



GOVERNMENT OF HUNGARY

**NATIONAL REFORM PROGRAMME 2017
OF HUNGARY**

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I. FOREWORD

As a result of the successfully implemented financial and economic consolidation after the change of government in 2010, the Hungarian economy has embarked on a new, more-balanced growth path than before, which is strongly supported by increasing employment and wages. It can be further strengthened by the approved wage increase and tax and contribution decrease on employers. Productivity and competitiveness shall increase for the convergence of the real economy. The key to sustainable growth can only be the increase of productivity – since the comparative advantage of the relatively low wages alone cannot serve a basis for economic convergence, it has to be accompanied by increasing wages. The priority of economic policy is currently to increase productivity and improve competitiveness. The most significant measures of the Government have served this purpose recently. Besides the above mentioned wage increase and tax and contribution decrease, the following measures have to be listed: transformation of the public works scheme, different programmes supporting industrial development and digitalisation, the increase in education and training opportunities and competitiveness, and the development of healthcare services - all of which are elaborated on in the programme in detail. The programme also includes measures aiming to achieve priorities set to implement the Europe 2020 Strategy.

While introducing certain major policy measures in the National Reform Programme of 2017, in accordance with the traditions so far – we endeavour to thoroughly present how different measures are linked to the main strategic goals, and also the results that have been reached and are expected due to the new measures. The National Reform Programme has thus far been developed together with the Convergence Programme. The corresponding chapters include cross-references.

Significant parts of the 2017 National Reform Programme measures are a self-contained strategy and legislation, which were preceded by public consultation stipulated by the law. In line with the EU grant procedure, there have also been public consultations regarding the planning and selection processes of the EU programme measures.

II. MEDIUM-TERM MACROECONOMIC OUTLOOK

II.1. Development of the Macroeconomic Environment

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

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

Trends of the major macroeconomic indicators (2016-2021)

	2016	2017	2018	2019	2020	2021
<i>percentage, changes in volume in relation to the previous year</i>						
Gross domestic product	2.0	4.1	4.3	3.8	3.7	3.6
Household consumption expenditures	4.9	6.1	5.4	4.4	4.3	4.1
Gross fixed capital formation	-15.5	10.2	12.9	7.8	6.8	6.1
Export	5.8	5.4	6.5	6.0	6.2	6.9
Import	5.7	6.8	8.2	6.7	6.6	7.1
<i>percentage, annual average</i>						
Unemployment rate (15-74)	5.1	4.0	3.6	3.5	3.4	3.4
Employment rate (20-64)	69.6	71.8	73.7	74.9	76.0	76.9
<i>percentage, in relation to the gross domestic product</i>						
External financing capacity	5.4	7.6	7.2	6.0	4.2	4.1
<i>percentage, annual average</i>						
Consumer Price Index	0.4	1.6	3.0	3.0	3.0	3.0

In the first years after 2010 economic policy measures focused on restoring financial stability of the country. Based on the achievements of these measures, since 2013 growth has turned positive and as a result, the Hungarian economy has been on a stable, well-balanced growth path since then. Gross domestic product increased by 4% in 2014, 3.1% in 2015 and 2% in 2016. When assessing the growth of last year, it is to be emphasized that while in 2015 funds of both 2007-2013 and 2014 onwards programming periods were available, in 2016 only those of the new period were. However,

despite a more moderate use of ESI Funds than previously, the Hungarian economy performed better than the EU average in 2016. In the last years our country has generally continued its convergence exceeding the relevant figures of most EU member states.

Besides the strong fundamentals of the Hungarian economy, sustained high growth is also underpinned by the economic policy of the Government on the forecasting horizon, one of the most important pillars of which is the six-year long wage agreement reached on the Standing Consultation Forum of the Private Sector and the Government. There is extra income for the economic actors due to the decrease of the social contribution tax and the corporate tax, thereby strengthening internal demand, increasing the capacity of employment and exports, and improving the competitiveness of the Hungarian economy. Regarding the decrease of the corporate tax, it is important to note that this measure may encourage technology-intensive, high capital need investments that are able to provide high added value at the same time. As a result of positive processes, the Hungarian GDP may increase by 4.1% this year, 4.3% next year and 3.5% the year after.

II.2. Macroeconomic Effects of the Economic Policy Measures

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

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

- Wage increase and career path in the public sector: cultural career path, salary increase/supplement for employees of courts and prosecution services, career path for nannies, wage increase for employees of foreign affairs, and other sectorial wage increases.
- Extra expenses for local governments, state corporations and central budgetary organs due to minimum wage increase.
- State investments: infrastructural and touristic developments, eSzámola (eInvoice)
- Decreasing the corporate tax rate uniformly to 9% from 2017.
- Social contribution tax is reduced by 5 percentage points from 2017 in accordance with the six-year wage agreement, from 2018 it decreases further according to the provisions of the agreement.
- Increasing the minimum wage (by 15% and 8%) and the guaranteed wage minimum (by 25% and 12%) in 2017 and 2018.
- Reducing the VAT on internet services from 18% to 5%.
- Reducing the VAT on fish from 27% to 5%.

Macroeconomic effects of the measures

(cumulative difference of variables in percentage in relation to the baseline)

	2017	2018	2019	2020	2021
GDP	1.15	2.53	2.85	3.15	3.38
Household consumption expenditure	2.55	5.02	5.78	6.20	6.64
Investments	1.89	5.61	5.55	6.11	6.34
Export	2.45	3.98	3.91	3.87	3.85
Import	3.12	5.34	5.33	5.37	5.45
Consumer price level	0.28	0.87	1.38	1.51	1.47
Employment in the private sector	0.19	1.18	1.69	1.96	2.09
Gross average wage in the private sector	405	6.53	7.05	7.43	7.66
General government debt in % of GDP*	-0.59	-0.60	-0.75	-0.93	-0.99

**Change in percentage point*

A set of economic policy measures (wage increases, VAT decreases) results in a spendable salary increase available for people, which directly increases consumption. Minimum wage increase contributes to this to a significant extent. Another set of measures (decreasing corporate and social contribution taxes, infrastructural investments) has a positive impact on the corporate sector: employment and investments are strengthened by their increased profitability and competitiveness. The production capacities established contribute to the increase in exports. Government measures also generate wage increase in the Hungarian economy, which also influences price increase. At the same time, higher tax revenues from increased GDP partly balance the negative effects of compensatory government measures on the budget balance.

III. REFORMS FACILITATING GROWTH

III.1. Achieving the Medium-term Budgetary Objective

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

The Government has maintained focus on decreasing the debt rate through a disciplined fiscal policy since 2010. As a result, the budget deficit has been around the benchmark of 3% since 2012. In 2013 the nine-year long excessive deficit procedure was removed. Reflecting the commitment of the Government, the general government debt has been put on a downward path since 2011, opposing the trend typical in the European Union, thus the debt rate decreased from above 80% of 2011 to 74.1% by the end of 2016. The Government expects a further decrease of the debt rate in the subsequent years, which is supported by rapid economic growth and planning significantly lower deficit targets than 3% of the GDP.

As a result of the measure, besides decreasing the debt rate, conditions for financing the general government debt have significantly improved. The proportion of domestic actors in financing has increased, which means more stable lenders. Also, the rate of foreign currency denominated loans has decreased. These positive processes significantly contribute to reducing foreign currency exposure and external vulnerability of the country.

III.2. Tax Policy Strengthening Investments and Employment

For the first time since the change of the system, the employers, the Government and the trade unions reached a long-term wage agreement with significant changes in taxation on the Standing Consultation Forum of the Private Sector and the Government in November 2016. According to the agreement, social contribution tax has been reduced from 27% to 22%. As of 2018, it is to be further reduced by 2 percentage points, and if gross wage increases exceed 11% in the first nine months of 2017, a further 0.5 percentage point decrease will apply. **In the period 2019-2022 social contribution taxes will be further decreased by 2 percentage points (3.) annually** if real wage increases reach 6%. In line with the reduction of tax rates, allowances of the Job Protection Act are unified. Within the framework of the Act, in February 2017, almost 874,000 disadvantaged employees gained employment in the private sector, thereby providing about HUF 9 billion in benefits for businesses. Benefits of the social contribution tax were applied by the businesses in cases for almost 340,000 people above 55 years of age and for more than 160,000 people under 25 years of age. By decreasing the social contribution tax, the tax wedge of low-income earners is also reduced, meaning from 48.25% to 46.15% in 2017 and the target for 2020 is 41,2% (in case of single tax payers without children, it is more heterogeneous for taxpayers with families due to the family tax benefit of the personal income tax).

The tax burden on businesses is significantly reduced by the introduction of **a single-rate 9% corporate tax as of 2017 (13.)**, thus being the lowest rate in the European Union. Therefore, the tax burden on businesses decreases by about HUF 145 billion, which may have a positive effect on investments.

According to the agreement between the Government and EBRD, **the upper rate (above HUF 50bn tax base) of bank levy has decreased from 0.24% to 0.21% from 2017 (1.). A rolling tax base has**

been introduced from 2017: instead of the adjusted balance sheet total as of the end of 2009, the tax base is **the adjusted balance sheet total as of the end of the second tax year, prior to the given tax year.** The bank levy of credit institutions that also provide investment services has been eliminated on their investment services from 2017. Decreasing the tax burden on credit institutions also involves that **surtax on financial credit institutions has been abolished as of 1 January 2017 (4.).**

The continued increase of family tax allowance for earners with two children, which started in 2016 (2.), resulted in the reduction of the tax burden on private persons in 2017.

The tax burden on small and medium-sized enterprises has significantly decreased in recent years due to the introduction of two simplified tax forms to support small enterprises (fixed-rate tax of small taxpayer enterprises, small business tax). There are some positive changes in the regulation of both tax forms from 2017: **the revenue limit of small business lump sum tax (kata) has increased (14.); the rate of small business tax (kiva) has decreased (7.) and determining its tax base has been significantly simplified (8.).** Thus, more businesses are entitled to choose these forms. Due to these measures, the number of businesses utilizing these tax forms has further increased: according to the figures of March, 13,777 businesses chose kiva (small business tax), and 202,640 already had applied kata (small business lump sum tax).

The Government has introduced significant VAT transparency measures to increase VAT compliance and reduce VAT fraud. The system of online cash registers and the Electronic Public Road Transport Control System (EKAER) have been set up. **Mandatory use of the online cash register system is expanded to some parts of the service sector as of January 2017 (17.).** In April 2017 the number of cash registers in operation exceeded 195,000.

According to the plans of the Government, within the framework of the online system of invoicing to be introduced, taxpayers would provide real time data to the National Tax and Customs Administration (NAV) on the invoices including VAT of above HUF 100,000 issued with the invoicing software (18.). This measure may lead to further reduction of VAT fraud.

From 2017 the tax administration prepares a draft tax return from their available data, without request, for private individuals who have registered on the customer portal (Ügyfélkapu) or have electronic access for this purpose (12.), significantly decreasing tax-related administrative burdens on private persons.

According to the amendment to the act on the rules of taxation (20.), a new service of the tax administration is available: a so-called support procedure, which means that NTCA (National Tax and Customs Administration) does not check or sanction, but recommends self-audit, and if necessary providing direct professional support to eliminate mistakes and deficiencies. Furthermore, some new elements have been included in the tax procedure: maximising tax inspection in 365 days, introducing risk analysis, supporting start-up businesses with a 6-month mentor programme, and the effort to implement full-scale electronic administration. The new act on the rules of taxation expected to come into effect in 2018 is under preparation to achieve more efficient and transparent operations of The National Tax and Customs Administration, and further decrease the administrative burden on taxpayers. Recodification aims to provide transparent procedures of the regulatory environment, making procedures more efficient and ensuring that they are closed as soon as

possible by reviewing procedural deadlines. This will aid in motivating taxpayers to cooperate and fulfill their obligations.

