



GOVERNMENT OF HUNGARY

**NATIONAL REFORM PROGRAMME 2016  
OF HUNGARY**

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## I. FOREWORD

Since 2010, Hungary has carried out numerous profound reforms regarding budget planning, taxation, financial regulation, employment, and even public administration, education and health care. Due to these reforms, Hungary has achieved outstanding results in the European Union in the last five years: there has been a lasting turnaround in economic growth since 2013-14 and investments have been significantly increasing; meanwhile – in line with one of the most important policy aims of the Government – even employment and overall labour market participation have expanded significantly since 2010. These achievements are reflected in the forecast that – based on current progress – Hungary is likely to achieve its targets set out in the Europe 2020 strategy. Based on the assessment of the European Commission (published in March 2016), there are no macroeconomic imbalances in Hungary in; the risks linked to external and internal indebtedness have been reduced, and the external financing position of the economy has improved considerably, primarily due to significant current account surpluses.

Hungary and the European Union have a common interest in being part of the most competitive region in the world, where economic growth is inclusive, sustainable and smart. The European Semester is the key element of common strengthened economic governance, and its aim is stronger EU economic policy coordination. According to practice, over the past years every member state submits their National Reform Programme in mid-April, when they introduce the measures to be taken in order to face the most important economic challenges and achieve the major goals in the Europe 2020 strategy implementation.

While introducing certain major policy measures in the National Reform Programme of 2016, we endeavoured to thoroughly show how different measures are linked to the main strategic goals and also the results which 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.

A significant part of the 2016 National Reform Programme measures is a self-contained strategy and legislation which were preceded by public consultation stipulated by 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 presented, upon which the National Reform Programme of Hungary is built.

*It is important to emphasise that according to the integrated approach to the European semester, the National Reform Programme of Hungary and the Convergence Programme were prepared in accordance with each other, built upon one another, and the two programmes are submitted to the European Commission at the same time. Taking into consideration the fact that the macroeconomic path of the period 2016-2020 is elaborated in the Convergence Programme, the medium-term macroeconomic outlook presented as follows aims to summarise the macroeconomic path detailed in the Convergence Programme.*

#### Major macroeconomic indices (2015-2020)

	2015	2016	2017	2018	2019	2020
<i>Percentage volume change compared to the previous year</i>						
<b>Gross domestic product</b>	2.9	2.5	3.1	3.4	3.1	3.2
<b>Household final consumption expenditure</b>	3.1	3.9	3.7	2.8	2.7	2.7
<b>Gross fixed capital formation</b>	1.9	-1.8	9.1	9.6	5.5	4.0
<b>Export</b>	8.4	6.7	6.3	6.8	7.0	7.3
<b>Import</b>	7.8	6.4	7.4	7.6	7.0	7.1
<i>Percentage as annual average</i>						
<b>Unemployment rate (15-74)</b>	6.8	5.5	5.2	5.1	5.1	5.1
<b>Employment rate (20-64)</b>	67.0	69.1	70.7	71.9	73.1	74.3
<i>Percentage in terms of gross domestic product</i>						
<b>External financing capacity</b>	8.8	8.4	8.3	9.3	8.6	7.8
<i>Percentage as annual average</i>						
<b>Consumer price index</b>	-0.1	0.4	0.9	2.4	3.0	3.0

Economic growth in Hungary, which started in 2013, is clearly demonstrated by a stable, high rate of GDP growth of about 3% in the last ten quarters. In the last few years the growth rates have been better in Hungary than the European Union average. Growth has been dynamic in Hungary since 2013; its structure can also be considered well-balanced and sustainable: Firstly, the performance of most sectors is positive and stable, i.e., almost each sector gains profit from the growth. Secondly, growth is not accompanied by a disruption in external and internal balance, i.e., the convergence of the Hungarian economy was not achieved through borrowing.

The growth rate is primarily influenced by the cyclical nature of the EU subsidy system in 2016, which temporarily results in slower growth. From 2017 growth will again reach the level which significantly exceeds the average of the EU, thus ensuring quick convergence. In order to reduce the temporary negative impacts in 2016, the Government are increasing public investments, access to

receivable subsidies in the new financial cycle of the EU, wages in several fields of public service that have not been raised for a long time, such as health care, education, social fields and public administration, and they are also reducing taxes.

## II.2. Macroeconomic effects of the economic policy measures

*A quantification of the macroeconomic effects of the most important economic policy measures taken by the Government is elaborated in the Convergence Programme.*

The impact assessment focused on the following Government measures:

- Wage increase and career path in the public sector: wage increase for health care and social sector workers; NTCA career path; other sectorial wage increases;
- Programmes aiming to increase investment: housing subsidies ;
- Reducing the VAT of certain products and services: certain basic foods; internet service; restaurant meals.

### Cumulative macroeconomic effects of structured measures

	2016	2017	2018	2019	2020
<i>(% differences in levels from the basic path)</i>					
<b>GDP</b>	0.38	1.24	1.57	1.28	1.03
<b>Consumption costs of households</b>	0.25	1.71	2.30	2.31	2.19
<b>Investments</b>	2.24	5.61	6.39	4.24	2.62
<b>Net export</b>	-0.17	-0.73	-0.94	-0.82	-0.70
<b>Inflation</b>	0.01	0.25	0.53	0.61	0.60
<b>Employment in the private sector</b>	0.11	1.04	1.40	1.33	1.30
<b>Average gross earnings in the private sector</b>	0.05	0.67	1.26	1.27	1.07
<b>General government deficit as a percentage of GDP*</b>	-0.07	-0.62	-0.74	-0.75	-0.83

*\*Percentage point change*

A set (wage increase, VAT reduction) of economic policy measures involves an increase in the disposable income or the spendable income of households, which directly increases consumption. Another set (housing subsidie , Modern Cities Programme) predicts increases in partly the household, partly the corporate and government investment. Another set (housing assistance, MVP) predicts increases in partly retail, partly corporate and government investments. The measures also support, indirectly, the increase in export capacity.

The Government measures generate extra labour demand and wage increases through an increase in domestic demand in the Hungarian economy. However, the increase in domestic use generates a slight inflationary pressure. In addition, higher tax revenue from GDP growth partly offsets the negative effect of the additional expenditures on the budgetary balance.

### III. SOLUTIONS TO THE MAIN ECONOMIC CHALLENGES

#### III. 1. Stable budget, sustainable reduction of general government debt

*The Convergence Programme contains the medium-term fiscal policy aims of the Government in detail.*

The Government have considered the reduction in the debt rate and prudent fiscal policy as priorities since 2010. As a result, the budget deficit has been under the 3% benchmark since 2012. In 2013 Hungary was removed from the excessive deficit procedure, which had lasted for nine years. It also reflects the commitment of the Government that general government debt has been on a downward path since 2011, as opposed to the trend in the European Union, thus, the rate decreased from above 80% in 2011 to 75.3% by the end of 2015. The Government expect a further decrease in the debt rate in the upcoming years, which is supported by rapid economic growth and deficit targets, planned at significantly lower than 3% of GDP.

Besides the reduction in the debt rate, as a result of several measures, the financing conditions of the general government debt have also improved significantly. The proportion of domestic actors has increased in debt financing, which means a more stable group of lenders; furthermore, the proportion of FX-denominated debt has decreased. The positive processes significantly contributed to a reduction in Hungary's foreign exchange exposure and external vulnerability.

#### III.2. Tax system promoting economic growth

In 2015 there were no major changes in the structure of the tax system; the Government took important measures, however, to improve compliance with tax rules and reduce VAT fraud and, thus, tackle the black economy. The Government are not planning to change the tax system in 2016 either – the currently applied proportional tax burden system promotes legitimate employment and acknowledges childcare costs. An important aim of Hungary with the reform and transformation of its tax system in recent years has been to decrease the burdens on labour and increase the role of consumption and turnover taxes. The current tax system compared to the previous one stimulates employment and economic growth much more. Moreover, environmental and healthcare aspects are also focused on. In addition, the Government are also planning to facilitate an increase in employment and real wages with a transformation of the fringe benefit system.

In recent years the tax burden on small- and medium-sized enterprises has significantly decreased due to the expansion of the 10% corporate tax rate and the introduction of two new simplified optional taxes (fixed-rate tax for small taxpayer enterprises, small business tax). While the lump-sum tax for small enterprises provides for a reduced administrative burden on microenterprises and, due to its reasonable taxes, contributes to making the economy more transparent, the small business tax is beneficial for SMEs playing a more significant role in employment and carrying out more notable investments. These two new taxes were used by about 138,000 businesses by the end of 2015, though based on the experience of the first years, the spreading of the small business tax was hindered by the new cash-based definition of tax liability in Hungary. Based on this experience, from 2017 the rules of the tax will be significantly simplified, which will result in a notable reduction in the administrative burden of the tax. The tax base will only be built on the balance of incomes withdrawn from and involved in the business, thus the administrative burden of the businesses decreases and their tax liability becomes easier to plan. By making the limit on the number of staff more favourable, the group of businesses choosing the small business tax is expected to grow.

