidies, compensation for lost reservations, exemption of SzRC card top-ups from the social contribution tax in H1 2021, and the significant increase of the cafeteria budget used for tourism purposes in the public sector.



## 13 Social partnership

In line with practice of previous years, public consultations relating to measures of the 2021 National Reform Programme were carried out in cooperation with ministries responsible for such measures. Practices established in the given 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 actions. Consultation concerning legislation (and government decrees concerning strategies and programmes) was typically carried out based on provisions of Act CXXXI of 2010 on social participation in the drafting of legislation. Public consultation takes the form of sharing opinions through the contact channel provided on the website (general consultation) and direct consultation with the persons, institutions and organisations invited by the minister responsible for the preparation of the legislation (direct consultation). General consultation is mandatory in every case.

In the case of actions carried out within the framework of EU-financed programmes in the 2014-2020 programming period, the public consultation process was conducted in accordance with the provisions of Government Decision No 272/2014 (XI. 5.) on rules of using aids provided from certain European Union funds. Consultation applies both to the planning and the selection process. For the purpose of public consultation of European Union projects and tenders, the management authorities request the opinion of stakeholder social and professional organisations 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 civil society organisations monitor the entire selection and assessment process of projects. This year the COVID-19 pandemic did not enable the broad public consultation of the National Reform Programme, as independent document. Additionally, public consultation of documents is conducted in parallel with detailed drafting in relation to planning funds for the Recovery Fund. The following good practices could be identified in the course of the preparation of the NRP:

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. The PGF aims to coordinate intentions of employee and employer interest representation organisations and of the Government, to draft agreements, exchange information and to discuss regulatory proposals. The PGF is a consultative, review and proposing forum involved in preparing decisions concerning economic matters directly affecting the private sector. Twenty-four PGF meetings were held in 2020. In addition to wage negotiations in the year 2021, topics on the agenda included, for example, Government measures responding to the coronavirus epidemic and other economic stimulus measures, amendment of tax legislation, information concerning the draft central budget, regulation of teleworking, services and subsidies facilitating employment, and bills and draft decrees relating to employment monitoring. By operating the **National Public Service Conciliation Council** (NPSCC) and the **National Labour Council of Public Servants** (NLCPS), 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, public servants and local authorities



operating institutions that employ public servants. It supports enforcement of the right of review of interest representation organisations set out in the act on legislation. In 2020, the plenary meeting of the NPSCC was held on three occasions (with one plenary meeting held jointly with the NLCPS), while the plenary meeting of the NLCPS was held twice, at which the Government consulted with local authority and employee representatives relating to, *inter alia*, the following topics: budget for the year 2021, amendment of tax legislation in 2021, public service measures implemented in relation to the emergency.

Several measures support reinforcing the role of social partners on the labour market and the increase of their capacities. The measure “Support of services aimed at legal employment” aims at providing competent, up-to-date, free legal assistance to employees and employers, and to their representative bodies to promote legal employment and law-abiding, legally aware behaviour. Consulting is provided by interest representation organisations of employees and employers free of charge, therefore the programme also contributes to enhancing the capacities of these organisations. A consultative, conciliatory, intermediary, advisory and arbitration service network (Labour Advisory and Dispute Resolution Service) will also be established within the framework of the programme, which helps in resolving and preventing collective labour disputes. The measure “Thematic projects aimed at enhancing adaptability on the labour market” aims to strengthen the role of social partners in society and on the labour market, increase its representative powers and capacities, and to support activities that effectively contribute to enhancing the adaptability of employees, employers and businesses on the labour market, and to strengthening social responsibility and the service function. (X-Y measures).