III.3. Establishing a Competitive Business Environment

Hungary set the goal of developing and transforming the business environment for 2016 and 2017 so that it may establish more beneficial conditions for operation for both Hungarian and foreign businesses. The administrative burden has been further reduced, the organisational structure of public administration rationalised and electronic public services developed to improve the quality of services provided by the state.

III.3.1 Increasing the Productivity of Businesses

The National Competitiveness Council (21/a) was established in March 2017. Competitiveness of the Hungarian economy was reviewed, identifying long-term systematic interventions aimed at the comprehensive improvement of competitiveness. **Possibilities were also explored** – based on the World Bank’s Doing Business survey, – **to improve the competitiveness of the business environment in the short run (21/b)** in the following areas: starting a business, dealing with construction permits, getting electricity, protecting minority investors, paying taxes, resolving insolvency.

Several EU funded programmes were launched in 2016-2017 to support productivity, modern background infrastructure and integration into international value chains. Trainings, mentor programs (for HUF 4.3 billion) and the program for developing entrepreneurial incubation services for HUF 5.4 billion **contribute to the establishment of an efficient and productive SME sector (22/a).** Industry 4.0 developments (HUF 7.35 billion) serve to **provide sufficient competitive background infrastructure and instruments (22/b).** **Integrating SMEs into (international) production chains and establishing long-term cooperation (22/c)** is facilitated by supplier-cluster cooperations and advantages taken from them, efficient marketing activity on foreign markets, promoting attendance at exhibitions and fairs, and providing sufficient knowledge to successfully participate in market competition. The available budget is HUF 45 billion. Furthermore, the **Irinyi Plan industrial strategy programme (22/d)**, with a budget of HUF 3 billion, supports SMEs that aim to do pilot-project types of activities in the strategic sectors defined in the Irinyi Plan, or whose final aim is a quick-product launch; starting from research and development, through prototype and pilot production, and finally reaching mass production.

The priority of the Government is to increase the **information and communication technology (ICT) of domestic SMEs and their participation in the digital economy (23/a).** Businesses shall be motivated by formulating new attitudes, raising awareness and in financing programmes to apply ICT tools and solutions at a higher level, helping to improve the competitiveness of the economy, with changes generated by Industry 4.0 in particular. Therefore, a comprehensive set of programmes has been compiled and launched - **the Digital Welfare Programme - which also sets the development of the digital economy as its priority.** It has been prepared in line with the directions and objectives already defined in the National Infocommunication Strategy and the related ICT Green Book in 2014.

Being part of the Digital Welfare Programme, **the Digital Start-Up Strategy (23/b)** aims to develop the digital economy through supporting the establishment and development of start-up companies with great growth potential. The Digital Start-Up Strategy is based on the following five main pillars:

entrepreneurial spirit; improving entrepreneurial competence; supporting cooperation (by establishing programmes that facilitate cooperation between industrial and start-up companies, and simple and fast public data sharing); establishing a supportive business environment; and providing financial resources. (It also aims to provide a co-investment model, where private investors are encouraged by the involvement of the state, thereby sharing the risks of investment.)

The Digital Export Development Strategy (23/b) – also being part of the Digital Welfare Programme – generally aims to achieve intensive growth of digital products and service exports, ensuring thorough digitalisation knowledge and high quality ICT professional capacity in Hungary. Its main priorities are the following: increase state digital export solutions, develop export of ICT start-ups (according to the Digital Start-up Strategy), develop the export of national ICT micro-, small- and medium-sized enterprises and develop Digital service exports via shared service centres (SSC).

The planned Digital Commerce Development Strategy (24) aims to encourage domestic digital commerce from different approaches, Hungarian traders to enter the digital market and increase their market share, traditional traders to become digital ones **(24/a)**, support traders to purchase information communication technologies, and the transformation of support. The strategy stresses the possibilities to improve digital skills within the framework of the e-commerce training programme and through formal education or other training programmes **(24/b)**. The other key area is the improvement of regulations on domestic digital traders **(24/c)**, decreasing the administrative burden related to domestic digital commerce in particular.

III.3.2 Electronic State Services, Simplified Regulations

Within the framework of the **programmes to reduce administrative bureaucracy and state overheads (26/a)**, the Government has implemented a comprehensive simplification of administrative procedures and reduced application fees and duties (in some procedures they have been eliminated) so that administrative procedures become faster, simpler, and more efficient. In the third phase to reduce bureaucracy, 44 acts and related decrees are amended as of 1 January and July 2017. The second phase of reducing state overheads is expected to come into effect in April 2017, within the framework of which a further 20 application fees are eliminated, 5 of them decreasing the burden on businesses. The most significant proposal to reduce the burden on businesses is **free of charge incorporation, while also eliminating some other related costs for single-member companies, limited partnerships, general partnerships and Ltds. Within the framework of rationalising the organisational structure of public administration**, part of the tasks of central offices are transferred to territorial administration closer to citizens, thus enabling faster and more efficient administration. Businesses will be closer to their administrative seats. Within the framework of the measure, central offices and background institutions of ministries were reviewed in 2016; as a result, 44 organs are and will be eliminated coming into effect in multiple phases until 30 November 2017. Related to the above-mentioned organisational and jurisdictional changes, some supplementary developments necessary for efficient organisational operation are carried out in 2017, such as necessary amendments of laws, preparation of internal regulations, execution of reform-related trainings, and the review and development of Government office laboratory activity. The **Service approach development of Government office procedures and services** aims to increase customer service convenience, spread the needs-based practice of service development, and provides the same high standard of administrative procedures for citizens and enterprises

everywhere in the country, thereby simplifying administration for local businesses and entrepreneurs.

Within the framework of e-administration (27.), the background infrastructure is comprehensively developed: large state registers and systems are connected with the help of the **Central Government Service Bus (CGSB) (27/b)**. While developing the **National Telecommunications Backbone Network (27/d)**, government networks are consolidated and their capacities are increased. The aim is to establish a “basic utility”, providing an infrastructural background for a service providing state so that unified services and a modern inter-institutional (G2G) data transfer will be available throughout the entire territory of the country. The **local government ASP system (27/c)** is developed and spread nationally and data warehouses are established. For local governments involved in the programme, e-administration service provisions are available on the customer side on a unified platform, thus certain cases can be managed electronically at the local government level (e.g. local tax matters). The **portal Web-Lak (27/a)** aims to become the point in the process of electronic administration where customers may get to a completely customizable, pure, cutting-edge administrative portal with one click. Some of the services available through Web-Lak are the following: documents (including ID cards, residence cards, passports, and birth certificates); services for sole proprietors; and vehicle administration. As a result of the measures, efficiency increases, administration time decreases and processes are simplified, thereby improving the quality of customer service.

Hungary has implemented several significant measures in the field of public procurement in recent years, for instance 22 measures of the Public Procurement Action Plan, including the following: measures on legislation, e.g. the introduction of a so-called normative condition, which defines in the public procurement act the maximum extent possible of suitability requirements in a quantified way (i.e. normatively) for bidders in the tenders. This measure significantly opens the competition for economic operators who have a reference for maximum 75% of the estimated value of the public procurement procedure. Furthermore, negotiated procedures without publication of a contract notice have become more strictly controlled, which resulted in decreased number of such procedures. Public procurements financed from ESI Funds undergo strict procedural supervision (ex ante) – the results of which are also recognised by the audits conducted by the Commission –, guidelines promoting uniform law application have also been published (28/a). Quarterly reports are prepared on public procurements in Hungary for the Commission, and the new public procurement directives were transposed before the deadline imposed for the Member States (Hungary was the first Member State in the European Union to implement the directives). Summaries of audit practices of agencies reviewing public procurements and model documents (call for proposal and documentation samples) to help beneficiaries, have been published. Moreover, development of the public procurement system is facilitated by organising conferences, developing the internal training system for the controllers of public procurement and cooperating with the Hungarian Competition Authority. **Beyond the measures above, Hungary introduced stricter regulations with the Amendment of the Act CXLIII of 2015 on Public Procurement effective as of 1 January 2017; primarily aiming to increase transparency and competition.** The amendment is the outcome of wide-ranging social and professional conciliations, which is based on the professional feedback on the practical application of the public procurement act. As a result of the amendment, transparency has increased, regulations on the application of negotiated procedures without publication of contract notice have become stricter, and a new optional legal basis to deem a public procurement

procedure unsuccessful has been introduced (31.), whereby a procedure is declared unsuccessful if there have not been two tenders submitted, discouraging procedures with one bidder. Although the application of the new legal basis is optional, the minister responsible for public procurements may prescribe its compulsory application – considering the specific characteristics of the given market – for contracting authorities directed by the Government and for each contracting authority in procedures controlled by the Government. The Department for Public Procurement Control is responsible for supervision during the procedure (ex ante) of public procurements financed from ESI Funds has already prescribed the new legal basis to deem a public procurement procedure unsuccessful in case of each construction investment in its current practice. This rule is applied in case of every construction investment contracts controlled by the Department for Public Procurement Control (in charge of ex ante control of public procurements financed from EU funds).

In the first half of 2017 two new measures facilitate better conformity with the public procurement act and the EU directives in practice, and promote the uniform application of law. New guidelines are published (28.) so that the prohibition of splitting of contracts is to be applied more strictly and uniformly in practice. Furthermore, cooperation is initiated with the managing authorities in case of supervising public procurements financed from ESI Funds so that the authorities may become more actively involved in implementing measures to increase competition (30.).

Based on the Amendment of 1 January 2017 to the Act CXLIII of 2015 on Public Procurement, **the target date to introduce electronic public procurement in Hungary is 31 December 2017 (29/a)**, which makes electronic communication compulsory in each procurement procedure before the deadline 18 October 2018 set by the EU directives on public procurement.

The Prime Minister's Office presented the schedule of introducing e-procurement to the representatives of the Commission on 10 March 2017, significant milestones of which are the following: 1.) System design – 17 March 2017, 2.) Establishing infrastructure and installation– 1 May 2017, 3.) Modules: auction, registration + pilot version – 31 May 2017, 4.) Modules: portal, BI, report + handover to testing – 29 August 2017, 5.) Delivery of training materials – 28 September 2017, 6.) Going live – 27 November 2017. In accordance with the deadlines above, necessary developments have started and are in progress (29/c). According to the plans of the Prime Minister's Office, a workshop concerning changes of the electronic version of the European Single Procurement Document is to take place in Budapest on 30 May 2017 in cooperation with the Commission; the PILOT project is to be introduced on 31 May 2017, where functions of the system are to be presented. Besides amending the public procurement act, comprehensive amendments of related government decrees are necessary to introduce electronic public procurement (29/b). As a result of applying the e-procurement system and law amendments, the procedures are further simplified.

As part of simplifying the application of the law, the Competition Act has been amended, measures have been taken to shorten judicial and administrative procedures, and a legislative proposal on amending the liquidation proceeding has been submitted. **Within the framework of amending the Competition Act (32/a), certain regulations on business mergers have been simplified.** The changes aim to accelerate procedures, reduce application fees and authorisation procedures, support the compliance of businesses and strengthen the investigation tools of HCA (Hungarian Competition Authority). **The legislative proposal on liquidation proceedings (32/b)** aims to facilitate more efficient asset collection of the debtor in liquidation proceedings. The amendment proposes

elimination of loopholes and inconsistencies in the application of the law and enables court clerks to act independently in a wider range of cases, enabling accelerated and simplified proceedings. With the new measures coming into effect (as of 1 January 2018 and through the middle of 2018) judicial and administrative procedures are shortened in order to **have a more efficiently operating judicial system (32/c)**.