The so-called sector-specific tax, in fact a consumption-turnover sectorial surtax, introduced in 2010, was abolished as of 1 January 2013 as per the earlier plan. However, the surtax on financial institutions has not been eliminated. The eliminated sectoral surtax has been replaced by

consumption and turnover taxes such as insurance, financial transaction or telecommunications taxes, which do not tax the profit of the enterprises but their services sold; they target a broad tax base with a low tax rate. Tax revenue from the direct sector-specific and new types of consumption and turnover taxes is expected to decrease to 1.5% of GDP in 2016. The Government are still not planning to abolish these taxes. After solving the problem of those with FX loans, maintaining the Credit Institutions' Contributions is no longer justifiable; therefore, this obligation will be eliminated from 2017.

According to the agreement between the Government and the EBRD, **the surtax on financial institutions has decreased from 0.53% to 0.24% as of 1 January 2016 (4/a)**; the tax base is still the adjusted balance sheet total as of the end of 2009. The Government are planning to submit the bank tax regulation of 2017 to the Parliament in the first half of 2016 together with the budget of 2017. According to the agreement with EBRD, the tax rate will further decrease from 2017. In addition, in order to meet international expectations, as of 1 July 2016, certain tax base reliefs related to royalties and intangible assets can be used based on the methodology elaborated by OECD and approved by the ECOFIN Council (the so-called nexus methodology).

One of the most significant comprehensive programmes of the Government, the **Job Protection Act (4/b)**, aims to increase employment for groups whose activity rate is lagging behind other EU member states the most; that is, it provides targeted support for the most disadvantaged in the labour market from the employer's side. As of 2015, part-time employees with children are entitled to the total amount of the allowance on social contribution tax and a vocational contribution. From July 2015 the Job Protection Act also applies to agricultural workers, and can help to make agriculture more transparent. In 2013-2015 the take-up rate of the allowance increased continuously. The Job Protection Act is a more cost-effective tool for increasing effective labour supply and GDP compared to general work-in tax concession, one of the reasons of which is that it specifically targets groups that react to tax incentives more sensitively, according to empirical research. Moreover, considering individual characteristics enables the efficient targeting of employment incentives in such a way that they are not necessary to be withdrawn in the case of higher income as the incentives do not encourage the hiding of income or the punishment of additional work for the target groups. The programme contributed to the employing or safeguarding of jobs of about 880,000 people in the private sector in 2015 through decreasing the tax burden on employment. Due to the Job Protection Act, the burden on employers dropped by more than HUF 135.5 billion in 2015, and from its launch in 2013 to January 2016, tax burden decreased by HUF 368 billion.

The Government have introduced significant VAT transparency measures to increase VAT compliance and reduce VAT fraud. A system of online cash registers has been set up, and by the end of 2015 about 213,000 online cash registers were installed – in order to reduce tax evasion, the tax authority continuously assesses, analyses and utilises data received from online cash registers. VAT revenue from the retail sector affected by the black economy increased by 21.9% in 2014 compared to the previous year, while VAT revenue from the whole retail sector grew by only 13.7%. **In the coming years it is also planned that the mandatory online cash register system will be extended to some parts of the service sector (5/a)**(the operation of ball rooms and clubs, the repair and maintenance services of vehicles, the retail trade of vehicle components, the trade of motorbikes and repair services of their components, laundry services, the improvement of physical well-being, plastic surgery and training). As of 2017, passenger transport and money exchange services will also have to provide online data to National Tax and Customs Administration (NTCA). A favourable measure in the field of consumption and turnover taxes is that from 2017 the VAT rate on internet access and restaurant meals will be reduced to 18%, and on milk, eggs and poultry to 5%.

The other important step in reducing VAT fraud was the establishment of the Electronic Public Road Trade Control System (EKAER), which aims to detect the real route of goods and to prevent the introduction of products in Hungary which are not reported in advance to the tax administration. By the end of February 2016, about 53,000 taxpayers and 6,000 transport operators had registered on EKAER.

As of 1 January 2016, the National Tax and Customs Administration became a two-level authority instead of a three-level one in order to improve its tax collection efficiency and quality of tax administration and as a first step in making the operations of the tax authority more transparent. From 1 January 2016 **taxpayers are classified into two categories: 'reliable' and 'risky', according to a newly introduced system based on purely objective criteria (5/b)**. Reliable taxpayers are fundamentally law-abiding and comply with their tax liabilities; they are awarded some benefits that make the category attractive and support them to fulfil their obligations. It should be highlighted that the deadline of inspection is maximised at 180 days, and the deadline of VAT transfer is shortened from 75 to 45 days in 2017, and to 30 days from 2018. Taxpayers are classified as risky if their operations explicitly violate the tax rules or if they have a significant tax deficit amount or debt. Stricter rules will apply to these taxpayers to force them to comply with the laws.

The act on the rules of taxation will be recodified in order to make the operations of the National Tax and Customs Administration more transparent and decrease the administrative burdens of taxpayers. The relationship between taxpayers and the tax authority will be changed with the recodification of tax rules, the proposals of which will have been submitted to the Government by the Minister for National Economy by 30 April 2016.

### **III.3. Increasing employment**

In 2016 the Government will pay particular attention to improving job creation at companies, while also supporting certain disadvantaged target groups in terms of employability, especially the unemployed, people from disadvantaged areas, unskilled employees, youth and women. Important tools for the creation of a supportive environment include the strengthening of active labour market policies promoting employment in the open labour market, promoting a transition from public work to the private sector by strengthening activation elements and introducing incentives and providing public work with a better targeting for people most in need: those unskilled, those from the most disadvantaged areas and those with lower qualifications.

The number of employees was 4,260,000 in the last quarter of 2015, which significantly exceeds the pre-financial crisis level (about 3.9 million). Youth employment prospects have significantly improved in recent years; Hungary's youth employment rate now exceeds that of the EU, which is also reflected in the data on employment and unemployment. This tendency can also be seen in the groups of low-skilled workers and long-term unemployed persons. The increase in employment is mainly due to the expansion in the private sector. Domestic employment in Hungary (excluding public workers) increased by almost 300,000 compared to the same period in 2010, which is 60% of the total increase. Out of those employed, public workers and those working abroad were 5.3% and 2.7%, respectively. It can be seen that employment in the primary domestic labour market is a dominant factor regarding both the increase and the ratio in total employment.

Maintaining the targeted wage subsidies (social contribution tax allowance) of the Job Protection Act also contributed to the expansion of employment by fostering labour demand through a significant reduction of employment costs. This scheme currently contributes to the employment of about 880,000 disadvantaged employees in the private sector. **Among those above 55 years old:** the benefits of the Job Protection Act were applied for **317,917 people** on average, accounting for about **HUF 48 billion**, which is 6.3% higher than the figure of the previous year. In 2015 this meant a monthly average surplus of 18,673 people and a HUF 2.8 billion increase compared to the previous

year. According to HCSO data, labour demand doubled between 2012 and 2015 among employers (employing 5 or more persons) in the private sector (around 30 thousand job vacancies were present according to the quarterly report).

Active labour market policies were strengthened for people over 25 years of age: the programme **'The Road to Labour Market' (22/a)** was launched in autumn 2015 as a continuation of the previous active labour market programme. The programme aims to promote the employment of the unemployed and the inactive and help disadvantaged jobseekers enter the open labour market (with the profiling system they are provided with personalised training adjusted to the needs of and opportunities available in the local labour market and services and wage subsidies). It also aims to improve the quality and efficiency of the services provided for jobseekers and employers. Within the framework of the programme, at least 96,000 job seekers or inactive people are expected to improve their employability or gain qualifications or employment.

Besides the Job Protection Act, from 2013 more measures, including **Youth Guarantee(24/a)**, have **focused on increasing the employability of the country's youth(24)** and maintaining the long-term sustainability of their employment. The Youth Guarantee Scheme was gradually introduced and tailor-made with a wide variety of tools (education, training, wage subsidies, labour market services, traineeship programmes, mobility support and self-employment subsidy) in multiple steps from the beginning of 2015. This programme is complemented by such measures as the **Youth Entrepreneurship Programme (24/b)**, launched in 2016, or the **Traineeship Programme (24/c)**, which supports youth in gaining work experience. Youth Guarantee is planned to involve 46,000 people.

To fulfil the growing demand for labour in the private sector, the Government places emphasis on supporting job seekers in finding suitable training programmes or jobs – the one most suitable for their individual characteristics based on the findings of the profiling system; they also promote the development of relations for the recruiting of the most suitable workforce. **The client-profiling system of job seekers (profiling) and the measures aimed at developing the Public Employment Service (23)** both improve the efficiency of active labour market programmes. The **profiling system (23/b)** has been operating nation-wide since the beginning of 2016. Local offices (county or district) of the employment service are still the entry points for job seekers; this local level provides personalised labour market services and uses the profiling system. Besides introducing the profiling system, in order to improve the targeting and efficiency, **the development of PES operations and services (23/a)** continue, including the improvement of cooperation between the stakeholders involved and measures aimed at strengthening the partnership between corporate management and local administration **(25.)**.

