



**50 PROPOSALS**  
**OF THE MAGYAR NEMZETI BANK**  
TO ADDRESS THE IMPACTS OF THE  
CORONAVIRUS PANDEMIC ON THE  
ECONOMY

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29 September 2020

# Summary


**In the extraordinary situation caused by the second wave of the coronavirus pandemic, the Magyar Nemzeti Bank intends to support the crisis management and economy-stimulating work of the Government with a 50-point package of proposals.** Hungary defended itself successfully against the first wave of the coronavirus pandemic. The appearance of the second wave poses complex challenges in the social and economic lives unseen before. Health protection and the support of economic activity need to be solved simultaneously.

**Management of the crisis requires determined and coordinated steps from fiscal policy, monetary policy and competitiveness policy.** Increased uncertainty will remain typical of the operation of economies until the vaccine against the virus is developed. The delayed economic impacts of the first wave and the consequences of the second wave appear simultaneously. Measures are needed that boost the engine of the economy this year and next year as well, and at the same time are able to ensure automatic consolidation and the restoration of the main external and domestic macroeconomic balances as of 2022.

**The protection of families, saving of jobs, targeted tax cuts and the acceleration of investment programmes are the most important tasks of the acute period.** It is necessary to get ready for continuing the wage subsidies applied successfully during the first wave in the second wave as well. Families' income position must be strengthened using targeted tax cuts and transfers. The temporary loss in private demand should be offset by the acceleration of government investment, expanding the home-building programmes and by targeted investment supporting measures that focus on the application of modern technologies. It is justified to introduce supplementary wages in the jobs that are the most exposed to the risks of the pandemic, whereas targeted support of the demand may help in the sectors suffering from complete stoppage. Central bank programmes continue to play a major role in the stable operation of the credit market, but, in addition, it is also worth using the institution of guarantees more efficiently.

**Crisis management is change management as well. No economy will return to the pre-crisis structure as a result of the recovery. Catching up following the crisis has to rest upon the strengthening of competitiveness.** The crisis management and restoration measures have to ensure a natural flow of capital and labour to more efficient areas that better meet the expectations of the future. Rapid recovery of employment may be facilitated by the extension of the tax allowances of the Job Protection Action Plan, while in infrastructural developments it is worth to put emphasis on the megatrends that determine the 21st century (e.g. digitalisation, green economy).

**Table 1: Overview of the economy-stimulating proposals**

<b>1. Labour market proposals</b>	
1. Continuation and simplification of the job protection wage subsidy	
2. Extension of the Job Protection Action Plan to employees who lost their jobs during the coronavirus pandemic	
3. Reintroduction of the tax allowances related to the pandemic	
4. Expansion of the public work programme and support the flow to market employment	
5. Introduction of a retraining allowance and restarting the jobseeker's allowance in the case of a successful exam	
<b>2. Family-friendly proposals</b>	
6. Increasing the amount of the family tax allowance	
7. Introduction of PIT exemption for mothers with three children	
8. PIT exemption for part-time employee mothers bringing up small children	
9. Granting extraordinary sick pay to employees bringing up children, when necessary	
10. Launching of 'first home' programmes	
11. Higher jobseeker's allowance to unemployed bringing up children	
<b>3. Housing market proposals</b>	
12. Finalisation of the designation of brown field areas	
13. Resetting of the general 5 percent VAT concerning residential properties, with a 4 percent sectoral surtax	
14. VAT refund after the construction of private-purpose properties in all settlements	
15. Rented flat programme for young people and state employees	
16. Expansion of the scope of domestic building material producers and capacity	
<b>4. General and targeted demand stimulation measures</b>	
17. Targeted extension of the moratorium on instalment payments, with bi-annual revision	
18. Gradual gas price reduction	
19. Pay rise for those working in health care and education	
20. Support to domestic tourism through the Széchenyi Recreation Card and direct allowances	
21. Subsidising the purchasing of basic food for large families and pensioners	
22. Reduction of the VAT rate on delivered and take-away meals to 5 percent	
<b>5. Proposals concerning the financial system</b>	
23. Stimulating corporate borrowing with guarantee programmes	
24. New housing loan programme to stimulate the building of energy-efficient homes	
25. Reform of the corporate bankruptcy proceedings	
26. Risk sharing based on reinsurance	
27. Active participation of the MFB in setting up an asset manager and in the supporting of infrastructure projects	