The Government adopted the National Anti-Corruption Programme until 2018 and its first two-year, i.e. until 2016 action plan with the Gov. Resolution No. 1336/2015 (V. 27.) on the Adoption of the **National Anti-Corruption Programme** and related measures for 2015-2016. The first two-year plan was generally successfully accomplished; with remaining tasks being completed continuously. **The new action plan for 2017-2018** defines tasks primarily related to methodology, information, examination, analysis and if necessary regulation for budgetary organs, local governments, businesses with majority state ownership (35.) in particular and law enforcement agencies. In line with the National Anti-Corruption Programme, the National Protective Service provides for further anti-corruption measures within the framework of priority project 'Increasing Capacity and Forming Attitudes to Reveal and Prevent a Greater Number of Corruption Cases' (38.) with a budget of HUF 5bn.

III.4. Decreasing Public Work, Competitive Workforce

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

Based on the decision taken in 2016, the budget of the programme in 2017 "**Road to the Labour Market**" (39.) launched in autumn 2015 has been increased to HUF 230 billion (i.e. doubled) in order to strengthen active labour market policies. The programme primarily aims to improve employability of jobseekers above 25 years of age, the inactive and people with low qualifications in particular, to employ them in the open labour market, and also to promote transition from public works to the private sector. The programme is expected to reduce the number of registered jobseekers by supporting more than 188,000 jobseekers or inactive people by the end of 2021; it also contributes to the increase of employment in the open labour market by trainings, wage subsidies and customised labour market services. The programme involved about 57,000 people prior to 31 March 2017.

Hungary **pays special attention to people under 25 years of age** in order to maintain maintain labour market figures of the youth, which have been improving rapidly in the last two years, and in the long run with hopes to further improve them. The Government decided to prolong the implementation and increase the budget of three programmes (active labour market programme, the programme encouraging the youth to become entrepreneurs, traineeship programme) that serve as the backbone of the Youth Guarantee System, and they have become available until the end of the programming period. The programmes support about 180,000 young people to gain employment or earn marketable qualifications with a total budget of HUF 235 billion until the end of 2021. The programme supported about 50,000 young people under 25 of age prior to 31 March 2017. People

under 25 years of age can be involved in public works programmes only if Youth Guarantee or other active tools do not offer real opportunities.

Fine-tuning of the client-profiling system (profiling) launched in 2016 and development of NES (National Employment Service) (40/a) continues in order to improve the efficiency and targeting of active labour market programmes. **The funds allocated for these programmes have been almost doubled (from HUF 2.6 billion to HUF 5 billion).** **Services of non-state organisations (40/c)** and labour market activity and capacity of **social partners are developed (40/d)** in order to increase the range of programmes available for jobseekers.

Hungary aims to achieve that as many public workers find jobs in the primary labour market as possible since the ratio of public workers in the available labour reserve is becoming more significant. In 2017 several measures are introduced and continued, in line with the recommendation of the Commission, which **promote transition from public work to the open labour market (42.)**. The programme “From Public Work to the Business Sphere” encourages people in public work to get a job in the primary labour market by granting **incentive bonuses, which are** the monthly amount of the employment substitution support for the period absent from public works. Also, within the framework of the programme, district offices (metropolitan district offices) provide labour market information and personnel placement for the most optimal placement. The programme “**Road to Labour Market**”, **applying active labour market tools**, provides wage subsidies (39.). Besides these on-going programmes, in 2017 “Active Transition to the Market” programme is launched, which supports and mentors participants in public works in a one-year timeframe; and “Alternative Prevention” is introduced which supports public workers who aim to find employment in the labour market. Transition from public works is also encouraged by lower public works wage increases than the minimal wage increases, besides the system of wage subsidies (42/a). The huge wage difference may increase local mobility as well.

The Government adopted an extensive **set of measures** in order to reduce the proportion of public work. The Government Decision 1139/2017 (III.20) has set the direction for **restructuring the public work system (41.)**. In 2017 **HUF 40 billion is reallocated** from public work resources to **the appropriation of active labour market policies**, also in line with the recommendation of the Commission, in order to **further strengthen active labour market policies**. Financial resources supporting the successful exit from public work will also be available in the following years as well. According to the decision of the Government, by 2020 **the monthly average maximum number of people involved in public works shall be decreased gradually to 150,000** from 224,000 in 2016. As of 1 June 2018, each person may be involved in public works for a maximum of 1 year within a three-year period, except when the person does not find a job with no fault on their part. As part of the programme, public **transport costs** in job seeking **are reimbursed** for public workers; the personnel placement function of NES is strengthened. Participants of the public work system are supported by **further law amendments (41/d)** (such as the increase of participation time in labour market service to 15 days, compulsory participation in training, and in the case of public employment succession, and the application of Labour Code regulations).

The public works system will be further available for those who are not able to find a job in the primary labour market. Better targeting of public work is supported by model programmes and **focus programmes of** locally operating **social enterprises** and **the Focus Programme of** (market-based)

social associations that help strengthen the self-sustainability of the social economy. The latter enables the interim employment of previous public workers (**Measures 44-45**).

The Government will continue the **training programmes for low-skilled unemployed people and public workers (43.)** in 2017, which is planned to involve 85,000 people in training with a budget of HUF 30 billion until the end of 2018. As part of the programmes, the goal is to hold trainings that contribute to developing competencies necessary for starting vocational training, inclusion, and acquiring qualifications based on labour market demand. The mentor service aims to provide for successful completion of training, maintaining training and preventing withdrawal from training. Within the framework of the measure, 34,560 people were involved in training until the end of 2016. The majority of participants (56.1%) took part in NQR (National Qualification Register – Országos Képzési Jegyzék - OKJ) trainings, which provide better chances for public workers to find employment in the open labour market. A significant part of the trainings focus on labour market shortages including professions in the field of industry and construction (e.g. hydraulic machining, mason, tiler, carpenter, shuttering carpenter) and other prestigious qualifications (e.g. cook, social caretaker and nurse, producer of meat products, gardener).

Further measures planned and implemented by the employment policy are included in the section regarding EU2020 employment targets.

III.5. Education Creating Opportunities

The strengthening and **systemic prevalence** of the opportunity-creating role of the public education system and of inclusive education are supported by regulatory and content developments, and by measures and programmes (e.g. capacity expansion in kindergarten, measures preventing unlawful segregation, targeted pedagogical programmes, networks, scholarship programmes, teacher career progression system), providing the extension of accessibility to quality education.

In education policy, in addition to the enforcement of equal treatment requirements, the Government is committed to improving the accessibility to opportunity-creating, quality education. The **draft amendment to the Act on Equal Treatment** (currently in progress), aims to enshrine further guarantee requirements in each education organisational form with its adoption to provide the prevention of segregation. . The bill has been submitted to the National Assembly. In order to prevent selections, a further guarantee element has been enacted in Act CXC of 2011 as well. As of January 2017, the elementary school admission district exercises its consent rights while being assigned by the Government Office, thereby the subsidiarity principle can be more intensively enforced. A programme has been made which aims to support the public education institutions where segregation is at the highest rate (**46.**). 300 public education institutions will be involved in the programme.

Several targeted measures provide for the promotion of the vulnerable, disadvantaged and multiply disadvantaged, including Roma, students' school success, and inclusive and integrated education (47.). Based on the experiences of previous years, these programmes and scholarships improve the results in their further studies and reduce the risk of drop-out; therefore these programmes and scholarships continue and were announced in the 2016/17 school year. The **Arany János Programmes** continue to promote disadvantaged students' secondary school progress in a complex way. In the 2016/17 school year, in the Arany János Talent Fostering Programme 549, in the Arany János Fostering Boarding Facility Programme 278, and in the Arany János Talent Fostering

Boarding Facility Vocational School Programme, 194 students started their studies in the ninth grade, and altogether more than 4,000 disadvantaged students took part in the programmes. The **“Tanoda” Programmes (47/d)** help disadvantaged, including Roma, students’ inclusion by extracurricular tools outside public education and complex development. The “Tanoda” programmes will be implemented by 278 schools in 19 counties until 2018; about 3,500 disadvantaged learners participated in the projects. The **“On the Road” (Útravaló) Scholarship Programme (47/c)** efficiently reaches the most socially disadvantaged learners by public education means (half of the eighth grade Roma pupils and 26% of the secondary school students are granted support) in the school year of 2016/17; its four sub-programmes provide scholarships from primary school education through the acquisition of a degree, and include mentoring.

The other main group of the measures includes **quality education and measures targeting the improvement of teachers’ performance (49.)**. One of its most important elements is the teachers’ advancement system. In order to make a career as a teacher more attractive and retain them in their career, the Government continues the wage increase programme within the framework of the teachers’ advancement system launched in 2013. Teachers’ salaries were raised by 3.8% in September 2016. The wage increase programme will be similar in September 2017 **(49/c)**. In the jobs directly assisting the education and training in public education institutions (e.g. child and youth protection supervisor, special education assistant), the employees have been provided 7+3% remuneration and pay raises since 1 January 2017 **(49/a)**. The teachers’ advancement system, including the wage increase programme, contributes to the increase of the teachers’ motivation and performance, thereby to the improvement of quality education. The **Klebelberg Teacher Training Scholarship supports higher education studies** and makes teacher training attractive to applicants, which primarily aims to provide the recruitment of appropriately trained and committed teachers with practical experience, and may result in the strengthening of teachers’ recruitment in public education in the disadvantaged regions. Since the introduction of the programme in 2013, the total value of the support has increased by eightfold (from HUF 80 million to HUF 680 million) and the number of applicants to teacher training by 65%. In addition to this, the measure contributes to the increase in the rate of those with tertiary or appropriate qualification.

III.6. Strengthening the Healthcare System

In Hungary, between 2005 and 2014, the number of healthy-life years increased by 6 in regards to both women and men. Life expectancy at birth is continuously increasing. According to the available data, the indicator improved by 2 years for women and 4 years for men between 2005 and 2014. The strategic priorities of the health sector have been laid down in the “Healthy Hungary 2014-2020” sectoral strategy. These priorities include the development of basic healthcare service, the strengthening of prevention activities, safer pharmaceutical supply of a higher standard provided for the public, the development of outpatient treatment, and the establishment of a sustainable, well-operating institutional system of hospitals. In Hungary the budget for the Health Fund has been increasing year by year since 2010. Moreover, it has increased at a rate exceeding inflation since 2012.

In 2013 and 2014, 61 Health Promoting Offices (hereinafter referred to as HPO) were established and started their operation to **support the prevention capacity of the healthcare system (50.)** within the framework of EU development. 20 of the established offices are in most disadvantaged and 18 in disadvantaged regions. From September 2013 until the end of 2015, 170,927 clients had a health check

in 61 HPOs, including the 20 HPOs in most disadvantaged with 46,569 persons. The data process of the 2016 client turnover of the HPOs is in progress, final data are expected in May 2017.