New elements, personalised services and incentives will be introduced to **support the transition from public work to the open labour market (18.)**. Therefore, if a public worker finds a job in the open labour market, they are entitled to receive the monthly amount of the **employment substitution support (FHT) (18/a)** for the period left from public work as an allowance for finding employment (incentive bonus). Several amendments support the improvement of placement conditions (unpaid leave duration was lengthened to 120 days, exemptions from work for job interviews, mediation of public workers for vacancies) and into simplified employment reported by the PES. Beside changes in legislation, the ALMP measure "The Road to Labour Market" provides wage subsidies to employers employing persons leaving public work to **support their transition to private sector employment (18/b)**. The Government will continue the **public employment training programmes (19. measures)**. The primary aim is to promote customised training sessions in adult training which facilitate the leaving of public work, which can be tightly connected to training, improve the efficiency of training and foster employment in the primary labour market. The programme aims to help integrate low-skilled and unskilled adults into training in order to improve

their skills by forming and providing customised services which are tightly connected to training, promote training and competence development and the leaving of public work. The programme targets disadvantaged working age people, especially public workers. The programme facilitates access to training that is based on labour market demand and increases the chance of finding jobs; these trainings aim at vocational qualifications acknowledged by the state, partial vocational qualifications, sub-speciality qualifications, the gaining and developing of competencies for positions or tasks, that is, other professional training, other training and official qualifications. Forms of training include: gaining a primary education; competence development; skills training; vocational training (OKJ and official – 61% of the total number); and some elements of motivation, reintegration as well as mentoring service. In the first half of 2016, 30,000 people are planned to be involved, with an additional 25,000 in the second half, for a total of 85,000 altogether by 2018. For disadvantaged or low-skilled people or for people living in disadvantaged areas, public work provides temporary employment, so maintaining the scheme with the further improvement of its activation elements and targeting is necessary. For this purpose, the development of locally operating **social enterprises (20/a)** and (market-based) **social associations (20/b)** help strengthen the activation elements of public work and the self-sustainability of the social economy, which enable the interim employment of public workers (**20. measures**).

**The maintenance of the Public Work Scheme and the strengthening of its activation elements (21 measures)** is justified as the stable employment of the target group is not any more efficient with other measures (as benefits), and their employment seems to be feasible only in the longer term. The leaving of public work may be carried out as a multi-level support process including training and employment; its success depends on the nature of the socio-economic disadvantages of the settlement and district. The public work scheme does not replace welfare policies or active labour market policies; it aims to build a bridge to the open labour market, and it also plays a significant role in terms of social inclusiveness. Resource funds (from HUF 270 billion in 2015 to HUF 340 billion in 2016) and the number of people involved (from 213,000 in 2015 to 253,000 in 2016) have increased accordingly.

In addition to the above, the improvement of the employment situation of some target groups with special backgrounds also plays a significant role. The employability of women and parents with young children is promoted with benefits for mothers with children through the Job Protection Act; some programmes also encourage **flexible employment (26.)** and the creation of family-friendly working environments, for example, the child benefit (**29.**) can be provided for babies from six months of age, encouraging mothers to restart work. Besides measures aimed at employees, the targeted development of day-care services is in progress to support the day-care placement of children; within the framework of this measure the day-care system of children will be transformed from 1 January 2017, from which time there will be some new types of institutions, and by the end of 2018 14,000 new places will have been created.

The Government have made legal employment significantly easier in recent years with the simplification of labour regulations (new flexible labour code, simplified employment). Taking into account the exceptionally positive steps regarding employers (improving the economic environment, reducing public and administrative burdens, improving support opportunities and tax and wage subsidies), it is time employers were held to account if they had complied with the regulations.

One of the main aims of the Government is a work-based society, one important element of which is reducing undeclared work. A significant share of the missing hundreds of thousands of workplaces are not needed to be created as these are already present in the economy, so employers must proceed in a regulated manner. To fight illegal employment, keep unemployment down to 3-4 percent, create a work-based society and reach full employment, it is necessary to enforce legal

employment. The most effective means to accomplish these is to gradually strengthen the supervision activity of the labour authority.

The transformation of formal vocational training started in 2011 and continued with the renewal of the vocational institution system and the management structure in 2015. The Government assign a crucial role to the new institutional network, and initiated and planned measures will be implemented at this level. One of the first and most important measures is to prevent early school-leaving and to improve basic competencies in vocational training.

Reforming the content of formal vocational training provision is in progress at present. The main aims of reforming the content are to provide youth with the basic competencies and knowledge necessary for life-long learning and relevant professional competencies and to make vocational training appealing to more people. Its legislative background has been created: the upper age limit for starting full-time vocational training has been increased from 21 to 25; within the framework of adult education, the adult population is entitled to gain a second qualification free (this measure has increased the number of participants in adult education by about 20,000 since its launch in September 2015). In order to achieve the aforementioned aim, the vocational bridge programme will be reformed, and vocational training schools – renamed as vocational secondary schools – will last five years from September 2016, and students can automatically continue their studies in a preparatory year for their final exams. Legal preparations have also been made to introduce a new type of school, the so-called vocational grammar school. The National Qualifications Register, reformed by the Government in 2016, will include more professional content, foreign languages and IT studies in this new type of school.

Vocational training centres may employ practical trainers in order to **strengthen the relationship between the economy and vocational training**. The qualification requirements of practical trainers at businesses have become more flexible. From 2015 students in adult training may also participate in dual training programs. Scholarship opportunities have also been broadened. Furthermore, a programme financed by EU funds has been launched to support young first-time job seekers in gaining practical work experience; the project puts emphasis on vocational training centres to connect youth with businesses.

Based on the data of the graduate career tracking system, the central national application portal (felvi.hu) publishes up-to-date data on employment (degree programme and average income indices) to help users take realistic career-oriented decisions.

In order to improve the practice-orientated skills and abilities of students, structural steps were taken to **strengthen the relationship between higher education and the business sphere (37/b)**, thus, nineteen higher education institutions launched dual training programmes in the 2015-2016 academic year. In addition, in regions lacking higher education, for the ensuring of professional support for the sustainability of the local economy and the retaining of skilled professionals, accredited higher education institutions are entitled to run courses at the premises of other higher education institutions maintained by the same body or at the **cooperative higher education centre (CHEC) (37/a)**.

#### **III.4. Strengthening social inclusion**

Social inclusion policies and their intervention areas are defined by the Hungarian National Social Inclusion Strategy (HNSIS), adopted by the Government in 2011 and 2014. Social inclusion is a long process; the results of its measures become visible in the medium or long term, and their predictable continuation is also important for their executors. In 2016 several previously on-going measures will be relaunched, now financed from the resources of the 2014-2020 programming period, which have

been adjusted according to the experiences of the previous period. Measures of social inclusion can be classified into three main categories based on the logic of HNSIS.

In the period of 2007-2013 several types of programmes called **'Chances for Children' (56.)** were launched in disadvantaged regions in order to increase chances for children and eliminate recurring poverty. Integrated regional programmes in the 23 most disadvantaged regions were the most significant elements of the programme, in addition to which 115 'Sure Start Children's Houses' were established. The preparation and implementation of the local programmes were assisted by methodological priority projects. The programmes will be further developed in 2014-2020. Besides supporting **integrated regional children's programmes (56/a)** in disadvantaged regions, fifty new Sure Start Children's Houses are planned to be established by 2020. Besides 'Sure Start Children Houses', the programme called 'Good Place to Be' is a new opportunity in settlements under 1,000 residents with many children but without services. Within the framework of **Good Place to Be (56/b)**, sites for children and youth and a series of programmes for several age groups are being developed. Providing professional methodological support for the programmes is also necessary in the future in order to prepare **integrated regional children's programmes (56/c)** and their inter-sectoral coordination and monitoring and to professionally support the newly established Sure Start Children's Houses (supporting integrated children's programmes). The infrastructural background of the aforementioned programmes is provided by a measure called **'Infrastructural Background of the Chances for Children' (56/c)**.

A key element of social inclusion is to increase employment. The **'Actively for Knowledge' (57/a)** priority project provides a chance for the least employable from a labour market perspective. The priority project involves 21,000 people, out of which 8,400 are expected to participate in development training sessions (primary school completion, functional illiteracy reduction, preparation for vocational training, and basic skills and competencies development). Measures to help Roma women enter the labour market and improve their employability continue with the programmes **'Growing Chance' - the Roma's training embedded in training and employment (57/b)**, in addition to **'Growing Chance' – the Roma's training embedded in employment (57/c)**. **To develop the Roma mentor network (57/d)**, the earlier measure of Methodological Support for Roma Inclusion continues. Its aim is that social inclusion programmes reach out to disadvantaged people – primarily Roma – more efficiently than before.