6. Increasing of government, foreign direct and corporate investments	
28. Development of the health infrastructure and research capacities	
29. Development of road and railway connections with the borderland	
30. Acceleration of the nursery development programme	
31. Acceleration of the absorption of previously disbursed EU advances	
32. Strengthening the attracting of FDI with high value added	
33. Local business tax allowance after investment and R&D expenditures	
34. Saving of companies important for the national economy that are in an emergency	
7. Green economy proposals	
35. Acceleration of the shift to renewable energy production and the development of the electric energy network	
36. Comprehensive building energy efficiency programme	
37. Bio- and food waste utilisation infrastructure	
38. Renewal of public waterworks	
39. Development of the agricultural infrastructure	
8. Acceleration of digitalisation	
40. Government purchase order for IT devices made in Hungary	
41. Support to the Hungarian IT security software industry and development of the digital creative industry	
42. Government IT investment and connection of databases for e-government solutions	
43. Development of 5G-based digital infrastructure	
44. Increasing the efficiency of real estate transactions and construction with IT developments	
9. Everyday organisation of life and the economy	
45. Support to working at home	
46. Tightening the pandemic prevention rules of using public transport	
47. Flexible transformation of the pandemic prevention rules at school	
48. Maintaining of distance education in tertiary education	
49. Expansion of state-subsidised coronavirus testing	
50. Allowing teleworking for employees with children if they request it	

# I. Fundamental information

**Without exception, the past decades of Hungary's history began with serious economic shocks.** Following the first oil crisis in the 1970s, then the second one in the first years of the 1980s, the turn of the 1990s was determined by the economic shock of the political transformation, the 2000s began with the bursting of the dot-com bubble and with the European mini recession, whereas in 2010 the economy had to be healed after the financial crisis. The 2020s again started with a significant external shock, which entails serious consequences for the performance of the economy as well. An important experience is that the crisis management measures adopted in the first years of a decade are able to determine the economic performance of the whole decade.

**Active economic policy intervention is needed to address the economic impacts.** It is important that – as in the case of the successful crisis management in 2010 – in addition to the protection of the economy, the new measures should also serve as a basis for the growth momentum of the 2020s.

**Measures that protect the achievements and take the economy back to the path of catching up while equilibrium is maintained are needed.** Economic downturn must be attenuated in 2020, whereas growth has to be accelerated and the improving of balance indicators has to be started in 2021. Namely, the balance of all important areas, such as budget, current account and labour market, has to be recreated after the recovery.

**Comprehensive, determined and coordinated measures are needed in order to achieve the above target.** The two-year economic policy programme should provide adequate impulses for the economy in the individual phases. During the acute crisis management, families and jobs should be protected and the fall in demand should be made up for. Then, in the restoration phase, the supply side and financing should be strengthened, and competitiveness should be improved in the new phase of catching up.