The wage increase of healthcare workers is occurring in 2017, **in order to handle doctors' migration and increase the ability of the sector to retain staff. Within the framework of the primary healthcare development**, 50 new praxis communities will be established by involving a further 400 praxes, and the range of proximity services will be extended **in order to decrease the regional inequalities of primary, general practitioner care.**

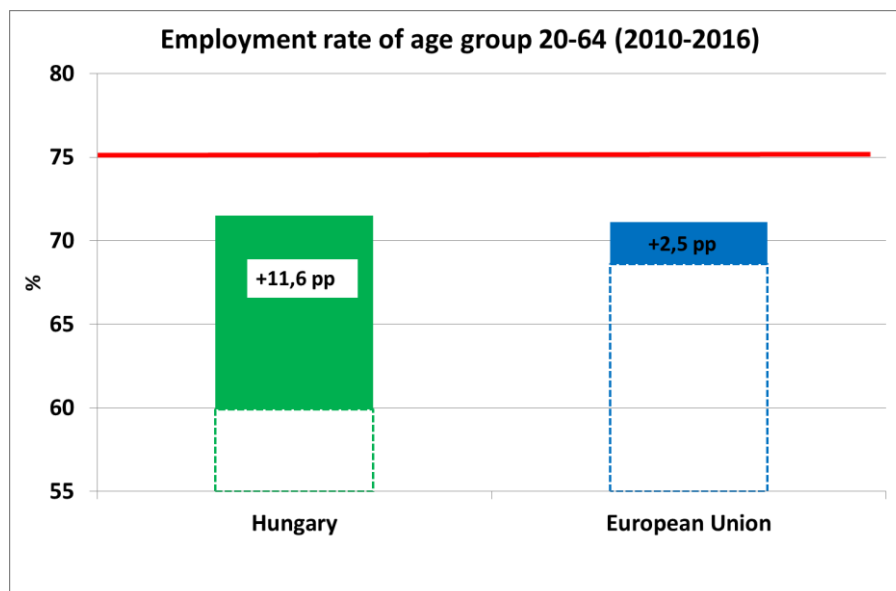
The development of overnight surgery and the increase in the rate of patients leaving the hospital within 12 hours, aims to replace active **inpatient treatment in order to reduce the unnecessary use thereof (56.)**. In September 2016, in order **to improve the infrastructure conditions of diagnostic and medical laboratories and provide resources for care**, two calls for applications were announced on the budget of HDOP (54-55) - thereby the treatment related to care can be made effective, the safety of patients can be increased, the conditions of pathology diagnostic activities can be improved and the infrastructure and instrumentation of domestic departments of pathology (including the county and national centres as well) can be promoted.

IV. ACHIEVING EUROPE 2020 TARGETS

IV.1. Increasing Employment

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

The employment rate increased to 72.6% in the age group of 20-64 in the last quarter of 2016, which exceeds the EU level, and shows a significant approach to the EU2020 target.



Source: Eurostat

In addition to the measures aiming at the implementation of the Country Specific Recommendations (Chapter III.4) the following measures also contribute to the fulfilment of the employment target.

According to the CSO data (in 2016) **the number of people employed was 4,352,000**, which significantly exceeds the number before the financial crisis (almost 3.9 million persons), while the number of unemployed people decreased to 235,000. The majority of the annual expansion of employment (126,000 persons) occurred in the **domestic labour market** (not including public workers), the number of people employed in public work increased by 15,000 persons, to 221,000 persons, as well as employment outside of Hungary increased by 5,300 persons to 116,000 persons.¹ The rate of employment increased to 66.5%, while the rate of 71% in the age group of 20-64 exceeds the EU level, and shows a significant move closer to the EU2020 target. At the same time, there are significant territorial differences in the change of employment, the number of employed people increased in Central Transdanubia and Northern Hungary to the greatest extent (above 4%), and in Southern Transdanubia to the smallest extent.

In addition to the increase of employment the economy still has labour shortages, according to the 2016 short-term labour market forecast of the Hungarian Chamber of Commerce and Industry, 33.1% (2015: 25%) of the companies reported labour shortages. This rate is higher than the 26.6% measured before the crisis. The number of job vacancies (including primary labour market and public work) was 96,000 in 2016 (2015: 73,000). The reasons for labour shortages can be traced back to qualitative, and geographical reasons. The tightening of supply side (primarily because of the growing shortage of skilled labour) and the growing number of vacant jobs applies territorially disproportionately. On the whole, only a minority of the public workers are able to acquire labour market jobs, and there are large regional differences. In Budapest, Pest, Győr-Moson-Sopron and Vas counties there are more vacancies than public workers, while in Borsod-Abaúj-Zemplén, Baranya, Békés and Szabolcs-Szatmár-Bereg counties the surplus of public workers is more than tenfold.

The salary of employees shows a significant increase, the real wage increased in 2016 at an annual rate of 7.4%, and at national level the real wage increased by 19.4% since 2012 (7.1% with a periodical inflation). The minimum wage increased in 2016-2017 and the general reduction in contributions will impact the provision of a skilled labour force meeting the demands in the coming years.

In order to further improve the employment situation of young people, the programmes targeting this age group are continuing **(57.)** - in addition to the benefits available in the Job Protection Act since 2013 - including the **Youth Guarantee system (57/a)**, which was introduced with a wide variety of instruments (education, training, wage subsidies, labour market services, traineeship programme, mobility support, support to become an entrepreneur, mentoring) at the beginning of 2015, The system is complemented with the **Youth Entrepreneurship programme (57/b)** and the **Traineeship programme (57/c)** promoting the acquisition of work experience. Within the Youth Guarantee system, the objective is to involve 180,000 persons in the whole period. About 50,000 persons took part in the Youth Guarantee Labour Market programme until 31 March 2017, out of whom 35,000 people participated in employment and 16,000 in trainings.

In addition to the active labour market measures (such as housing benefits and benefits for short-distance travel and carriage of passengers), **the mitigation of labour shortages and labour force**

¹ Based on the January-March 2017 data the labour market situation has further improved; in an annual comparison the number of employed people has increased by 106,000 to 4,368,000 persons,, while the number of unemployed people has decreased by 66,000 persons to 206,000, the number of public workers and those working abroad by 8-8,000 to 201,000 and 112,000 persons.

mobility (58.) have been promoted by the **support of workers' accommodation construction**, and by increases in the minimum wage and the reduction of social contributions.

The employability of women and parents with small children is supported by programmes, which have been announced to encourage the improvement of **flexible employment (59.)** and family friendly working conditions. By the end of March 2017, 710 enterprises planning to introduce flexible employment had been screened and their restructuring plan had been elaborated. In order to support the placement of the children, the targeted **improvement of day care (59/b) services** is in progress, within this framework of which every settlement municipality has to organise the nursery care where the number of children under the age of 3 exceeds 40, or at least 5 parents indicate a demand for services. In addition to this, the Government supported the establishment of **workplace nurseries** targeting about 2,500 new places within the framework of a tender scheme. A framework budget of HUF 6 billion was announced in March 2017. The available non-refundable subsidy of HUF 8-100 million can also be accounted for the establishment of workplace nursery sites, the acquisition of instruments necessary for care, and, in addition to the resources in staff (by considering the state subsidy regulations), for the training and competency development of parents with small children returning to work. The primary objective of the Government is to increase the number of locations provided for children under the age of 3 by 14,000, in addition to the existing ones, until 2020.

(In addition to the above-detailed programmes targeting the development of family-friendly workplaces and nursery capacities, the support schemes of kindergarten development aiming at the placement of children over the age of 3 also contribute to the improvement of the employment of mothers with small children, which are elaborated in Chapter IV.4 of Education.)

IV.1.1 Developing Vocational Skills

In addition to the trainings being implemented within the framework of the employment system, certain programmes are implemented in the organization of multiple-sized enterprises (“Supporting on-the-job training for employees of micro-, small- and medium-sized enterprises”, “Supporting on-the-job trainings for employees of corporations”). The framework budget for these training programmes is HUF 40.5 billion, with 40% of the trainings providing the development of professional competencies (NQR, or other specialised trainings) and one-fifth of the trainings being implemented as internal training.

The programme supporting the prevention of early school-leaving, which can be highlighted among the measures taken until 2017, aims to develop students' basic skills, makes vocational training more effective, increases school performance and makes them capable of lifelong learning. The supporting program for the institutional implementation is in progress.

The restructuring of the school based vocational training has been going on with the renewal of the institutional system and management structure of vocational training. 44 vocational training centres operate nationwide, with the integration of 377 vocational training institutions therein. (The number of the vocational training enterprises is not included in it.) The content renewal of the school-based vocational training (64.) supply is a continuous process; its primary aim is that the basic competencies and literacy necessary for lifelong learning are attained. Relevant skill competencies are provided for young people by various vocational training programmes, and more people are attracted to vocational training. The statutory foundation for this has already been established: the upper age limit of the participation in full-time vocational training has increased from 21 to 25, and

within the framework of adult education the adult population can obtain a second vocational qualification free of charge (since its introduction in September 2015, this opportunity has increased the number of participants in adult education by 44,000). Since September 2016, vocational school – called vocational secondary school – has become a school of five-year commitment, and the students can automatically continue their studies in the preparation year for the school leaving exam. The interoperability between vocational training and adult education is further increased by the practice gained in vocational training, and by the opportunity that the specialised training as a value of 50 credits can be included in the BA programmes.

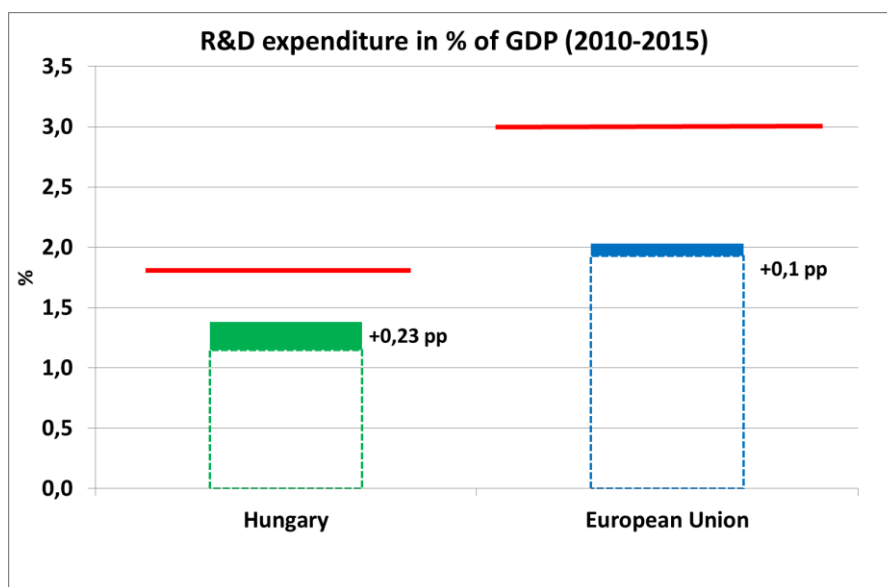
Further changes to vocational and adult training are under planning and elaboration. They will aim at effective and fast interventions, considering the characteristics of the system at the same time, thereby the intensity of companies' competitiveness can be provided by continuous, on-the-spot training, as well as the establishment of a school-based vocational training which is based on corporate interest and targets labour force recruitment. Vocational training will move from the previous supply-driven training system towards the demand-driven skill and training system. The expected changes in vocational and adult training policy in the near future are as follows:

1. **Making adult training regulations more flexible** so that the quality is not impaired but the efficiency increases (*e.g. easier access to NQR partial contents in adult training*);
2. Permanent **adult training shall become an integrated part of working** (*launching and enhancing on-the-spot training systems with a budget of HUF 45 billion from EU funds*);
3. **The role of employers shall increase in the fulfilment of training tasks**, new sectoral cooperation shall be made (*the establishment of the so-called sectoral skill councils shall be promoted on the basis of EU model*);
4. **The development of training contents**; competencies necessary for successful employment shall be focused on (*NQR reform by establishing vocational skills providing basic sectoral skills, by the reduction in the number of vocational skills by a merger thereof; content development with the competencies demanded by workplaces*);
5. **Providing labour force recruitment with the help of quality vocational training reform** (*providing more flexible student paths; further development of the dual student contract system, the establishment of career tracking system*).

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

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

In the past years **R&D expenditures** were 1.4% of gross domestic product (GDP). Between 2007 and 2013 there was a relatively gradual rise, primarily due to the expansion of entrepreneurial R&D capacity, which is also present in the number of researchers.



Source: Eurostat

The **National Research, Development and Innovation Office** (NRDI Office) is responsible for setting the R&D&I policy framework. The NRDI Office updates the National R&D&I Strategy and reviews the progress of the National Smart Specialisation Strategy in 2017 (65.).