Based on the last survey (2010), there are more than 1,600 segregated settlements or disadvantaged areas embedded into the settlement structure, mainly inhabited by Roma in 823 settlements and 10 districts in the capital of Hungary, where about 3% of Hungary's population lives. In order to continue the fight to improve living conditions and eliminate segregated settlements, the policy strategy 'Managing Residence in Segregated Settlements', as a strategy of HNSIS, was adopted in 2015, which provides a unified professional basis for the implementation of segregated settlement programmes. With the help of the targeted programmes of the 2014-2020 programming period, the implementation of the strategy may reach a breakthrough in eliminating segregated settlements and integrating their residents. **The priority project Supporting Inclusive Cooperation (57/e)** provides the countrywide professional support of programmes promoting regional inclusion (thus the Programme to Eliminate Segregated Settlements introduced hereinafter) in order to provide standardised quality of interventions at different locations in Hungary, to make significant changes in the living conditions of people living in segregated settlements and to sustain these people. **The Complex Programmes to Eliminate Segregated Settlements (ESF) (57/f)** aims at eliminating peripheral living conditions by eliminating disadvantages which worsen over generations (employment, education, healthcare, community, housing and access to services) by permanently providing coordinated and integrated instruments and the active participation of local communities, local governments, civil organisations and churches as legal entities. The basis of the improvements is a permanent professional presence at the target locations (settlement-type of social work). Within the framework of the project,

complex programmes are expected to be run in at least 110 segregated settlements involving a minimum of 7,000 people. **The ‘Complex Programmes to Eliminate Segregated Settlements’ (ERDF) (57/g)** is an integral part of the measure; within its framework infrastructural investments providing living conditions of complex segregated settlement programmes will be implemented.

In the most disadvantaged regions some settlement groups have been formed where disadvantages have accumulated to such an extent that the local population is unable to become involved in development as they lack their own resources, professional skills or information. While targeted support would be of utmost importance here, the capacity to provide valuable support is scarcest at these locations. In order to allow them to catch up, the new **‘Endless Opportunities Pilot Programme’ (58/a)** targets the five most deprived districts where economic, infrastructural, social and labour market disadvantages have accumulated the most and the proportion of people living in poverty is much higher than average in Hungary. The programme is expected to involve at least 15 settlements and 500 Roma people, as a result of which cooperation improves between the settlements of the districts involved and people’s access to public services becomes better.

Some methodological developments monitor the results of the measures, ensure that they are targeted and assess their impacts. The monitoring of the effects of social inclusion measures are supported by the methodological content created in cooperation with the World Bank in 2015. During the development a database of regularly collected local indices presenting the effects of the measures the best was set up; the results and effects of social inclusion measures were presented on a map so that they were understood and further developments of Local Equal Opportunities Programme (planning, implementing, monitoring) and their effective local implementation possibilities were suggested. The National Segregation Database, based on census data from CSO, will have been set up by the end of the first half of 2016 to also serve the purpose of regional development planning and tracking. This means the identification of smaller regions and residential areas where there are a great number of people with poor qualifications and without incomes. Based on the database, a presentation of areas affected by segregation on a map depicting segregated settlements will be created by Lechner Knowledge Centre in 2016. The map will be available for the public in the Information System for Territorial Development and Spatial Planning. The preparation of a map of poverty is in progress, which will be implemented by connecting the 2011 census and the Survey on Income and Living Conditions Survey (SILC) of CSO, based on the methodology of the World Bank. With its help intervention areas can be determined, and it will also show the local effects of the already implemented interventions. The map will also be available in the Information System for Territorial Development and Spatial Planning from the end of 2016.

### Education

The domestic and EU-funded programmes and measures aimed at promoting the scholastic success of vulnerable, disadvantaged and multiply-disadvantaged – including Roma – learners continue in 2015-16 so that they contribute to inclusive and integrated education, thus improving students’ results in further education and decreasing the risk of early school leaving. The **Arany János Programmes (30/e)** continue to promote disadvantaged learners’ secondary school progress in a complex way. In the 2015-16 school year, the following numbers of ninth grade students started their studies in these programmes, respectively: in AJTFP (Arany János Talent Fostering Programme), 608; in AJFBFP (Arany János Fostering Boarding Facility Programme), 298; and in AJVP (Arany János Vocational School Programme), 182; altogether more than 4,000 disadvantaged students take part in the programmes. The **‘Tanoda’ Programmes (30/c)** help disadvantaged – including Roma – learners’ inclusion at school with tools of outside public education and complex development. The Tanoda programmes have been implemented by 178 schools in 19 counties for children with special educational needs, and about 5,000 disadvantaged learners participated in the projects. The programme support continues within the frameworks of HDOP. The **‘Útravaló’ Scholarship**

**Programme (30/b)** efficiently reaches the most socially disadvantaged learners by public education means; its four sub-programmes provide scholarships for primary school education up to the obtaining of a degree as well as mentoring. In order to **help multiply-disadvantaged Roma girls' inclusion (30/f)**, a separate pilot programme will be launched to prevent early school leaving.

In 2016 the professional concept providing the basis for the review of the **National Core Curriculum and the framework curriculum (31/b)** will be approved. One of the aims of the review is the development of basic competences, especially in the first phase of education, and a strengthening of the transfer of motivation for learning and problem-solving knowledge. It is important **to support the infrastructure investments and equipment development of the institutions (33/c)** in order to **decrease early school leaving (30.)** and increase the disadvantaged groups' participation in inclusive education. Furthermore, in the case of permanently underachieving institutions, complex development **(31/a)**, the promotion of the encouraging of pedagogical and learning management methods and **the acquisition of individual and cooperative learning solutions (34.)** are essential. The transition between education and work is supported by **the increase in public education institutions' performance together with IT developments and an improvement in their equipment (35.)**. In order to reduce digital exclusion – with special regard to disadvantaged learners – an IT infrastructure development project is going to be launched in 2016, financed by EU funds.

The Klebelsberg Teacher Training scholarship, supporting tertiary studies, is a new scholarship attracting applicants to teacher training, the aim of which primarily is to provide well-qualified, committed and experienced teachers, which can result in a strengthening of the supply of professionally committed teachers with practical experiences, and could also improve the supply of teachers in disadvantaged regions.

We consider the rationalisation of entrance requirements a good means of increasing students' responsibility and motivation. The effect of raising the minimum admission point score (defined by legislation) on the number of applicants and admitted students has been monitored. It was established that the set targets have been met, further increase would not be reasonable, thus the minimum admission scores have been set at the level of 2015; the goals set at the start of the process have been achieved.

The **Student Mentor Programme (38/b)** supporting socially disadvantaged first-year students is further developed by increasing budgetary support, and by expanding the scope of the student advisory system (student advisory services also on mental health and life-skills in the form of advisory centres operating in higher education institutions and student advisory services). In order to increase the number of Roma students having tertiary-level qualification, and encourage them to achieve academic success and play an active role in society, the call for proposal for the programme of the 'Support of Roma Colleges for Advanced Studies' **(39.)** has been published in March 2016 for the Central-Hungarian region too in March 2016.

#### Health care

In Hungary healthy life expectancy is expected to increase; according to the latest available data (between 2005 and 2011), over the last seven years the indicator has been improved by 7 years for women and 6.9 years for men. It is the Government's declared policy aim to promote the above process in a more concentrated way. In line with the sector's fundamental goals of 'Healthy Hungary 2014-2020' strategy, the consistent implementation of the transforming measures has been continued, with a strong emphasis placed on primary care with a focus on public health, introducing measures for decreasing the risk of cancer and their early recognition and efficient treatment as well as developing the health care system by improving accessibility and increasing its efficiency while creating a framework for sustainability. According to the most up-to-date data, the public

expenditure on health was 5% higher in real terms in 2014 than in 2010; between 2006 and 2010, on the contrary, a 20% decrease can be observed. Financial resources available for investment far beyond the previous ones enabled the development of the infrastructure of health care institutions. The increase in the planned total budget of the Health Insurance Fund is about 2.8% in 2016 compared to the budget estimate in 2015.

In addition to the implementation and fine-tuning of the comprehensive public health measures of the previous years, which have also been acknowledged internationally, **the further extension of public health screening programmes (60.)** and an increase in screenings, and the enlarging of the scope of certain programmes at the national level are in progress. The number of Health Promoting Offices has been augmented further, and their scope will be widened with additional functions supporting mental health, a step representing the enhanced importance of prevention as planned. The most significant recent measure is **the adoption of the act on primary care (61.)**, which – in addition to the significant increase in resources – intends to encourage those providing primary care to possibly treat patients without referring them to specialised care, thereby strengthening the gatekeeper function. In order to strengthen the public health approach, municipalities shall provide the elaboration and implementation of the health plan by involving the **Health Promoting Offices (59.)**. The local tax law enables local governments to provide business tax exemptions for general practitioners, paediatric general practitioners, dentists and health visitors.

In order to handle the migration of doctors and increase the sector's retention capabilities, in addition to **the salary increase of previous years, the adjustment of so-called variable pay elements to the increased basic salary (on-call duty allowance, standby allowance, overtime pay and shift work allowance) (64.)** has been stipulated by law since 1 January 2016. The rules of medical specialist training have changed in line with the regulation as of 1 July 2015; the residents' salaries are provided by the central budget. The support of Young Medical Specialists has been introduced as a new scheme.