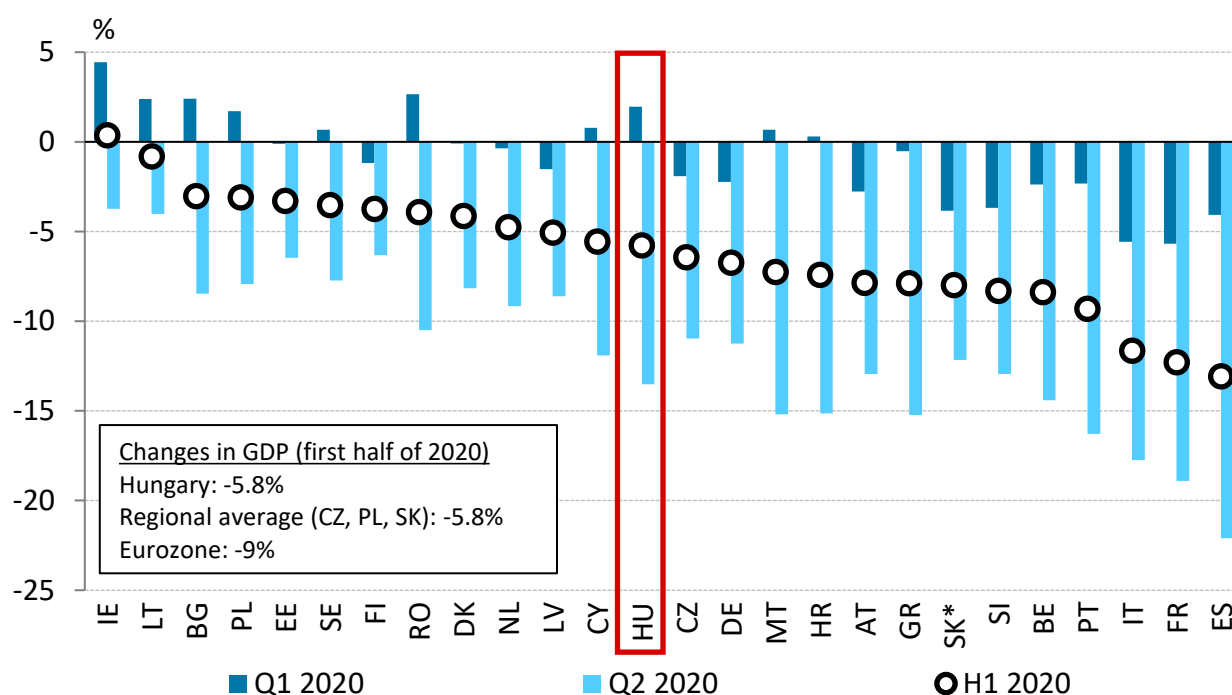
**There are things to rely upon. The Hungarian economic policy collected important experiences with handling the first wave of the pandemic.** The new programme must preserve the successful crisis management implemented to date. It is also necessary to continuously measure the economic efficiency of the measures, directing the resources towards the most efficient channels. Longer-term impacts of the measures on competitiveness also should be taken into account, because the quality of the recovery phase may determine the pace of catching up during the whole decade.

## II. Economic situation after the first wave of the pandemic

In view of the impact of the first wave of the pandemic, all the countries concerned introduced strict restrictions, hindering the normal functioning of the economy for shorter or longer periods. As a result, significant economic downturn took place, affecting the most developed countries and the developing ones alike. In 2020 Q2, European states experienced one of the deepest economic recessions of their modern era history. The economic performance of the euro area declined by 14.7 percent year on year. Within that, the economy of Germany, which is Hungary's main trading partner, contracted by 11.3 percent.

The pandemic hit the individual countries at somewhat different times. Therefore, it is important to examine not only Q2, but H1 data as well. The impacts of the first wave of the pandemic on the economy in Hungary concentrated on Q2. Looking at the first two quarters together, the performance of the Hungarian economy is not different from the average of the region, and exceeds the dynamics of the euro area economy by more than 3 percentage points (Chart 1).

Chart 1: Annual changes in GDP in European countries



Note: Based on data adjusted for seasonal and calendar effects. \*Based on seasonally adjusted data.