Research, technology development and innovation are primarily supported by the Economic Development and Innovation Operational Programme (EDIOP) and the related Competitive Central Hungary Operational Programme (CCHOP), and the National Research, Development and Innovation Fund (NRDIF) with domestic financing. The schemes ongoing in 2016-2017 encourage companies' R&D&I activities (66.), the development of prototypes, industrial property right protection, and ecosystem development innovation in start-ups. R&D in the academic and higher education sector and networking are also granted support. The second phase of the implementation of the ELI laser research centre is a priority programme. The contracts concluded in the ongoing programmes have exceeded HUF 300 billion. The tenders being announced in 2017 further encourage R&D companies' activities and product development, and financing (loan) and enterprise developing (e.g. venture capital) programmes will also start.

Further calls to be announced in 2017: supporting companies' R&D&I activities (HUF 32 billion), companies' R&D&I activities combined with loan (HUF 120 billion), the Irinyi capital programme supporting enterprises in their growth phase (HUF 8 billion), exportable innovation development (HUF 15 billion), the Smart Specialisation venture capital programme (HUF 75 billion), and the National Technology and Intellectual Property venture capital programme (HUF 50 billion).

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

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

corporate tax, sole proprietors' personal income tax, local business tax and innovation contribution. Those paying corporate tax accounted for HUF 289 billion in 2015. Since 2016 local governments have been able to determine that the enterprises reduce the amount of their local business tax with 10% of the direct costs of R&D. More and more companies claim the tax relief extended to the researchers who participated in doctoral programmes in 2014. In 2016 they enjoyed the benefits of the tax relief accounting for about one thousand researchers and PhD students. The incentive on tax side is supplemented with a R&D classification system.

The more effective allocation of R&D tax relief and the incentive for R&D investments are provided by the **classification procedure system**, which was further developed in 2016, before HIPO. This was mainly claimed for the use of EU-funded R&D supports and for the tax relief in 2016. From 2017, the so-called project group classification procedure will also be available (the classification decision may extend to the total research activity done in one tax year).

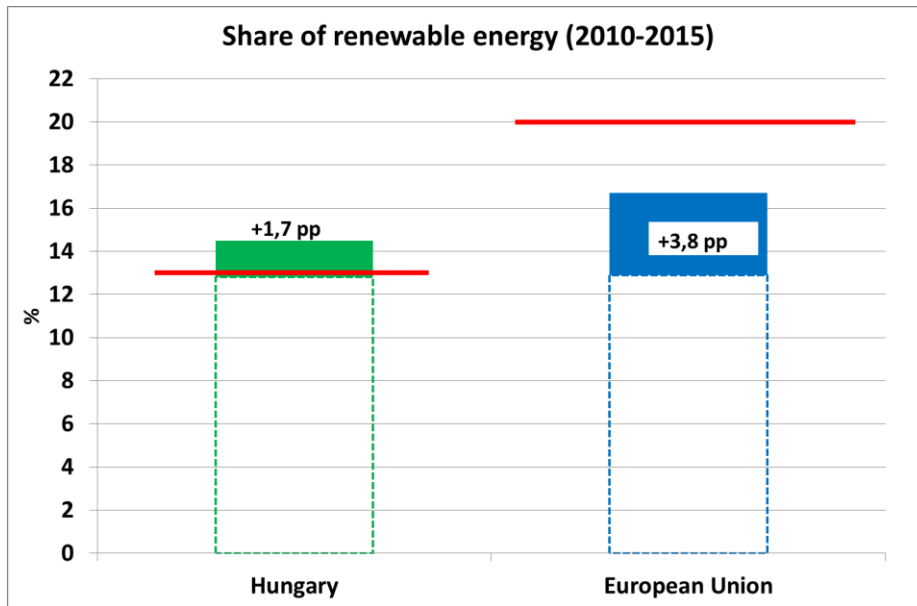
The renewal of the doctoral training and the nearly-doubled framework budget of the New National Excellence Programme of 2016 supporting students and young instructors and researchers provide for the **recruitment of researchers** (*the detailed description of the measure is included in the chapter on Higher Education*).

In 2016 **HAS** supported 53 **research groups** within the framework of the Momentum programme with HUF 3.6 billion (in 2016, 11 research groups were granted support). The HAS also supports new research groups between 2017 and 2022 (they are going to establish 70-80 research groups in 2017). In addition to the support of Momentum and research groups the HAS is going to operate smaller grant schemes in 2017 as well.

IV.3. Transforming Energy Production and Usage

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

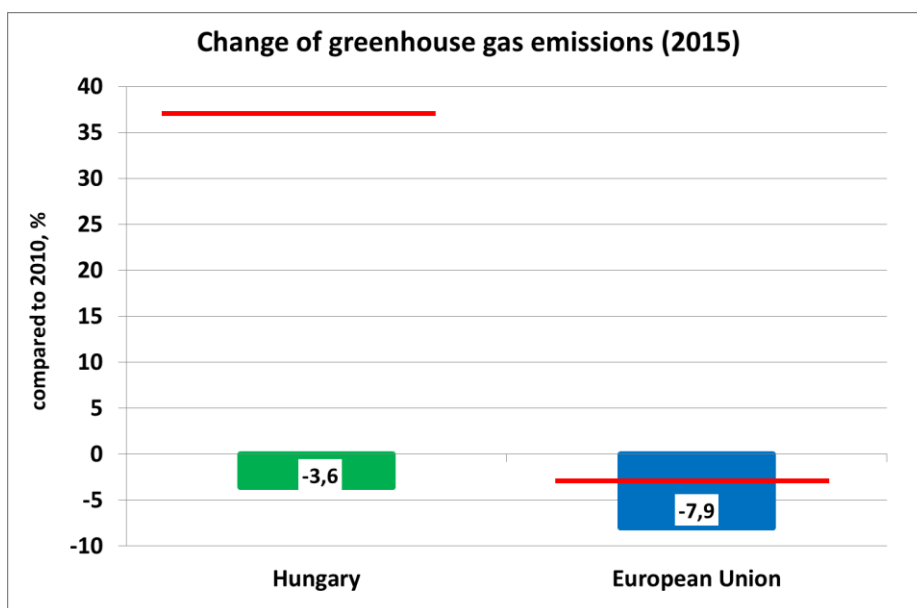
The mandatory figure related to the renewable energy rate has been achieved following the statistical revision of Eurostat data.



Source: Eurostat

The household biomass data (mostly firewood) reviewed by the Hungarian Energy and Public Utility Regulatory Authority, with regard to the EC Regulation 431/2014/EU, and the 2015 statistical data regarding renewable energy, was published by Eurostat on its webpage on 14 March 2017. On the basis of the survey, the household biomass use has been underestimated by the methodology applied so far. The results of the new data collection have also been justified by building energy calculations carried out on domestic residential buildings by the Hungarian Chamber of Engineers. The most significant change affects the proportion of renewable energy use in Hungary, as the direct use of biomass for heating is also included in the proportion of renewable energy according to the relevant EU directive. It can therefore be concluded that by 2015 we had achieved the mandatory 13% target figure set for 2020 in the RED directive by the EU; moreover, we have exceeded it. The voluntary 14.65% target figure is expected to be achieved by 2020.

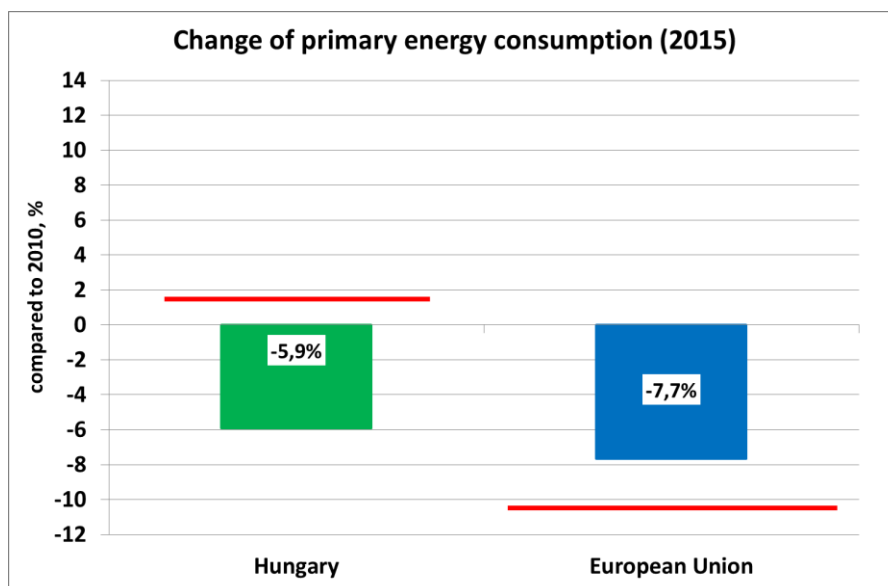
The effective implementation of the National Climate Change Strategy shows that Hungary has managed to gain its commitment encompassed in the Kyoto Protocol and to the EU pro rata temporis. The greenhouse emission shows a 39.2% reduction compared to the base year of 1990, and 24.6% compared to 2005.



Source: Eurostat

In the sectors not falling under the EU Emission Trade System (EU ETS) Hungary has exceeded the target of 2015 by 5%. These results are not only the consequences of the collapse of large industry before 1990, but half of the reduction in emissions is the result of the policies of the past 15 years.

Energy use in Hungary, as a result of the enhancement of economic growth, showed a slight increase in 2015: primary energy consumption decreased from 21 million tonnes of oil equivalent (TOE) in 2014 to 22.3, the final consumption figure increased from 15.2 to 16.3 million TOE.



Source: Eurostat

The **elaboration of the National Energy Efficiency Action Plan IV** is in progress (70.), which will be finished by the review of the National Energy Efficiency Action Plan III. One of the most significant effects of the energy efficiency action will be the establishment of the advisory network in 18 county

and 58 district government offices in 2017. The advisors' task will be to provide public institutions, including local governments, enterprises' energy efficient operations, and households with professional advice in reducing energy consumption. Significant energy efficiency gains are expected from corporations as a result of their obligation to prepare the energy audit and employ an energy programme officer, and of the corporate energy investment tax relief for every enterprise introduced on 1 January 2017.

Based on the updating of the National Energy Strategy forecasts, the review of the **Renewable Energy Use Action Plan of Hungary (71.)** is also in progress. The action plan aims to determine the method for meeting the obligations of 2020 defined by the Renewable Energy Directive and put forward the sector objectives and measures based on the updated energy consumption forecast.

Within six months (planned in spring 2017) following the adoption of the second National Climate Change Strategy by the National Assembly (which is expected in spring), and then every three years, a Climate Change Action Plan will be prepared. The **Climate Change Action Plan (72.)** determines the actual measures necessary for achieving the goals set in the strategy. The decarbonisation, adjustment and awareness-raising measures are also included.

The **support schemes promoting the use of renewable energy sources and the improvement of energy efficiency** are ongoing and under preparation (**73.**). The Green Economy Financing System (GEFS) has been a crucial resource for the support plans for the households since 2014, which is financed by the quota income of the EU Emission Trade System. The sub-programmes so far have provided the energy modernisation of about 120,000 households with a total budget of around HUF 23 billion. In the first half of 2017, three sub-programmes are going to be implemented: on 9 March 2017, sub-programme No. 8 of the "Warmth of Home" (Otthon melege) programme was published with a framework budget of HUF 3.5 billion, which provides non-refundable subsidies for the heating modernisation (replacement of gas boilers) of family houses and flats in apartment buildings. Sub-programme No. 10 of the "Warmth of Home" programme is expected to be announced in May 2017, with a framework budget of 1.5 billion, providing non-refundable subsidies for the replacement of gas boilers. The Government plans to announce a sub-programme providing support for the replacement of washing machines/washing-drying machines or fridges/freezers in April 2017.