### III.5. Creating a competitive business environment, encouraging investments

In 2015 Hungary took many progressive measures to create favourable operating conditions for domestic and foreign entrepreneurs in the domestic environment. The measures still focus on small and medium-sized entrepreneurs. The more rational regulatory frameworks demanding less administration will result in perceptible changes regarding the life phases of every company.

In 2015 the Government helped micro, small and medium-sized enterprises in participating in trade fairs and with the launch of new or existing products on new markets with a budget of HUF 5 billion. With a support scheme of HUF 2.2 billion, it will be possible to establish more incubators with high-standard services. The call for tender will be available from 2016. All of this contributes to reduced costs in the starting of a business. The Government have made support of HUF 2 billion available for clusters with a stable management history and the ability to develop in order to further develop them and improve service standards provided for its members.

In 2016 within the framework of priority 1 of EDIOP, new calls for tenders with a budget of HUF 92.77 billion are going to be announced. In addition, the tenders announced in 2015 are still open, and **the budget of HUF 65 billion has been raised to HUF 105 billion for SMEs to extend their production capacity**, and the budget of HUF 40 billion of the support scheme of 2015 has been raised to HUF 60 billion for SMEs to extend their investment capacity (9.). The measures aim to transfer and disseminate entrepreneurial knowledge, develop support business infrastructure and make it available, extend the capacity of SMEs, facilitate their entering the market and networking, encourage cooperation and strengthen supplier relationships and SME supplier positions. Developments are going to be carried out regarding enterprises operating in particular sectors and regions, in certain special life phases (starter, growing, mature or declining) and life situations (e.g., becoming a supplier or entering an external market). The implementation of the national mentor network aims to handle the service system necessary for the enterprises in a complex way in the cases of special entrepreneurial groups, that is, youth enterprises and women's enterprises.

The amendment of the regulation on insolvency and liquidation as of 1 January 2015 aims to control the legislative requirements for insolvency practitioners assisting the court and increase the level of expertise thereof. Stronger state supervision over insolvency practitioners, the system of professional reporting, the insolvency practitioners' internal control system, and compulsory and regular training in legal, financial and economic fields have been established. Electronic communication between the court and legal entity debtors and creditors has been introduced in insolvency and liquidation procedures, and the courts' task fulfilment has become more effective through IT developments as well. The amendment has enabled central Internet-based electronic sales regarding insolvency, and an audited marketing scheme has even been set up. All these provide a shorter period for asset sales and liquidation procedures. Even the possibility of abuse has been reduced – sales processes have become more transparent and controllable.

In commercial legislation bureaucratic burdens have been eased within the framework of **the liberalisation of marketing activity (10.)**, and 25 activities previously subject to licence have become subject to registration – such as real estate brokerage and precious metal marketing.

Besides this, as a result of an overall review lasting several years, **39 qualification requirements were eliminated, 85 requirements were made effective and 29 were made simpler (8.)** in the first half of 2015. In addition, in order to increase the transparency of the regulatory environment regarding qualifications, the legislation on qualifications has been collected and organised in a register, which is available to the public in one-stop-shops.

Within the framework of **administrative burden reduction (7/a)**, the Government have considerably simplified the administrative procedure regulations and also reduced the administrative procedure fees and charges in order to make them simpler, faster and more effective, thereby strengthening the state's service-providing nature and Hungary's competitiveness. The Government are carrying out the overall administrative red tape reduction with a package of measures and projects built upon each other. The major elements of the first scheme of red tape cutting were a review of the general procedural rules and administration deadlines, a review and development of permit-granting procedures and a simplification of substantive rules. The amendments reducing or eliminating the administrative procedure fees and charges elaborated within the framework of the 'State Overhead Cost Reduction' came into effect on 1 January 2016, thereby achieving savings for citizens and enterprises of HUF 10 billion. Within the framework of the **rationalisation of the administrative organisation system (7/c)**, the Government aim to eliminate the bureaucratic structure of the central administration and thereby improve our country's competitiveness. The tasks carried out by the central offices can be fulfilled in a more rational and cost-effective way without this level, except for the ones carried out by the Metropolitan and county government offices and the ministries. It is also important that citizens can have their cases administered at the closest possible levels; this is taken aim at with the elimination of the central offices and the strengthening of the district (Metropolitan district) offices. The rationalisation of the central administrative system will especially affect enterprises in a positive way since they are the customers of the central offices' first-instance cases. The reduction in administrative burdens will allow their cases to be administered faster and more effectively, and closer to their seats. To reduce administrative red tape further measures are going to be taken until the end of 2018 in order to improve the effectiveness of administrative operations.

Regarding the overhaul of the Hungarian public procurement regulation, the preparation and adoption of the new public procurement act (Act CXLIII of 2015 on public procurement, hereinafter referred to as 'new Kbt. '), based on extensive public consultation, and coming into effect on 1 November 2015, served to implement the country-specific recommendations enshrined in 2015. Among the EU member states Hungary was the first to transpose all three new EU directives on procurement by adopting the new Kbt. while also setting some stricter rules than those included in the directives. The scope of the applicability of the so-called 'low-value' procedures has been limited: from the previous amount of HUF 25 million (about €80,000) to HUF 18 million (about €60,000) in the cases of supplies and services, while in the case of construction investments from HUF 150 million (about €480,000) to HUF 100 million (about €320,000), as long as the contracting entities can apply this procedure. This is a 28% decrease in the cases of supplies and services, and in the case of construction investments, it is more than a 33% decrease as well as a significant limitation of the applicability of the procedures. The procedure shall not be applied in cases where the procurement is financed by EU funds and is related to a cross-border project.

The contracting entities shall publish a short summary of how they judged the tenders and identified the winning tenderer in the publicly available Public Procurement Database. A so-called normative suitability has been introduced, that is, quantifying through legislation to what extent suitability requirements can be used against the tenderers in the procedures. It is a further important rule regarding the justification of reference that the principle of technical equivalence was set in the Kbt., according to which the contracting entity is obliged to accept the references which are technically appropriate for the subject of the procurement and those equivalent thereto. The European Single Procurement Document (ESPD) has also been introduced, and the grounds for refusal have been extended.

Promoting the practical application of the new Kbt. is the most important task for 2016 regarding public procurement. **On its webpage the Public Procurement Authority has published 19 different guidelines facilitating law application, and 12 joint statements by organisations playing an active**

**role in procurement law application in order for its promotion (11/a).** In 2016 **there will be nationwide information conferences and workshops (11/c) and summaries of the practice of the new Kbt., and the calls and documentation samples based on evolving practices will be continuously updated (11/b).**

Hungary is committed to the earliest implementation of **electronic procurement (12).** The goal is to create a state portal of public procurement, where every contracting entity can proceed simply in public procurement, thereby reducing the burdens on those participating in the procedure and stimulating market competition at the same time.

Regarding the period between 2015 and 2018, Hungary's anti-corruption measures are determined by the National Anti-Corruption Programme (hereinafter referred to as NBRP) and its 2015-2016 action plan and the second Open Government Partnership (hereinafter referred to as OGP) action plan for 2015-2017. As a mid-term policy strategy, NBRP lays down the lines of action and objectives for four years (2015-2018). In the first quarter of 2017, a report will be drafted for the Government about the effect and practical results of the implementation of NBRP's first 2015-2016 action plan, in the light of which the action plan for the next two-year period will be developed. Regarding the period of 2015-17 targeted government measures for open governance and transparency are included in the second OGP action plan.

From among the priorities for 2016 and the related measures, the measures aimed at enhancing the transparency of majority state-owned enterprises should be highlighted. To this end, the scope of data subject to disclosure and the regulation on its electronic publication will be reviewed, and a proposal will be formulated for its improvement. In order to develop **the assessment of corruption risks (14.),** jobs and types of jobs affected by a higher risk of corruption will be mapped, the risks of corruption in the judiciary will be assessed, and the Integrity Survey of the State Audit Office will be expanded to majority state-owned enterprises. By fostering the understanding of the central state budget data through improving its graphic presentation and developing a user-friendly online interface for public consultation on draft legislations and strategies, we wish to foster the transparency of the state budget and encourage citizen participation. In order to mitigate corruption and integrity risks, the legislation on reporting and monitoring conflicts of interests will be reviewed with a view to extend the employer's rights, and, a draft on the necessary amendments will be prepared. A proposal for a legislative amendment introducing labour law sanctions regarding the monitoring of asset declarations will be developed. One of the key elements of **developing the training system (16.)** is to review the curricula of training programmes for officials in managerial positions within public administration, law enforcement agencies and the National Tax and Customs Administration, and to complement it with information on corruption prevention as necessary. Training programmes on corruption prevention and integrity will be elaborated for citizens and local governments, and there will be at least seven workshops for local governments. The sanctions against legal entities, the implementation mechanism and the tasks of the public bodies participating in the implementation thereof will be reviewed in order **to curb unfair business conduct (17.),** enhance an ethical culture, and promote a fair business environment.

## IV. EUROPE 2020 OBJECTIVES

### Employment

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

The employment rate is steadily increasing in Hungary; it reached 69.7% in the age group of 20-64 in the third quarter of 2015, and it exceeded the employment target regarding men (which was 76.9%, with 62.8% in the case of women, both of which are higher than those of the same period of the previous year).