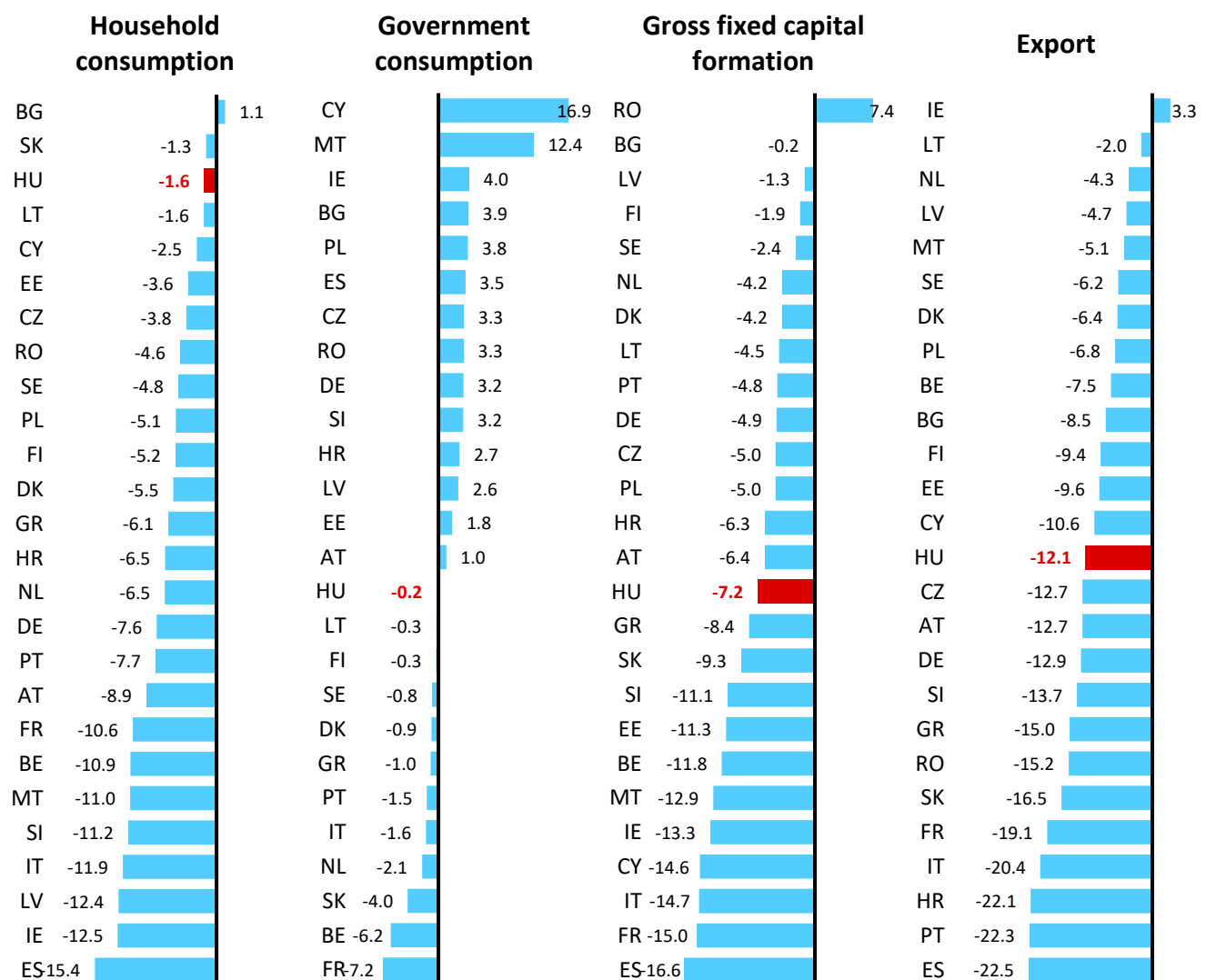
Source: Eurostat

In 2020 H1, the decline in Hungarian GDP was in the middle among EU Member States. The consumption of Hungarian households was favourable in international comparison in H1. Behind Bulgaria and Slovakia, the 1.6 percent decline is the third best value in the EU (Chart 2). Domestic consumption was supported by the moratorium on loan instalments, which was one

of the widest ranging ones in international comparison as well, and also by the past years' steady increase in financial wealth and savings as well as by the labour market situation, which worsened only moderately in the period of the first wave. By contrast, the downswing in government consumption, gross fixed capital formation and exports was in the middle of the ranking of EU countries.

**Fiscal policies were able to attenuate the negative impacts of the pandemic with the application of strong countercyclical policies.** With differences in economic structures, the decline in GDP was more moderate in those European countries where they were able to make up for the lost private demand at least partly with government demand. The sizes and compositions of the economy stimulation programmes were different, but economic performance in Q2 was mostly boosted by direct and targeted fiscal incentives.