The **legislation providing the foundation for the operational support scheme of electric power production from renewable energy sources (METÁR)** was adopted in December 2016. In the new system, the renewable power generation plants will sell electricity in the market on their own (except for those getting benefits of feed-in tariffs). There will be a change in grant allocation: as a main rule new support can only be granted in a competitive bidding procedure. This provides for the optimal, cost effective use of the supports. Certain details of the regulation are under consultation with the European Commission (notification). The METÁR system was partially (without brown premium and demonstration projects, with a reduced return of 3%) introduced on 1 January 2017. The whole METÁR can only start following the notification procedure of the Commission, which is expected in the first half of 2017. Within the framework of METÁR, the support of the brown premium and demonstration project will also be available. In the case of METÁR, a fair return (app. 7%) is expected as in the previous support scheme of electric power production from renewable energy sources (KÁT).

The **developments related to waste management (74.)** continue in 2017 as well. The related measures include prevention and developments promoting the recycling of waste products, the

development of delivery and pre-treatment systems regarding non-selective municipal waste, hazardous waste, and bio-waste (primarily waste paper, plastic, metal and glass) of recoverable components as part of municipal waste. In addition, a new utilisation capacity will be developed for the reuse of waste to the greatest possible extent in order to minimise dumping, and the existing utilisation capacity will be increased and modernised and technology will be developed. Further goals are landfill reclamation, the diversion of biodegradable waste from the landfill, the dissemination of local community and home composting, the increase in use of compost, measures promoting the reduction of foodstuffs waste and the exploration of possible uses of secondary raw materials produced from waste.

The **separate waste collection system (75.)** launched in 2015 is continuously developing in regards to household waste, including glass, metal, plastic and paper. Within this, the delivery of selective household waste, including paper, plastic and metal shall be provided by the household collection system. Thereby the rate of recyclable waste increases and less waste is delivered to the landfill. The Government plans to involve further 4 million citizens in the household selective collection system.

IV.4. Enhancing Education

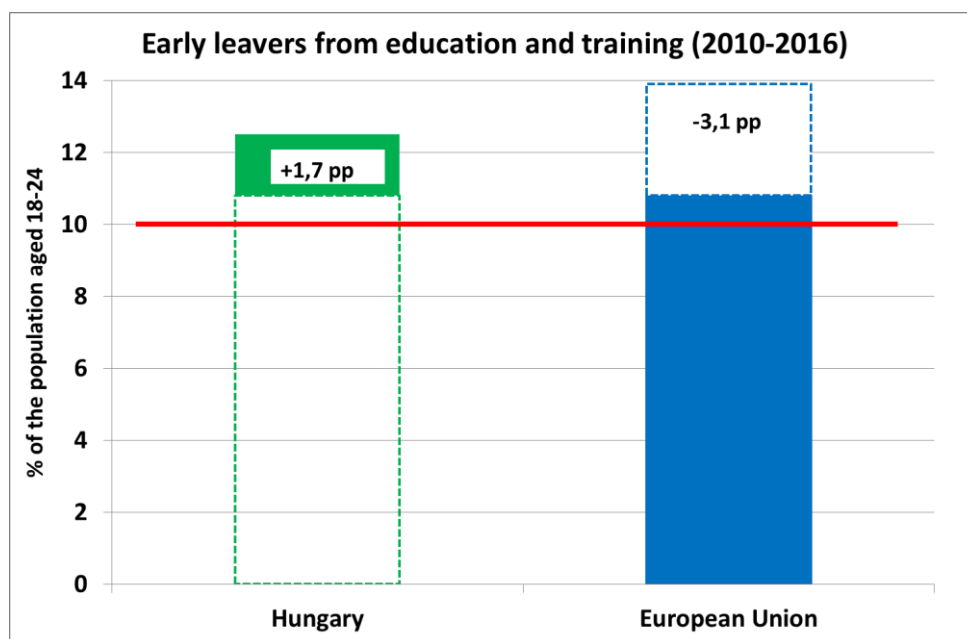
As part of the Europe 2020 Strategy , Hungary is committed to increasing the rate (aged 30-40) of those having tertiary or equivalent qualifications to 34% and reducing the rate (aged 18-24) of early school-leavers to 10% by 2020.

IV.4.1 Reducing Early School Leaving

As part of the Europe 2020 targets for the improvement of qualification level, Hungary is committed to reducing the share (aged 18-24) of early school-leavers² to 10% by 2020. In 2016 the preliminary estimated rate of early school-leavers was **12.5%**³, higher than the EU average (10.8%). Hungary's most important goal is to prevent drop-outs in order to reduce the rate of early school-leavers, to promote the school success of student groups jeopardized by leaving school without qualification, and helping those leaving formal education early to obtain a qualification.

² The rate of those aged 18-24 who have not completed upper-secondary education and do not participate in education or training at the time of the data collection. The definition of upper-secondary education: secondary educational attainment, or vocational qualification at level NQR 3.

³ Source: Eurostat LFS, 2016



Source: Eurostat

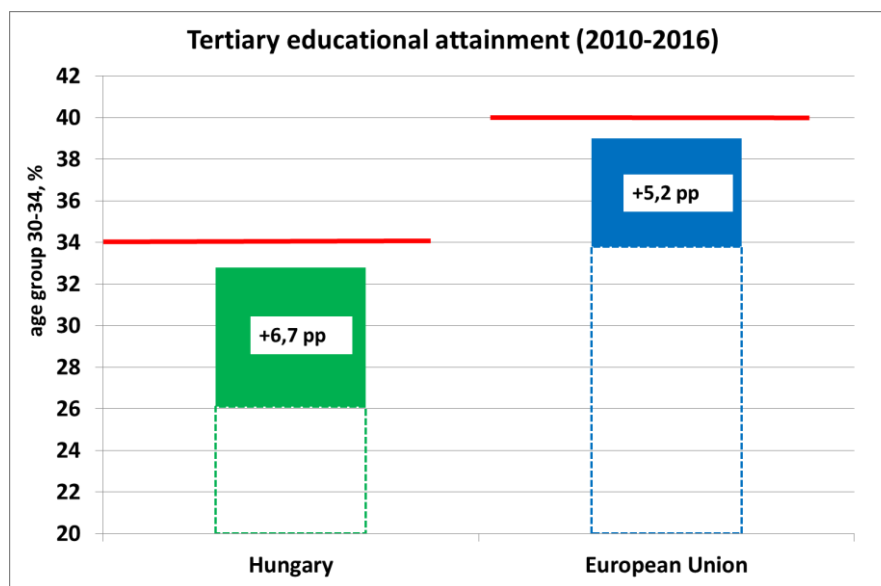
The **medium-term strategy action plan to prevent early school-leaving without qualification** was adopted by the Government in 2016. The systemic interventions at institutional and individual levels included in the action plan may contribute to the medium and long-term reduction in the rate of early school-leaving and of drop-outs in the age group of 18-24. One of the most important systemic measures of the action plan is the **early warning and pedagogical support system (77.)** to prevent drop-outs, which was introduced in November 2016. The **early-warning system with diagnostic aims** promotes the early intervention reacting to individual needs of students facing problems which prevent progress, and provides help for teachers and institutional management with the provisions of pedagogical professional support. The initial stage of the early-warning system is followed by developments supporting the operation. The development and capacity extension of the institution system aiming at quality kindergarten education and special development programmes and programmes creating an equal opportunity focus on **early childhood education and development** (the establishment of new local government kindergartens, the increase in the places in local government and municipal institutions providing for the fulfilment of kindergarten tasks and the related developments). The support targeting the local adjustment to the increased demand of mandatory kindergarten from the age of 3 was determined in HUF 2.5 billion in the Budget Act for the settlements, and the implementation of the kindergarten development programme concerning at least four educational years continues from EU funds. In addition to this, the Government has allocated HUF 1 billion to support the development of local government food service for children.

The third type of the measure group of the action plan aims at the **students' key competency development** and **making the educational structure more interoperable**, which supports the targeted development of key competencies and provides the support of individual and alternative learning methods. The objectives are supported by **the non-formal and informal learning programmes promoting public education and lifelong learning (78.)** implemented in cultural institutions, with the participation of more than 850,000 persons until 2016.

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

IV.4.2 Restructuring Higher Education

In 2013, Hungary achieved the higher education target figure (30.3%) committed to in 2010, so it **modified the target figure to be achieved by 2020 to 34%** in the National Reform Programme of 2015. According to the 2016 temporary data, the rate of those with tertiary qualification was 32.8% in the age group of 30-34.



Source: Eurostat

The strategic document of “**A change of pace in higher education**” adopted by the Government in December 2014 aims to establish a performance-based tertiary education system providing higher quality as a sectoral goal, in addition to the effective use of resources. In 2016, by meeting the ex-ante requirements for the structural funds, the “**A change of pace in higher education medium term policy strategy**” was revised by considering the changes and the implemented interventions in the previous two years, without changing the goals and target system. The focal points of the strategy are still the incentive for the application to the relevant training fields of the labour market, including the increase of students’ preparedness, the support of students’ successfulness and thereby the reduction in drop-outs, the preparation for the activity in corporate working environments and successful employment in the labour market.

The **wage settlement of instructors and researchers in higher education is gradually implemented (79/d)** from 1 January 2016 until 2018, which aims to make a career in higher education more attractive to teachers and instructors. As a result of the three-stage measure affecting about 15,000 persons in public higher education institutions, the instructors and researchers’ minimum remuneration will increase by 25% until 2018.

The previously EU co-financed National Excellence Programme was replaced by **the New National Excellence Programme financed through the Hungarian state budget (79/c)**. The basic aim of the

scholarship programme is to improve scientific recruitment, make scientific careers more attractive, enable excellent instructors and researchers to stay in their jobs and to encourage the scientific performance of universities. The programme, parallel with individual scholarships, also provides research and operation support for higher education institutions.

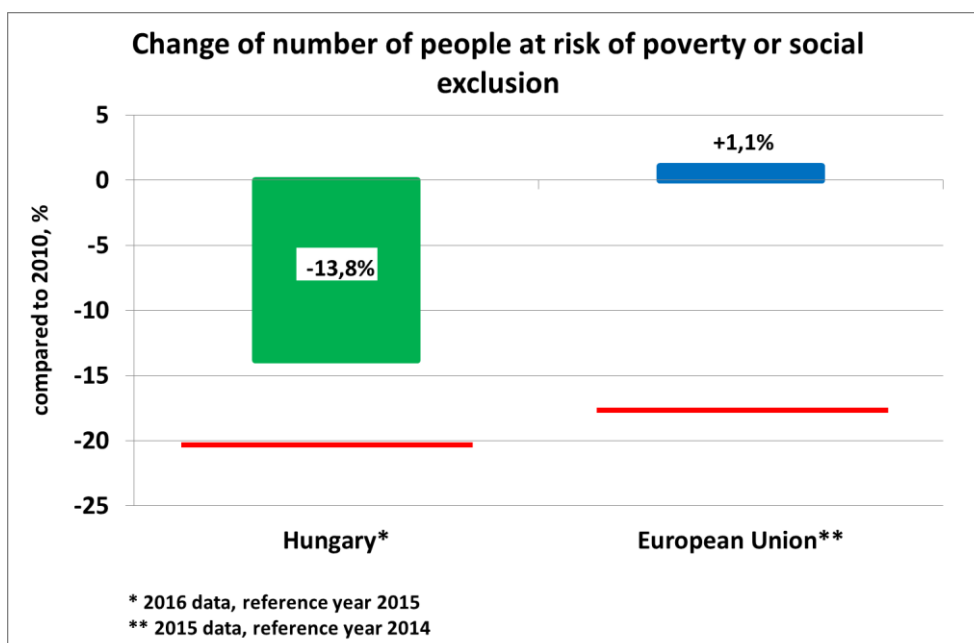
In order to increase the rate of those obtaining a doctoral degree, the **structural renewal of doctoral training (79/a)** was launched in the school year of 2016/17. Within the framework of the transformation, the training period has been extended by one year, a complex examination has been introduced in the middle of the training period, and a significant increase in scholarships will promote student interest.