### Research and development

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

Taking into account preliminary GDP data, R&D expenditures were 1.38% of gross domestic product (GERD indicator) in 2014. The rate slightly decreased compared to that in 2013 (1.41%); the driving forces are still the R&D financed by enterprises and from abroad. In the last fifteen years the number of researchers-developers has been increasing steadily, nearly by 12,000 people, and exceeded the 2014 number of 26,000.

In 2015 the National Research, Development and Innovation Office (NRDIO) was established by the merger of the National Innovation Office, the Hungarian Scientific Research Fund and the department of the Prime Minister's Office managing the Research, Technology and Innovation Fund; and the National Research, Development and Innovation Fund (NRDIF) was established as the legal successor of the Research, Technology and Innovation Fund. Thereby, the previously fragmented RDI policy and financing were integrated under a single management.

Since 2015 the programmes financed by the Structural Funds have been announced in accordance with the objectives of the approved **National Smart Specialisation Strategy (S3)**. The planning of the intervention tools (support schemes, etc.), in accordance with the S3-targets, is ongoing. The formal adoption of the action plan is expected in 2016.

Within the framework of the Economic Development and Innovation Operational Programme (EDIOP) regarding the priorities of the development of research, technological development and innovation, the following programmes were announced in 2015:

- The supporting of businesses in their R&D&I activities (with a budget of HUF 50 billion);
- R&D competitiveness and excellence cooperation (HUF 60 billion);
- Strategic R&D workshop excellence (HUF 40 billion);
- Development of prototypes, products, technology and services (HUF 20 billion);
- Strengthening R&D infrastructure – internationalisation, networking (HUF 20 billion);
- Developing and acquiring industrial property tools (HUF 1 billion);
- The second phase of the ELI laser research centre implementation was begun (planned budget: HUF 40 billion).

The following will be announced in 2016:

- Higher Education and Industrial Partnership Centre – Research Infrastructure Development Programme (HUF 25 billion);
- Call for innovation voucher (HUF 3 billion);
- Innovation ecosystem programme helping start-ups and spin-off companies (HUF 5 billion).

The implementation of the International Competitiveness and Excellence Programme (HUF 28 billion) in the national budget, financed by the National Research, Development and Innovation Fund (NRDIF), is in progress. In 2015, 25 research groups were set up within the framework of the National Brain Research Programme (NBRP) (NRDIF is providing HUF 12 billion for the programme between 2013 and 2017, for four years from 2014). NBRP intends to strengthen the relationship between the academic-university and clinical research and the development of health industry research. The calls for such developments (EDIOP 2.3.3-15, EDIOP 2.3.2-15) help the modernisation of infrastructures and internationalisation/networking in accordance with the **Research Infrastructure Roadmap (42.)**. More financial instruments connected to the R&D&I tender schemes will be introduced during 2016.

The ‘A change of Pace in Higher Education’ development strategy has been completed, one pillar of which is providing basis for the long-term development of R&D&I activities in higher education. The placing of the financing of higher education on new ground in accordance with the strategy is in progress. Reform plans on financing (education and R&D) envisage to place a much greater emphasis on the performance undertaken and actually performed by the higher education institutions .

Quality-based differentiation and earmarked support of higher education institutions have been carried out in the last three years. Based on the government decree on higher education excellence , the subsidy of the qualified institutions is HUF 9.85 billion annually between 2013 and 2016. In the 2016 budget, more than HUF 12 billion is appropriated for higher education excellence in based on the budget appropriation in 2016. This year, in addition to the support of institution excellence, the appropriation also covers the state recognition and support of students and young researchers above average. In the future the support of excellence in higher education will primarily be provided directly through systems encouraging personal excellence.

It is of primary interest to further strengthen the relationship between the business sector and higher education in terms of research to smart specialisation strategies. Within the framework of this effort, the Government supports as a first step the establishment of research centres with a task to strengthen the relationship between industry and higher education. These are the so-called Higher Education-Industrial Partnership Centres (FIEK), whose main goal is the development of the R&D and innovation background at universities, that can provide for the innovation capacity for the Hungarian economy. The establishment of the centres are supported by the EDIOP 2.3.4-15 announced for consortia of higher education institutions and companies or research organisations in an amount of HUF 25 billion.

The R&D tax allowance is still an important element of the domestic support policy. The direct costs of the R&D carried out in their own scope of activities have long been deductible from the tax base of the corporate tax, sole proprietor’s income tax, local business tax and innovation contribution. For example, those paying corporate tax accounted for HUF 288 billion R&D tax allowance in 2014. There will be a new and potentially significant allowance introduced in 2016: local governments may decide at their discretion that enterprises can reduce the sum of their local business tax by 10% of the direct costs of R&D. More and more corporations are using the tax relief which was extended to researchers participating in doctoral programmes in 2014; the estimated number of doctoral students employed in industry exceeded 850 in 2015. The tax incentives are supplemented by an R&D certification system. In 2014 the National Office of Intellectual Property opened up to the

possibility of certificates prepared not only upon the request of authorities and courts but third parties and enterprises as well.

In 2015 the Hungarian Academy of Sciences – in addition to HUF 400 million of support – established 13 New Lendület (Momentum) research groups, four leaders of which returned home from research organisations abroad. In 2016 there was a new call for tender for leaders of research groups in which researchers with doctorate degrees can apply. The tender exclusively supports new research themes, or themes having been studied at the research organisation for a maximum of five years with outstanding results. The Targeted Lendület sub-programme also requires the involvement of corporations. There is no restriction as to the research field; the only assessment criterion is excellence.

### Energy and Climate Policy

*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 a maximum 10% increase in greenhouse gas emissions (compared to the 2005 level) 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, which, taking the year 1990 as a basis, is a 16.2% saving.*

In 2014 renewable energy represented 9.5% of total gross energy consumption, and greenhouse gas emissions further decreased in the sector outside the scope of the EU Emissions Trading Scheme (EU ETS) from 37.2 million to 37.14 million tonnes of CO<sub>2</sub> equivalent in 2013 and 2014, respectively. In Hungary there was a slight reduction in energy consumption in 2014: primary energy consumption decreased from 20.8 million tonnes of oil equivalent (TOE) in 2013 to 20.7, the final consumption figure remained unchanged at 14.9 million TOE.

Hungary's **National Energy Efficiency Action Plan III (49.)** was adopted by the Government Decree 1601/2015 (IX.8.). Parallel with the introduction of Directive 2012/27/EU of the European Parliament and of the Council on Energy Efficiency, the major measures which were determined are in the document. Based on the Government Decree 1160/2015 (III.20.) the updating of the forecasts of the National Energy Strategy, a **review of the Renewable Energy Use Action Plan of Hungary (50.)** is 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, similarly to the National Framework Plan of the Installation of Alternative Fuels Infrastructure. In order to encourage the population's participation in achieving energy objectives, the **Energy and Climate Awareness-Raising Action Plan (53.)** was adopted in August 2015.

The support schemes promoting the use of renewable energy sources are in progress and are being prepared. The METÁR system, the pre-notification procedure of which was set forth at the European Commission at the beginning of 2016, will provide, in accordance with national economic considerations, the sustainable support of power generation plants being constructed in the future in order to allow the market integration of producers of electricity and heat from renewable energy sources. In the new system the renewable power generation plants will sell electricity in the market themselves (except for those getting benefits of feed-in tariffs). The method of allocating grants will change: on principle, new support can only be granted following a competitive tender process from 2017. This will ensure optimal, cost-effective usage of the grants. Through the Green Economy Financing System (GEFS), within the framework of the 'Warmth of Home (Otthon Melege) Programme' the tenders announced against the quota incomes aim at providing the population with fast and intensive support throughout the country. With the use of the support the efficiency of the population's energy consumption can be significantly improved, thus reducing the annual domestic carbon-dioxide emission by 38,000 tonnes, and contributing to the achievement of the domestic

climate protection and energy efficiency objectives. In the cases of the tender schemes announced in 2014 and 2015 the support has already been awarded, and the implementation of the projects and their financial closing are currently in progress and are expected to be finished by the end of 2016. The use of renewable energy sources is a major target area of the 2014 to 2020 period; **renewable energy sources and the development of building energy are supported by several operational programmes**, through which HUF 299.3 billion in refundable and non-refundable funds are expected to be available in 2016 (54.).

**The development of waste management (55.)**, that is, the development of recycled waste collection (in 2014 there was a 172% increase in paper, and a 162% increase in plastic recycled waste collection; as a whole, recycling increased, and the amount of waste deposited was reduced; this tendency continued in 2015 as well), transport and pre-treatment systems, the systemised modernisation of the waste management facility networks of settlements, expanding recovery capacities, landfill reclamation and the thermal use of fuel produced from waste are all part of the energy and climate policy. EU resources are available for the above-mentioned areas, thereby ensuring more sustainable resource management and the mitigation of harmful emissions.