Chart 2: Year-on-year changes in expenditure side items in H1 2020



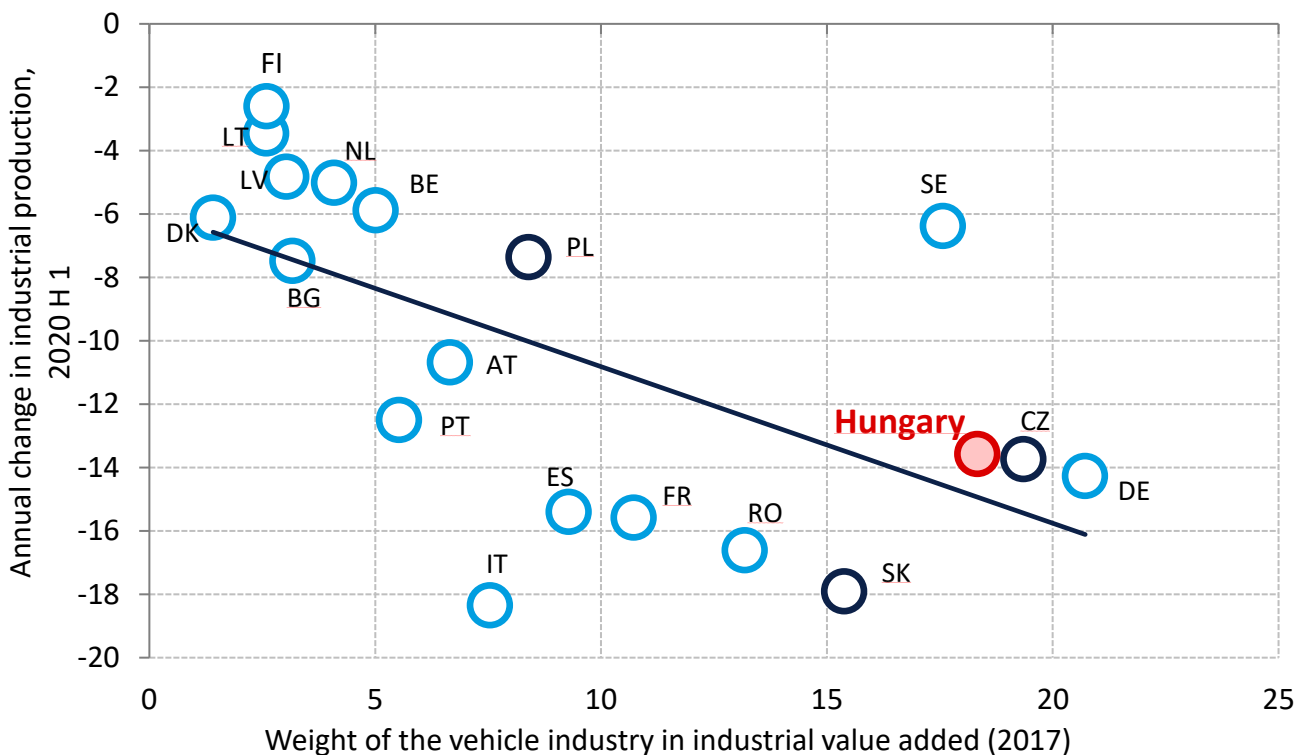
Note: Based on data adjusted for seasonal and calendar effects. Based on seasonally adjusted data in the case of Slovakia. Government consumption comprises social transfers in kind from government, whereas household consumption includes social transfers in kind from non-profit institutions.

Source: Eurostat

The impact of the pandemic on the Hungarian economy was amplified by the fact that it affected exactly those three areas that accounted for a significant portion of the economic growth in the past years: vehicle industry, tourism and investment. The strong exposure of the Hungarian economy to the vehicle industry and tourism changed from advantage to disadvantage in view of the nature of the coronavirus crisis. Moreover, investment projects were generally postponed due to the uncertain economic prospects.

**1) Vehicle manufacturing accounted for nearly one fifth of the economic growth in Hungary between 2013 and 2019, and thus its stoppage entailed serious effects.** Against the background of more cautious consumer behaviour, the demand for high-value consumer goods fell, there were disruptions in the global supply chains, and thus the downturn in automotive manufacturing was especially significant. New car registrations were down by 20–40 percent in the case of all major manufacturers during the pandemic. As a result, those countries, e.g. in Central East Europe, where this sector has a considerable weight were hit especially hard. In view of the large share of the vehicle industry, industrial production fell in Hungary, the Czech Republic and Germany by 15 percent each in H1 (Chart 3).