In order to mitigate the lately emerged labour shortages in the **STEM fields**, the **senior students' career orientation (81.)** is continuous in the public education institutions. Within the framework of the project, mathematics, scientific, informatics and technical careers in the fields of mathematics, science, technology and informatics are promoted, and the related competencies are developed. From spring 2017 an **educational innovation and training development project (80/c)** is going to be launched with a budget of HUF 1.35 billion, with regards to skill shortages. Within the framework of the measure, intensive developments will be completed in special fields of domestic higher education, where there are labour shortages due to labour market demands and decreasing headcount trends.

The increase in the number of Roma students with a qualification, their academic success and the incentive for their social engagement, using the **“Support of Roma Colleges for Advanced Studies” (84.)**, (the measure is recorded in the chapter of social inclusion of the Annex) are of primary importance for the Government. There are altogether 11 Roma colleges for Advanced Studies in Hungary, which help several hundreds of young Roma with university or college studies. In 2013, the proportion of young Roma in higher education was 0.5%, however, in the last school year it was 1.7%.

IV.5. Reducing Poverty

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



Source: Eurostat

The poverty-related data for Hungary have been improving continuously and significantly; the latest 2016 data from HCSO (related to 2015) show that the rate of those at risk of poverty or social exclusion is 26.3%, which shows a 1.9% percentage points reduction compared to the base-level data of 2008 (28.2%). 2,541,000 people of the total population had disadvantages in at least one dimension of poverty or exclusion, which is 194,000 persons less than in 2014. In 2015 the rate of income poverty was 14.5%, which is by 0.4% percentage point less than in 2014. The rate of those living in severe material deprivation further decreased: while in 2014 it affected 19.4% of the population, in 2015 the rate was 16.2%. A significant improvement was achieved in the field of child poverty; the income poverty rate has been reduced from 22.7% to 19.9% among those under the age of 18, which is an improvement of 2.8 percentage points compared to 2014. The data related to the Roma population have also improved: according to the latest CSO data related to 2015, the rate of those at risk of poverty or social exclusion among the Roma population is 82.8% (2014: 83.7%; non-Roma population in 2015: 24.9%, in 2014: 26.8%). The situation of certain poverty dimensions regarding the Roma: in 2015 income poverty was 54.7% (in 2014: 63.6%), in 2015 job poverty was 35.9% (in 2014: 26.7%), and in 2015 severe material deprivation was 63.9% (in 2014: 67.8%). The permanent reduction in overhead, the resolution to the fx-loan debtors' situation, the effects of the wage increase, the employment policy tools and the family-friendly measures have also played a decisive role in the improvement of poverty indicators.

The development trends helping disadvantaged people, including the Roma, have been assigned by the Hungarian National Social Inclusion Strategy. The measures for social inclusion will primarily have their effects in medium and long-term results; therefore it is necessary to build them on each other by taking into consideration the continuity between the certain measures and the experiences. Accordingly, the strategy developments continue and are launched in five main intervention areas:

1. The developments from the earliest possible age involving the parents and considering regional disadvantages provide for the **increase in opportunities for children**, through which social integration is strengthened by the adaptation to kindergarten, school, labour markets and local

society. Parents' competencies are strengthened and the recurrence of poverty can be broken in case of affected children. The so-called Chances for Children complex programmes operating in the most disadvantaged (MD) small regions provide the facilities to improve the situation of families with children in difficult conditions in the 23 small regions, through the development of local services and cooperation to increase the opportunities for children. From 2014-2020, the continuation of the "Integrated regional child programme" will be extended to 31 districts, and will more heavily focus on the small regions with service shortages than they did previously. In addition to the 112 already operating "Sure Start Children's Houses" about 50 may further be established and 80 "Good Place to Be" services may be launched in the coming years. In the interest of the targeted support of children in need, the 2017 budget provides HUF 2.17 billion more, a total of HUF 6.67 billion budget for food services for children in need, which has become a new obligation for local government since 2016. (84.)

2. Services, scholarships and mentoring preventing drop-outs from kindergarten to university are available to the disadvantaged and multiply disadvantaged children and students in the field of creating opportunity in education. (47/b,c,d,e)
3. Within the framework of the programmes creating employability for and increasing the level of the skills of **disadvantaged people**, especially Roma, **with low-level of or no educational attainment**, the aim is that they finish the 8-grade elementary school and to reduce functional illiteracy by socializing trainings and work trials. The "Actively for knowledge" priority project gives a chance for those being the farthest from the labour market, which is implemented by the involvement of 25,000 persons, out of which 12,000 persons are expected to participate in development trainings. (85/a)
4. In cases of **Roma people, especially Roma women**, a training programme embedded in employment helps increase the rate of their employment, which is well below average; on the other hand, it promotes the increased availability of services through their employment in primary and specialised social care and in the child welfare and protection systems, and helps those struggling with the most severe disadvantages develop trust in institutions. Within the framework of the "Growing Chance" scheme (85/b) altogether 800-1,000 Roma people, primarily women, have been employed in public service and provided with the necessary training.
5. The complex programmes eliminating segregated settlements (85/e,f) including human and infrastructure elements built upon each other provide for **housing integration** of those living in segregated residential areas and in deep poverty, which helps those living in segregated settlements access training, employment, healthcare, social and other services, and improve their housing conditions and move to sustainable integrated residential areas.

Within the framework of priority programmes a booster mechanism helps the prevalence of the developments so that they reach the most disadvantaged target groups at the highest possible rate and effectiveness. The complex programmes, such as the increase in the opportunities for children, creating opportunities in education and complex segregated settlement programmes are accompanied by specialised priority support schemes, which prepare the professionals working in certain programmes, provide the necessary methodological background and carry out professional monitoring of processes and facilitate nationwide coordination. A specialised presence programme is going to be launched in the five most underdeveloped districts.

In order to **increase the employment of people with reduced capacity to work** "The development of professional processes in employment rehabilitation" (87/b) will be implemented, which aims to increase the integration and life opportunities (including employment prospects) of people with

reduced capacity to work, and the “Support of people with reduced capacity to work” project (87/a) continues, which involved altogether 4,500 persons until 30 March 2017. The extension of the entitlement for the rehabilitation card (which is a social tax relief for the employer) to clients in category B2 and C2 (87/c) has positively affected about 142,000 persons since 1 January 2017.

In order to reduce regional inequalities the “**Endless Opportunity – Pilot “presence programme” development (86/a)**” is launched based on the professional presence programme in the five most disadvantaged districts, which, in addition to the support of the local communities, promotes the policy to take the most appropriate measures for the inclusion of people in the most afflicted situations, and for the application thereof. In order to achieve this, “repeatable”, adaptable interventions, procedures, innovative tools filling the system gap and operational methods based on cooperation are modelled, which are followed by process evaluation so that good practices (for the purpose of their sustainability) can later be incorporated in the social care system (services, trainings of professionals).

The Government supports the people socially in need with different care forms. In order to **support the people with extremely low incomes and with reduced capacities to work**, several measures have been launched (88.), and both care allowance and old-aged allowance have increased by 5%.

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

The harmonisation of the use of the European Structural and Investment Funds (ESIF) with the Country Specific Recommendations and the Europe 2020 Strategy targets

In the 2014-2020 programming period, the consideration of the EU Country Specific Recommendations and the Europe 2020 Strategy targets in the use of European Union funds is of primary importance for Hungary. This is evidenced by the fact that the planning and social consultation of the Operational Programmes commenced in 2014, moreover, the first programme was approved by the European Commission at the end of 2014.

Hungary supports the implementation of the EU 2020 Strategy with 10 adopted and approved thematic Operational Programmes, which contribute to the implementation of the Country Specific Recommendations in the fields of business environment, employment, education and social inclusion.

Resources are not directly allocated to the 2016 Country Specific Recommendation No. 2, however, the 2013 Country Specific Recommendation No. 5, prior to the adoption of the programmes, included elements of the development of innovative enterprises and the improvement of business and the regulatory environment. The operational programmes contribute to the **Country Specific Recommendation No. 2**, primarily by making the adaptation to the regulatory environment easier, secondly and indirectly by the improvement of the administrative and infrastructure environment in conformity with the previous years’ Country Specific Recommendations.

Framework budget of programmes contributing to the Country Specific Recommendations and the EU 2020 Strategy (HUF billion)

CSR	EU2020 target	PADOP	HDOP	EDIOP	TOP	CCHOP	EEOP	ITOP	RDP
CSR1	Budget								
CSR2	Indirectly: improving the regulatory environment	94.1 ¹				18.0 ¹			
	Indirectly: improving the business environment			674 ³	259.7	8.8			21.3
CSR3	EU2020-1 Employment		79.9	682.9	358.2	54.5			
	EU2020-4, Education		518.2	10.0		19.5			6.2
	EU2020-5, Social inclusion		207.1 ⁴		71.6 ⁵	16.2 ⁶			
	CSR3 total		691.4	692.9	371.5	74.0			
	EU2020-2, R&D			607.6		43.8			25
	EU2020-3, Energy and climate			226.7	453.4	38.3	290.6	130.9	82.1
Total		94.1	805.2	1527.2	883.2	190.3	290.6	130.9	113.3
Aggregated budget of Operational Programmes		362	1042	2443	1275	283	1181	1848	1244

¹ PADOP priorities 1 and 2 support the reduction of administrative burdens and the development of a provider public service by altogether a further HUF 196.4 billion, and CCHOP by HUF 37.5 billion.

² The programmes targeting business environment are not included in the aggregation.

³ This item indirectly supports the development of enterprises through EDIOP priorities 1, 3, 8.

⁴ HUF 113.8 billion from this cannot be directly included in CSR3.

⁵ HUF 58.3 billion from this cannot be directly included in CSR3.

⁶ The amount cannot be directly included in CSR3.

PADOP priority 1 on reducing administrative burdens shall be highlighted, which contributes to the improvement of the business environment with the reduction in time and cost spent on administration and the extension of matters that can be arranged electronically through the development of an administrative infrastructure. The joint programmes of PADOP (HUF 79.9 billion) and CCHOP (HUF 15.3 billion) targeting the reduction of administrative burdens and directly affecting the enterprises have been announced with a budget exceeding HUF 95 billion. PADOP priority 2 focuses on the ethical operation of and the increasing service approach in public service. The programmes are co-financed by CCHOP with HUF 2.7 billion, within which a budget of HUF 14.2 billion explicitly contributes to the performance of the recommendation on the transparency of the use of public money.

Business infrastructure and companies' entrance and capacity increase and investment willingness are supported by CCHOP in a further value of HUF 18 billion, and by RDP in HUF 21 billion, while further HUF 616 billion and HUF 58 billion can be found in EDIOP priorities 1 and 2, which are explicitly and primarily aimed at the establishment of favourable conditions in the business environment. The development of the business environment also appears in TOP, where tenders with a total value of HUF 260 billion are aimed at economic, regional or public service development.

The key elements of the **Country Specific Recommendation No. 3**, especially the further improvement of the labour market and educational results, determine the priorities of HDOP, EDIOP,

TOP and CCHOP. The total budget of the tenders contributing to the implementation of the Country Specific Recommendation No. 3 in HDOP exceeds HUF 691 billion, most of which, HUF 518 billion, aims at the improvement of the conditions and results of education. In addition, HDOP especially deals with the inclusion of disadvantaged groups, for instance the “On the Road” scholarship programme, providing participation and mentoring for at least 9,000 disadvantaged persons, primarily Roma students. Several programmes have been developed to jointly implement qualification, employment and social goals, such as “Actively for Knowledge” with the aim to increase the qualification level and the employment chances of disadvantaged people, including Roma, aged 18-55.

In EDIOP a total budget of HUF 693 billion is available for the objectives of recommendation No. 3, nearly all of which (HUF 683 billion), contributes to the increase of employment. Parallel to this, nearly HUF 130 billion is also provided for the improvement of labour force qualification. The priority axes of EDIOP are also organised along these goals: the framework budget of the tenders within priority 5 on employment and priority 6 on competitive labour force, in the form of non-refundable subsidies, is HUF 648 billion, this is supplemented with further HUF 29.5 billion within priority 8 on finance instruments, and with HUF 15.5 billion from infocommunication priority.