### Education

*As part of the Europe 2020 targets, 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.*

In addition to the effective use of resources, the strategic document 'A Change of Pace in Higher Education' aims to establish a performance-based tertiary education system, providing higher quality. As a result of this, the value-chain-based approach is used in achieving the Europe 2020 national target on tertiary educational attainment (Hungary undertook to increase the share of those aged 30-34 with tertiary or equivalent qualifications to 34% by 2020 and the strategy aims to further increase the rate to 35% by 2023). In this way the schemes built upon each other have moved to the forefront, the main focal points of which are: promoting higher education; encouraging applications to fields of study relevant for the labour market; increasing student preparedness; supporting student success and thereby reducing drop-out; and preparing people to work in a corporate environment and find a job in the labour market.

In support of the above, measures are taken to support higher education institutions' recruiting, preparatory and career guidance activities (encouraging the development of support schemes for applications and attendance regarding higher education), with special regards to the fields of mathematics, science, technology and informatics.

In 2015 the rate of early school leavers was 11.6%, which is higher than the EU-28 average (10.9%). Within the framework of the implementation of the strategy against students dropping out of school early without a qualification, the support of institutions endangered by students dropping out of school early and the increase in public education institutions' capacity for compensating for disadvantages are to be focused on in 2016. The proposal for the detailed rules of the dropout warning and pedagogical support scheme operation has been drafted; it is expected to come into effect – depending on the consultations – in 2016. The regulation covers the definition of the characteristics leading to the dangers of students dropping out of school early (e.g., grade repetition, skipping classes, deterioration in school marks, learners meriting special attention, etc.).

In order to extend early childhood education, **kindergarten attendance has been obligatory from the age of three instead of five (33/a)** since September 2015. The measure aims to establish later school success and recognise learning difficulties as early as possible, due to which early intervention can take place. The Government supported municipalities in the process of restricted tender from

domestic resources; the key aspect of its granting was the improvement of access to care for disadvantaged and multiply-disadvantaged children (in 2014-15, 70,891 three-year-old children were admitted, which is 22% of the total number of children in kindergarten; in 2015-16 the number was 76,645, which is 23.8% of the total number of children in kindergarten). In 2015, 68 settlements were supported from domestic sources and budgets of tender to increase the capacity by 2,000 places. The tender for creating new kindergarten places, which launched in 2014, is still available to settlements in 2016. The support, which is aimed at adaption to growing demand due to obligatory kindergarten attendance from the age of three and the elimination of overcrowded kindergarten groups, has been defined in the amount of HUF 2.5 billion in the Budget Act; the kindergarten development programme continues with a budget of 4.2 billion from EU sources in the upcoming three school years.

### 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.*

Poverty-related data for Hungary have improved continuously and significantly: the latest 2015 data from HCSO (relating to 2014) show the rate of those at risk of poverty or social exclusion is 28.2%, which is the same as the base-level data of 2008; it shows a real approximation to the target value due to demographic changes, and there is a realistic chance of achieving the reduction targeted in the Europe 2020 Strategy. In 2014, 2,735,000 people were affected by the risk of poverty or social exclusion, which is 362,000 persons fewer and 3.6 percentage points lower than in 2013. The increase in the rate of those living in income poverty has stopped; the rate of 14.9% of 2015 concerning 2014 is the same as the rate of two years before. In 2014, 19.4% of the population, 1,880,000 people, were affected by severe material deprivation, which is a 4.6 percentage point reduction compared to the previous year. (The improvement in the 2014 data has not reflected the effect of the measures taken by the Government in support of those having FX-loan, a part of which came into effect in 2015, which will probably also contribute to the achievement of the objectives regarding poverty). In 2014, 7.1% of the total population, 690,000 people, lived in households with very low work intensity, which is 2.6 percentage points lower than in 2013. The improving rate of those at risk of poverty or social exclusion affected mostly children under the age of 18. The rate of children under 18 years of age affected by any dimension of poverty has been reduced by 7.8 percentage points, 147,000, to 36.1%, in which well-targeted social transfers have played a crucial role. The rate of children living in severe material deprivation has been reduced by 10.7 percentage points to 24.9%. The rate of children living in households with very low work intensity has been reduced by four percentage points to 11.2%. As regards the Roma, the data have also improved; the latest data from HCSO in 2014 show the rate of those at risk of poverty or social exclusion was 83.8% among the Roma (in 2013, 89.9%; non-Roma in 2014, 26.8%; non-Roma in 2013, 29.8%). Regarding certain poverty dimensions among the Roma, income poverty was 63.1% in 2014 (in 2013, 67.9%), job poverty was 26.7% in 2014 (in 2013, 45.3%) and severe material deprivation was 67.8% in 2014 (in 2013, 78.1%).

## V. THE USE OF EU FUNDING REGARDING THE 2014-2020 PROGRAMMING PERIOD

The achieving of consistency with the common European objectives, primarily with the targets of the Europe 2020 Strategy and the relevant country-specific recommendations, was a major element of the preparation for the 2014-2020 programming period, of the planning consultations, and of the preparation for the Operational Programmes and the Partnership Agreement. This approach remained determining while the new development cycle was launched and at the calls for tenders.

The relevant elements of country-specific recommendation 3 of 2015 are underpinned in the priorities of the Public Administration Development Operational Programme (PADOP), especially in priority 1, aimed at reducing administrative burdens, and in priority 2, aimed at service approach and ethical operation in public service. The budget of the tenders for reducing compliance costs and those aimed at tax collection efficiency is HUF 45.8 billion in 2015-2016, the main areas of which are the rationalisation and simplification of authority and targeted tax authority procedures and cutting the costs of operation. The budget of tenders aimed at fighting corruption is HUF 15.5 billion; the target areas are the developments reducing the possibilities and risks of corruption, the capacity developments promoting the detection and prevention of corruption to a greater extent and, in a broader sense, the establishment of the necessary framework conditions to provide transparency in the use of public funds.

The content elements of country-specific recommendation 4 determined the priorities, particularly of HDOP, EDIOP, and the two territorial operational programmes (TOP and CCHOP), and serve as a guide regarding the tenders of 2015-16. It should be noted that the majority of the tenders related to country-specific recommendation 4 contribute to the targets of the Europe 2020 Strategy as well, *mutatis mutandis*, primarily to the target 1 (increasing employment) and 5 (reducing poverty). Within the framework of HDOP, the tender for the employment of women (HUF 12 billion) and the Roma mentor programme (HUF 2 billion) are of this type; the former contributes to employment, and the latter to the reduction of poverty as regards the Europe 2020 targets. The developments promoting primary labour market integration are concentrated in EDIOP with a budget exceeding HUF 114 billion; the training of those lacking qualifications and of public workers is a priority (HUF 30 billion) in order to help them return to the labour market. Achieving country-specific recommendation 4 and a contribution to the employment target of the Europe 2020 Strategy play a major role in the territorial dimension as well: CCHOP and TOP jointly have tenders in this field with a budget of HUF 152.2 billion, with special regard to support coming from the cooperation with local employment, the employment of single parents and the helping of youth to become entrepreneurs.

Country-specific recommendation 5 has a major role in HDOP, EDIOP and CCHOP. HDOP has a budget of HUF 47.8 billion for the development of the teaching of basic competencies and the facilitation of the transition between the different stages of education and to work. In EDIOP special emphasis is placed on the support of the transition between the different stages of education and entry into the labour market (developing vocational training), and even the development of the teaching of basic competencies materialised (reducing digital divide) with a budget of HUF 33.7 billion. EDIOP and CCHOP support the teaching of basic competencies (improving foreign language skills), with a budget of HUF 17.5 billion.

The tenders relating to country-specific recommendation 5 and contributing to some of the tenders of the Europe 2020 Strategy can be summarised as follows:

- The tender with a budget of HUF 6.3 billion in HDOP contributes to employment target 1 ('Actively for knowledge'), which aims to increase the qualification levels and chances of employment of the disadvantaged, including the Roma;
- Tenders with a total budget of HUF 89.1 billion (shared among OPs: HDOP, HUF 85.4 million; EDIOP, HUF 1.8 billion – reducing the number of those leaving vocational training without qualification; CCHOP, HUF 1.95 billion – supporting Roma colleges for advanced studies, reducing the number of those leaving vocational training without qualification) contribute to target 4 (reducing the rate of early school leaving, increasing the number of those with a tertiary qualification between the ages of 30 and 34);
- The tender of HDOP with a budget of HUF 4.2 billion (supporting social inclusion and public education measures for integration) contributes to objectives 4 and 5 of the Europe 2020 Strategy (reducing poverty).

The developments relating to country-specific recommendations 4 and 5, and contributing to the Europe 2020 Strategy targets as well are as follows:

- The tenders of EDIOP and CCHOP, with a budget of HUF 406 billion (The Road to the Labour Market and Youth Guarantee programmes), and the tender of HDOP with a budget of HUF 10 billion aimed at labour market integration and employment rehabilitation of the disabled contribute to the Europe 2020 employment target;
- The tender of HDOP with a budget of HUF 4.4 billion (scholarship programme for nursing students in support of their career choice) is linked to targets 1 and 4 of the Europe 2020 Strategy (increasing employment and reducing school dropout rates);
- The tenders of HDOP with a budget of 7.2 billion ('Growing Chance') are linked to targets 1 and 5 (reducing poverty).