**Chart 3: Weight of the vehicle industry in industrial output; and industrial growth**



Note: Data for Austria are available only for the first 5 months of the year.

Source: Eurostat

**2) In Hungary, the weight of tourism together with the related sectors exceeds 6 percent of GDP. Consequently, the 67 percent fall in international overnight stays in H1 strongly contributed to the evolving economic downturn.** As one of the first measures, governments generally tried to reduce the velocity of the pandemic by the limiting of international passenger traffic. In the countries where tourism plays a major role, for example in the



Mediterranean economies, the lost revenues reduced the GDP significantly. Nevertheless, the pandemic may determine households' tourism-related habits over the longer term as well, with trust and local destinations becoming more valuable. This is also corroborated by the calculations of tourism organisations, which suggest that the recovery of international tourism cannot be expected before 2024.

**3) On the expenditure side of GDP, investment accounted for 75–80 percent of growth in the past 2 years, but in the current uncertain economic environment a wait-and-see attitude may be typical of corporate and household investment decisions.** These developments were not attenuated by government investment either in H1, and thus one of the most important growth factors became the greatest hindering one. It also adds to the negative effect that the housing market cycle also may have reached its maximum last year.

**The significant economic contraction notwithstanding, there were no signs of a major downswing in the labour market, as companies preferred to react to the changed circumstances by reducing the number of hours worked and by part-time employment.** Following its low in April, employment in Hungary increased in both June and July. In July 2020, the number of people employed in the Hungarian economy was 4,460,000, which is only 65,000 fewer than a year before. In view of the benign labour market situation and the general moratorium on loan repayments, developments in household consumption were relatively favourable in international comparison.

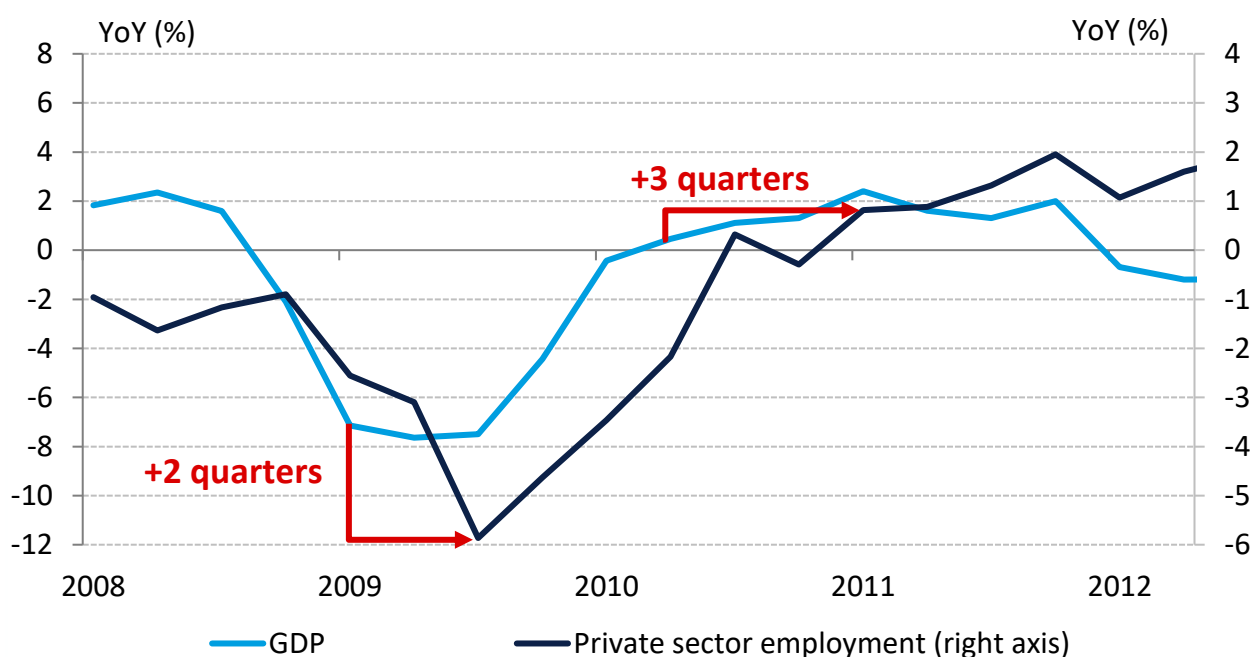
**In the middle of Q2, with the gradual easing of the restrictions, the signs of recovery appeared, but this process stopped in the past months,** suggesting a scenario of protracted recovery in lieu of a 'V-shaped' upswing. Hungary and Europe are exposed to the second wave of the pandemic in this situation.