**The following good practices are identified in the course of preparing the NRP for the year 2021:**

- With regard to the tender schemes of **measures aimed at implementing the National Digitisation Strategy** (digitisation of enterprises, further development of network infrastructure, and development of digital skills), workshops and consultations were held before their launch with the involvement of the most affected professional organisations. Public consultations will also be conducted in relation to all schemes on the official tender site (palyazat.gov.hu). Professional consultations will also be held regularly in the implementation phase of programmes.
- The strategic programme of the **Economic Development Zone of North-eastern Hungary**, implemented until 2030, is subject to broad and continuous public consultations. Local actors have been involved in the drafting of project proposals and strategies (affected members of parliament, mayors, local chambers of commerce and industry, higher education institutions and local businesses operating in the territory of the economic development zone).
- Tenders of the **Hungarian Multinationals Programme** (development projects of small enterprises, Supplier Development Programme) could be reviewed within the framework of public consultations before publication. Observations were incorporated in the call.
- After introduction of the “**Job protection wage subsidy**” measure, observations relating to the further development of the subsidy were received from a number of partners; the scheme was fine-tuned on the basis of received proposals. Support for reductions in working hours was also on the agenda of the Standing Consultation Forum of the Private Sector and the Government (PGF). The detailed arrangements were revised on the basis of observations put forward by social partners and presented at the forum (e.g. modification of the ratio of part-time work, integration

- of the basic wage, expansion of companies concerned with temporary work agencies and clarification related to retention of staff).
- In the new, fifth call of the “**Development of workers’ accommodations**” programme, significant facilitations have been introduced based on experience relating to earlier calls, and observations and feedback from companies and local authorities.
  - A number of stakeholder professional associations have been involved in preparing reform of the **legal and technical framework of waterway transport** (its technical specifications). Implementation is carried out on the basis of professional observations and guidelines of permanent working groups.
  - In the course of drawing up the **National Smart Specialisation Strategy**, within the framework of the series of events held as Territorial Innovation Platforms (TIPs), wide ranging information has been provided up to November 2020 in the form of presentations and round table discussions with use of online questionnaires (with involvement of chambers and also among former beneficiaries) to assess entrepreneurs’ needs.
  - The call for applications of the Co-operative PhD Programme was consulted with social stakeholders (Hungarian Rectors’ Conference, National Doctoral Council, and National Association of Doctoral Students) and market participants (industry representatives).
  - In relation to “**introduction of the return system in Hungary**”, two online professional conferences were held in August 2020 to inform participants concerned of planned changes to the regulatory framework, acquire information, receive proposals for implementing an effective system, on the one hand, and to avoid possible, foreseeable problems in implementation and operation, on the other. The professional position was formed on the basis of the above. Participants of the conference: Hungarian Trade Association, Hungarian National Trade Association, Sanitation Association, Reverse Logistics Group, Nemzeti Hulladékgazdálkodási Koordináló és Vagyonkezelő Zrt., Szentkirályi Magyarország Kft., Nestlé Hungária Kft., Spar Magyarország Kereskedelmi Kft., Plastics Cluster and the National Research, Development and Innovation Office.
  - **Enhanced mobility of admission requirements** for secondary school graduates. The **Vocational Training 4.0 strategy** was drafted in early 2019 to laying the groundwork for ensuring the high standard of vocational training. The Strategy was consulted on a broad basis with, *inter alia*, professional vocational training organisations and operators of vocational training institutions. Legal regulation of the framework of vocational training was drafted on the basis of the above. The Hungarian Rectors’ Conference supported expansion of options for acquiring additional points by way of legislative amendment and even proposed certain options.
  - Drafting and adoption of the new **implementing decree of the Vocational Training Act**. The implementing decree for the Vocational Training 4.0 strategy, serving as a basis for the measure, underwent broad consultations with involvement of the **Vocational Training Innovation Council** after adoption of the act.
  - The **Vocational Training Innovation Council** (VTIC) established for coordinating interests concerning strategic matters related to national vocational training is continuing work with expanded membership. The new Vocational Training Act sets out the legal status and duties of the Council at the level of law. The VTIC puts forward its proposals relating to the Vocational Training 4.0 strategy and the implementation thereof through thirteen working groups focusing on a given topic, with involvement of over one hundred experts. (Members of the VTIC:

- representatives of competent ministries (9 members), vocational training institutions, higher education institutions and their operators (8 members), Hungarian Rectors' Conference (1 member), national economic chambers, professional organisations (7 members), trade unions and interest representation organisations operating in vocational training (4 members), large companies (6 members), established churches (4 members), Hungarian Academy of Sciences (1 member), students (1 member), teachers (1 member) and ethnic minorities (1 member).)
- The **Sectoral Skills Councils** (SSC) represent professional proposals of economic operators in certain economic sectors aimed at the continuous development and modernisation of the substantive structure of vocational training, and coordination of labour market demand training supply, particularly in relation to training and output requirements, textbook content, the occupation register and the professional substance of basic education. Pursuant to Act LXXX of 2019 on vocational training and Government Decree No 12/20 (II. 7.) implementing the Vocational Training Act, SSCs operate in 19 sectors; one council has 8-24 members.
  - The calls for tenders (e.g. subsidised credit programme supporting the technological development of SMEs, EDIOP-9.1.1. Working capital credit programme, Start-up, SME and Large Company financing) were preceded by open public consultations, in the framework of which the draft programme was published on the tender website, with the option of submitting observations.
  - The **Garantiqa guarantee programmes** are drawn up in consultation with competent ministries, the banking association and partner financial institutions.
  - The drafting of the National **Port Development Master Plan** was based on broad public consultations. More than one thousand representatives of the sector participated in a total of seven events. During the questionnaire surveys and in-depth interviews, we contacted hundreds of stakeholder enterprises and local authorities. The strategy was drafted in close cooperation with stakeholder professional organisations and associations involved in working groups. During the public consultations of the Master Plan, more than one hundred observations were responded to and integrated. The Master Plan also underwent full strategic environmental assessment (SEA), together with related public consultations.
  - During the drafting of the long-term **"Converging Municipalities"** programme, planned activities are defined in relation to specific municipalities within the framework of so-called diagnoses, which are prepared with involvement of local civil society organisations, public service providers, decision-makers, and local populations also participate in a questionnaire survey. Action plans are drawn up on the basis of the above; civil society organisations implementing these regularly consult each other, local stakeholders, representatives of public bodies and the local population.
  - The 2021-2030 **Public Education Strategy** and its action plan were coordinated at the meeting of a forum consisting of three professional organisations (Public Education Strategy Round Table, National Public Education Council, National Student Council), including civil society organisation members.
  - The **renewal of teacher training** was preceded by broad professional consultations. Consultations were led by higher education institutions involved in teacher training, the National Faculty of Teachers and the Klebelsberg Centre representing the State as operator. Consultations were also conducted in technical committees relating to specific issues. Professional relations with these committees will be maintained in order to involve them in the development of teaching contents which comply with the requirements of the new national curriculum introduced in 2020, where it will be possible to monitor the restructuring. Training and output requirements for teachers are

renewed with involvement of the competent technical committees of the Hungarian Rectors' Conference and the State Secretariat for Public Education.

- The **National Science Policy Council (NSPC)** was established in February 2020 as a body reviewing the R&D and innovation activities of the Government; the Hungarian Parliament resolved the setting up of the council in July 2019. Its eleven members were appointed by the prime minister for a term of 3 years upon proposal of the minister in charge of science policies. The body consists of actors in the field of research, development and innovation, i.e. representatives of sciences, the economy and the State. (Members of the NSPC: Minister László Palkovics, former EU commissioner Günther Oettinger, Zoltán Birkner, President of the NRDIO, Roland Jakab, regional director of Ericsson Magyarország Kft., physicist Ferenc Krausz, director of the Max Planck Institute of Quantum Optics, László Lovász, president of the Hungarian Academy of Sciences, Gábor Orbán, CEO of Richter Gedeon Nyrt., János Pakucs, honorary president of the Hungarian Innovation Association, Minister of Finance Mihály Varga, Oszkár Világi, managing director of Group Innovative Businesses and Services of MOL Nyrt., and biophysicist Péter Závodszy, professor emeritus).