Overall, in 2015-2016, tenders with a budget of HUF 61.3 billion are linked to country-specific recommendation 3; tenders with a budget of HUF 282.1 billion to country-specific recommendation 4; tenders with a budget of HUF 198.6 billion to country-specific recommendation 5; while joint tenders with a budget of HUF 445.1 billion are linked to the recommendations of 4 and 5.

In addition to the above, the loan with a budget of HUF 15 billion within EDIOP aimed at increasing employment contributes to target 1 of the Europe 2020 Strategy. The tenders of TOP for transport development encouraging economic development and workforce mobility (HUF 64.6 billion) contribute to the implementation of the objective.

Tenders have been and are being announced with a budget of HUF 438.5 billion within the frameworks of EDIOP and CCHOP in order to implement target 2 (R&D&I). In addition, it is worth mentioning that EDIOP has a tender with a budget of HUF 35 billion aimed at supporting prototype development (and product, technology and service development), and several tenders of RDP aim to support the innovation programmes of agriculture-innovation operational groups (HUF 12.4 billion). These tenders may contribute to the achievement of the target depending on the demand for financing.

The value of the tenders supporting target 3 aimed at climate and energy policy is HUF 768.4 billion (EEEOP, EDIOP, CCHOP, TOP). The support of building energy efficiency developments in the cases of public buildings, local government buildings and business buildings) is of primary importance (mostly combined with the use of renewable energy sources). The development of buildings is provided by EEEOP at a value of HUF 119.6 billion, and by EDIOP with HUF 164.65 billion in 2016. Renewable

energy-based green electricity production and heating and cooling demand fulfilment support are of primary importance (both in the framework of grants and financial instruments). In addition, the value of the tenders aimed at increasing the rate of renewable energy sources in the transport sector is about HUF 303.9 billion (ITOP). The tender of the RDP supporting the development of horticulture with the use of geothermal energy (HUF 22.5 billion) is also worth mentioning, which may contribute to the achievement of the objective, depending on the demand and the method of actual usage.

The Higher Education Infrastructure Development Programme of the tender of HDOP with a value of HUF 29 billion contributes to target 4 (increasing the share of those having completed tertiary education) by providing the infrastructure for quality higher education in the convergence regions.

The value of the tenders aimed at reducing poverty and social exclusion, which contribute to target 5, is HUF 65.8 billion, within the framework of HDOP and CCHOP (target areas: the support of inclusion-based cooperation; the elimination of everyday segregation with complex programmes; the social and physical rehabilitation of deteriorated areas).

## VI. INVOLVING SOCIAL PARTNERS

The public consultation and the involvement of stakeholders in the National Reform Programme of 2016 were carried out in two stages as in previous years. In the first stage the ministries responsible for the measure involved their partners in the preparation of certain legislation, programmes and other measures. Their forms are rather varied depending on the characteristics of the area's measures and the practice thereof. The Government officially adopted the National Reform Programme and the Convergence Programme jointly on 27 April. Following its submission, the National Reform Programme will also be discussed by the Committee on European Affairs of the National Assembly.

### Public consultations on the implementation of the Europe 2020 Strategy

The amount of the guaranteed minimum wage and wage minimum are defined by the Government on the basis of the consultation with social partners. The Regular Consultation Forum of the Business Sector and the Government and its Monitoring Committee had seven meetings in 2015 and agreed with the majority of the members on the amount of the guaranteed minimum wage and wage minimum of 2016. Some of the working groups of the Forum consulted on the amendment to the Labour Code and questionable points related to the act on striking, and an improvement in the situation of employees working under great physical and/or mental stress. In line with the legislation there was a discussion about the increase of the guaranteed minimum wage and wage minimum in the National Economic and Social Council prior to the Government's decision. In the summer of 2015 the Public Employment Working Group of the Scientific Council of the Ministry of Interior was established. Famous researchers from different fields participated in the working group. The working group supports the decision making by identifying the challenges of public work, making proposals and initiating researches.

There has been wide public consultation on the preparation and finalisation of the National Smart Specialisation Strategy (S3); innovation-related stakeholders were fully involved in its planning. The major specialisation guidelines – in accordance with the regional development strategy made at the county (NUTS-3) level – were defined in a series of workshops with a bottom-up approach. In addition to the counties' workshop proposals, proposals were collected through online surveys. In the second stage of the consultations, the county working groups were able to get acquainted with, express their opinion on and supplement the National Smart Specialisation Strategy draft prepared on the basis of the counties' proposals. What is interesting about the S3 is that not only were theme-based working groups established alongside the four different social and professional groups, but the partners were also involved on a vertical and regional basis with a bottom-up approach.

In the initial stage of the preparation of the Energy and Climate Awareness-Raising Action Plan, (ECAAP) adopted in August 2015, there was a wider forum (involving about forty organisations – civil and professional organisations, interested companies, universities and administrative organisations) in October 2013. The participants in the forum were given the chance to give their written and oral opinions about the complete working paper of ECAAP, which were greatly taken into consideration and built into the action plan.

In the field of dual higher education, the Government established the Dual Education Council (DEC), which through its members, formulates and represents the joint opinion of those interested in the implementation of training sessions – economic organisations and institutions.

The Social Inclusion and Roma Inter-Ministerial Committee (SIRIMC) contribute to the growing integration of the National Social Inclusion Strategy into the particular policy. The follow-up and monitoring of the implementation of the Strategy against Child Poverty is carried out by the 'Let It Be

Better for Our Children' National Strategy Assessment Committee (AC). The Committee is a body of 26 members consisting of 13 members delegated by the Government and 13 civil and church organisation members.

#### Workshops assessing the progress made in the Europe 2020 Strategy

The Ministry for National Economy organised several workshops in February 2016 in order for the ministries and professional organisations implementing the strategy to jointly assess the progress made in the Europe 2020 Strategy and to make proposals for achieving the aims more successfully. The ministries presented the objectives and main trends of the measures for implementing the relevant Europe 2020 targets and country-specific recommendations of 2015, the interconnectivity and results thereof, and provided a future direction at the level of plans.

- Most of the proposals in the employment workshops covered issues related to the stronger promotion of the Youth Guarantee Programme and an improvement in the system of encouraging public workers entering the primary labour market;
- In the R&D workshop the professional organisations, besides research, emphasised the significance of the research process and organisational innovation, more intensive involvement of scientific research into industrial development processes through well-designed application of tools encouraging innovation (standardisation in R&D, differentiated use of intellectual property management, tax regulation), and the improvement of the entrepreneurial knowledge of university students completing higher-qualification studies (MA, PhD);
- In the energy workshop, in addition to achieving the 2020 targets, the experts highlighted the long-term processes and tasks. There were discussions about the advantages and disadvantages of the support schemes considering the experience over the last years, the application of renewable energy sources in the distant heating sector, innovative technological solutions and the best practices of energy-efficient investments;
- In the education workshop the most important issues were the keeping of innovation capital in Hungary, the shortage of IT specialists, teacher training, opportunities for dual training and the development of digital skills;
- In the social inclusion workshop the civil participants confirmed that there is an overwhelming need for continuing the programmes already in operation, and they had a positive opinion about them. It is also important to increase municipality activity, involve civil organisations, and extend the economic development programmes in deprived areas in order to achieve permanent inclusion.

#### Further public consultations

In cases of legislation (e.g., the act on public procurement and certain legislation on taxes) there were consultations mainly on the basis of the provisions of the act on social participation in the preparation of legislation<sup>1</sup>. Within the framework of state red-tape reduction aimed at reducing the payment obligations imposed on citizens and enterprises, there was a wide public consultation prior to the drafting of the amendment on reducing or eliminating administrative procedure fees and

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<sup>1</sup> According to Act CXXXI of 2010, public consultation is the expression of opinion provided via the contact details on the webpage and the directly expressed opinion of individuals, institutions and organisations involved by the minister responsible for drafting the legislation. The entity who drafts the legislation considers the received opinions and prepares a report thereof and the reasons for rejection in the cases of rejected opinions, and publishes it, including the list of referees on the webpage.

charges. The Government initiated public consultation by involving citizens and enterprises. Based on the opinions thereof, the amendments took effect as of 1 January 2016. Within the framework of the consultation, a separate survey was created for private individuals and enterprises, both of which included nine administrative procedures. Those participating in the consultation could vote on the elimination of several administrative procedural fees and charges, and could also propose one more administrative procedure important to them to be made free of charge.

In the cases of the EU programmes, in addition to their publication, the Monitoring Committee of certain operational programmes gives its opinion on and approves the annual development budgets, in which external actors can also be involved. An example of such involvement was the 'Support of the Development of Logistics Service Centres', or the 'Support of Quality Service Programmes of Professional Cluster Organisations', the planning and modification of which were carried out on the basis of the proposals sent by the representative and cluster management organisations or, in the cases of the HDOP measures providing social inclusion opinions on the tenders can be expressed by civil organisations and churches.