### III. Expected economic impacts in the second wave of the pandemic

As the virus itself, its impacts on the economy also change as time goes by. Until an efficacious vaccine is developed, we must be prepared that the delayed effects of the first wave and the new consequences of the second wave appear simultaneously. The protraction of the pandemic situation may result in a revaluation of corporate business plans, although it is less likely that economies will have to face a complete standstill like in the spring.

**Supporting employment and protection of the labour market should remain top priorities.** Many businesses used up their reserves during the first wave of the pandemic, trusting that the economic situation might improve quickly. From the labour market side, these companies tended to react by shortening the working hours and increasing the ratio of part-time employees. With the arrival of the second wave and the revaluation of growth prospects, reducing the number of employees may become more typical. After the previous, 2008–2009 crisis, labour market adjustment was protracted, following the changes in economic activity with a delay of 2–3 quarters (Chart 4), while job-seeking time increased more persistently.

Chart 4: Changes in GDP and private sector employment during the 2008–2009 crisis

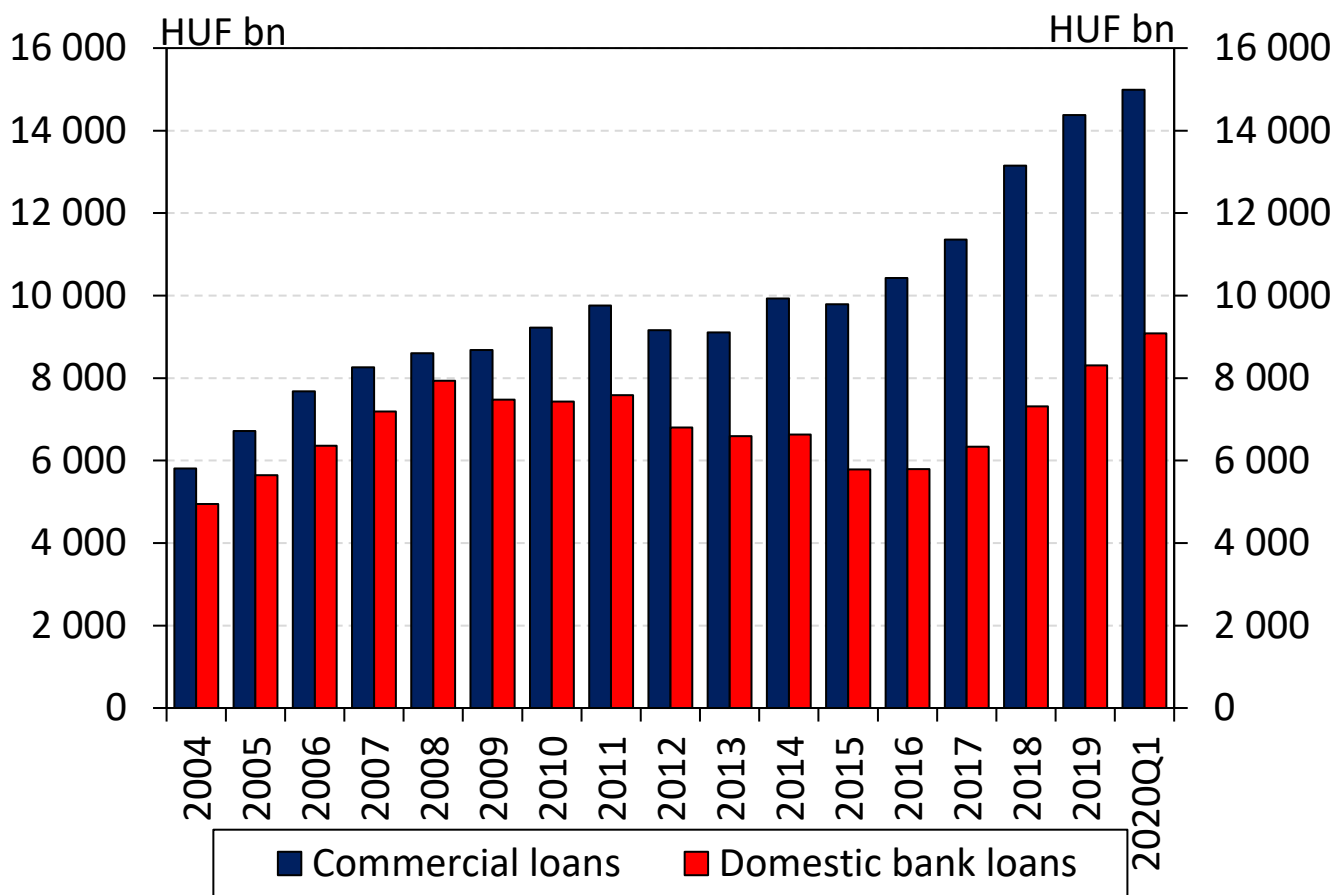


Note: Seasonally adjusted data.  
Source: HCSO

**In addition to loan debts, accounts payable should also be watched.** Of corporate liabilities, outstanding commercial loans, whose maturity is typically short (some months), amounted to nearly HUF 15,000 billion at the end of 2020 Q1, which is a much higher amount than bank loans outstanding (HUF 9,000 billion). Accordingly, in view of contagions evolving through

accounts payable, bankruptcy of a company has an unfavourable impact on the financial position of several other businesses as well, launching a chain of dangerous gridlocks.

Chart 5: Commercial and bank loans in the corporate sector



Source: MNB