All of the above are supplemented with CCHOP including the developments of the Central Hungarian Region with a budget of HUF 74 billion, which partly includes co-financed programmes in addition to HDOP and EDIOP, while the main emphasis is put on developing human resources. Within TOP, targeting the less developed Hungarian regions, nearly HUF 372 billion is provided for jointly achieving economy development and employment goals. The emphasised areas are the development of family-friendly institutions and public services helping to start work, the development of transport encouraging labour force mobility, and the support of employment agreements and cooperation at county and local levels.

Many operational programmes contribute to the five major thematic targets, while the first and fourth targets, i.e. the areas of employment and education also appear in the Country Specific Recommendations. However, the focus of the recommendations partly divert from the content of the Europe 2020 Strategy indicators, the two types of targets are often implemented jointly as the element of the operational programmes.

Every active labour market policy included in recommendation No. 3 contributes to **the employment target of Europe 2020 Strategy 1**, while the passive labour market policies primarily appear in the Country Specific Recommendation No. 5 aiming at the mitigation of poverty. The programmes primarily promoting the increase in employment rate have been included in the already mentioned HDOP, EDIOP, TOP and CCHOP, with a budget of HUF 80 billion, HUF 683 billion, HUF 358 billion and HUF 54 billion respectively. In addition, several programmes with social or educational priority highlight the preparation for the labour market as secondary objective.

The performance of research and development objective No. 2 is provided by EDIOP priority 2 on research, development and innovation with HUF 608 billion, in which priority 8 provides a loan of HUF 167 billion in finance instruments. CCHOP provides HUF 44 billion for research and development in priority 2. HDOP Smart Specialisation provided by institution development, the tenders for “Thematic research network cooperation” with an amount of HUF 46 billion, and the tenders for the establishment of RDP agricultural and innovation groups and the implementation of innovation projects in a value of HUF 25 billion also deserve attention.

Energy target No. 3 is of increased emphasis in the environmental and energy-efficiency programme. Priority 5 of EEOP on the increase of energy efficiency and the application of renewable energy provides more than HUF 290 billion, primarily for the support of the modernisation of green electricity production and district heating, the incentive for building energy efficiency investments including buildings with almost zero energy demand, and the dissemination of local and solar energy resources. The protection of renewable energy sources and the reduction in harmful waste emission are provided by EEOP priority 3 indirectly contributing to the energy target with a further HUF 127 billion to waste management development and a separate collection system.

ITOP supports the reduction of energy usage and the mitigation of harmful emissions by programmes expanding the passenger rail based transport network and directly favouring public transport with a further HUF 130 billion. EDIOP with a framework budget exceeding HUF 226 billion encourages the implementation of energy policy objectives, mainly by developing public and SMS's building energy applying energy efficiency and renewable energy. TOP, CCHOP and RDP allocate a further HUF 187 billion, HUF 38 billion and HUF 82 billion indirectly for energy and renewable energy investments, and TOP directly contributes to the performance of energy objectives with a further HUF 266 billion through sustainable transport development, brownfield rehabilitation and green city programmes.

Education target No. 4 cannot be clearly separated from the programmes introduced in this area of country-specific recommendation No. 3. The most highlighted education development programmes have been announced by HDOP with the above shown budget of nearly HUF 518 billion (infrastructure development, teaching material development, professional training, and thematic cooperation). CCHOP with a direct budget of HUF 19.5 billion provides the operation of the "Útravaló" scholarship programme supporting higher education scientific workshops, Roma special colleges and disadvantaged people, in addition to the modernisation of public education. Within the framework of EDIOP and RDP HUF 10 billion and HUF 6 billion directly contribute to education, but several programmes support the trainings and development of digital knowledge of targeted areas as a secondary target, which beyond school-based trainings but having an impact thereon, strengthen the basic competencies necessary for the labour market and lifelong learning, and contribute to the reduction in the rate of early school-leavers.

Poverty target No. 5 appears as a social background for several programmes, and certain elements of HDOP, CCHOP and TOP target directly the mitigation of relative poverty and social exclusion with their programmes strengthening labour market integration and providing a qualification. The largest budget is provided by HDOP directly targeting the reduction of poverty, where the programmes with HUF 207 billion jointly support the elimination of segregated life situations and the integration of disadvantaged people as a priority, while "Housing First", "Chance at Home" and "Sure Start Children's House" programmes are also included. CCHOP with HUF 16 billion, and TOP with nearly HUF 72 billion contribute to the improvement of the living conditions of the population underdeveloped compared to the rest of the society regarding income or culture.

VI. INVOLVING SOCIAL PARTNERS

The social consultation and the involvement of stakeholders in the National Reform Programme 2017 have been carried out in two stages, according to previous years' practices. In the first stage the ministries responsible for the measures involve their own partners in the preparation and planning of certain laws, programmes and other measures. Their forms vary depending on the nature of the measures of the field and the adopted practice thereof. In the second stage the Ministry for National Economy organised several workshops so that the ministries and professional organisations implementing the Europe 2020 Strategy could jointly evaluate the progress in the strategy, and make proposals for a more effective achievement of the objectives. Following its submission the National Reform Programme is also discussed by the Committee on European Affairs of the National Assembly.

VI.1. Public consultations supporting the implementation of the Europe 2020 Strategy

The significant increase in the minimum wage and guaranteed wage minimum in 2017-2018 have been agreed upon on the Business Spheres and the Government's Permanent Consultative Forum (VKF) as a result of several-weeks-long negotiations in multiple rounds. The amounts of the increase equal to the Government's original proposal, but the extent of the reduction in the social contribution tax has increased compared to the original proposal, and the reduction in the corporate tax has also been included in the agreement. According to the statutory requirements, prior to the Government's decision, a consultation on the increase of the minimum wage and guaranteed wage minimum was also held in the National Economy and Social Committee on 13 December 2016. In addition to the statutory reconciliation, the tender for workplace nurseries has also been sent to the VKF members; thereby even the social partners have directly been involved in the preparation of the measure. The area of vocational training continuously cooperates with enterprises and entrepreneurial organisations (HCCI, DUIHK, AmCham) in order to establish the training supply appropriate for institutional and corporate demands. These organisations have important roles in the development of digital skills and the dissemination of dual-education.

The measures for R&D are based on the National Smart Specialisation Strategy (3), which has been prepared and finalised in wide social consultation; every stakeholder interested in innovation was involved in the planning in 2014. The main specialisation guidelines, at the county (NUTS-3) level, have been determined with a bottom-up approach in a series of workshops.

Several professional associations were involved in the planning of the national policy framework for the establishment of the alternative fuel infrastructure (Jedlik Ányos Cluster, Magyar Gázüzemű Közlekedés Klaszter Egyesület, Elektromobilitás Szövetség). The actors concerned also had the possibility to give their prior opinion on the document. In the preparation of the policy framework, several consultations, round-table talks, and conferences in certain topics were held with the actors concerned. The greatest emphasis of which was placed on electromobility, but the issue of gas engine was also significant. The representatives of the relevant fields were also invited to give lectures on the above-mentioned topics, the comments given and the questions raised by the participants there also formed the policy guidelines. The senior government experts of the relevant sector initiated several consultations on METÁR, since the introduction thereof has brought about substantial changes. Most of the consultations were carried out in writing; however, certain questions were consulted in person.

In 2016 public consultations were held with several professional organisations and churches with regard to the introduction of the operation of the early warning and pedagogical support system, as well as to the development of institutions jeopardised by student's drop-outs and to the desegregation measures. In January 2017 the Educational Authority organised national conferences providing information in several cities. The elaboration of the doctoral training scheme, prior to the amendment to the legislation, was carried out with the active participation of the organisations providing the representation of all relevant stakeholders (Hungarian Doctoral Council (HDC), Hungarian Academy of Sciences (HAS), National Alliance of Doctoral Students (DOSZ), Hungarian Rectors' Conference (HRC)). The recommendations on the complex examination have been elaborated by the HDC, which shall be considered by the higher education institutions as mandatory (as prescribed by law) in the elaboration of their own examination rules.

The Inter-ministerial Committee on Social Inclusion and Roma Affairs (TFCTB) has contributed to the embedment of the Hungarian National Social Inclusion Strategy into certain policies. The follow-up and monitoring of the implementation of the Strategy against Child Poverty are carried out by the "Make It Better for the Children" National Strategy Evaluation Committee (ÉB). The committee consists of 26 members, 13 delegated by the Government and 13 represented by civil and church organisations.

VI.2. Workshops evaluating the progress in the Europe 2020 Strategy

The Ministry for National Economy organised professional workshops in April 2017, along the Europe 2020 targets, where the relevant civil and professional organisations were invited. The ministries introduced the target system and the main directions of the measures for the implementation of the thematically relevant EU2020 targets and the 2016 Country Specific Recommendations. Their connectivity and results, and the designed proceeding guidelines, were envisaged.

- In employment workshops, the senior government experts explained that the most significant challenges concerned are the appropriate employment (workplaces and training) of young and low-skilled people. It is a priority to strengthen the transition from public works, where the profiling system plays an important role, which is supplemented with the support of social partners. It emerged on the organisational side that the incentive for mobility is an important tool to handle labour shortages; however, the depopulation of rural areas, as an effect thereof, would cause a serious policy problem. A further remark was that flexible employment is not an appropriate solution, because in several cases there are no appropriate workplaces or a lack of corporate willingness, and the low wages cause an existential crisis to the people concerned. On the organisational side it was also said that the reasons for labour shortages are the low wages themselves, which do not encourage working.
- The operation of the tender plans as the main instrument of support financed by ESI Funds and the NRD Fund was described by the NRD Office in the R&D workshops. The representatives of the higher education and academic sector, the PhD students and the corporate sector raised the attention to certain risks of the large tender resources, the catalysing effect of regional higher education centres, and to the necessity of the students' intense involvement. The experts said that no R&D&I of a decent standard can be implemented without quality, regional higher education centres. The PhD students

emphasised that the young researchers attracted to return home will be part of an important network.

- In the energy and climate policy workshops the different experts and the representatives of the relevant organisations were highly interested in the revision of the statistics on the share of renewable energy (which has resulted in a significant growth in Hungary), their background and the conclusions. The experts highlighted the long-term processes and tasks. The participants exchanged views on the advantages and disadvantages of the support of a different alternative fuel infrastructure in the aspect of the experience gained over the last years, on the opportunity to apply renewable energy in distant heating, and on the innovative measures taken as an incentive for energy efficiency.
- In the social inclusion workshops the civil actors confirmed that the already-operating programmes are absolutely necessary to continue. However, the question of what can be expected after 2020 when less ESI Funds are available was raised. The participants agreed that poverty cannot only be found in peripheral regions but in cities as well. One of the main dilemmas during the debate was whether the main approach of reducing poverty is to keep the population fixed or to encourage mobility in order to create a balance between labour shortages and unemployment. Finally the civil organisations urged the spread of atypical employment for single mothers and mothers with small children.

VI.3. Further public consultations

The consultation concerning legislation (e.g. Act on Public Procurement, acts on certain taxes) was carried out on the basis of the provisions for the act on social participation in drafting legislation. Regarding the EU programmes the Monitoring Committees of certain operational programmes, in addition to their publishing, gave a preliminary opinion and approval to the annual development budget, where external actors can also be involved. Examples of such involvements are the “Support of the development of logistic service centres”, or the “Establishment of industrial incubation service centres” programmes. They were designed and modified on the basis of the proposals submitted by interested representatives and cluster management organisations, or in cases of measures for social inclusion civil organisations and churches may provide their opinions on the tenders for operational programmes.