**Changes in the real economy environment may affect the balance sheets of banks for years.** As time goes by, changes in the real economy have an effect on banks' portfolio quality as well, which may pose challenges to the banking sector and to the financing environment in general. In the period of restoring the economy this process may decelerate the renewal of production capacities, and increase the ratio of non-performing loans, which may even result in a decline in lending capacity.

**Table 2: Performance of credit institutions (percent)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Annual GDP growth rate	4.2	4.0	0.2	1.1	-6.7	0.7	1.8	-1.5	2.0	4.2	3.8	2.2	4.3	5.1	4.9
(90+) Ratio of non-performing loans	3.2	3.6	3.4	4.6	8.8	10.3	13.9	16.9	17.3	16.3	13.5	8.9	5.2	3.3	2.1
Credit institutions' loan loss provisioning as a proportion of assets	-0.3	-0.3	-0.4	-0.5	-1.2	-1.3	-2.0	-0.5	-0.8	-0.6	0.0	0.3	0.5	0.2	0.1
Credit institutions' return on equity	23.3	22.4	17.3	11.3	9.9	0.0	-9.9	-5.7	1.0	-16.6	-1.0	14.5	17.5	13.6	11.6

Sources: HCSO and MNB

**In view of the lower disposable income, households may reduce their consumption and increase their savings.** Labour market developments result in a slowdown in the rise in disposable income, while it is generally typical of crises that the savings rate of households grows as they become more cautious. The fall in the demand for durable products may be greater globally as well, and the recovery of international tourism is slow, which may hinder Hungarian exports for a longer period of time.

**Some sectors are hit especially hard by the protracted pandemic.** Revenues in certain areas (such as international tourism, logistics, entertainment industry, personal services) may permanently fall to minimum levels as during the first wave. In these sectors it is important to ensure the conditions of survival and subsequent recovery.

## IV. Lessons learnt from the management of the pandemic and principles underlying our proposals

**Successful prevention and dynamic recovery thereafter necessitate the finding of proper balances in several areas.** We should be prepared for protracted defence and support for the economy. The successful management of the pandemic calls for concerted actions in fiscal policy, monetary policy and structural policy improving competitiveness. Fiscal policy is key to the stimulation of aggregate demand, while monetary policy is essential for the shaping of the funding environment. The continuous improvement of competitiveness is the key to the economy's long-term sustainable growth. After recessions, economies never restart in the same structure as before the crisis. The former growth industries lose from their significance, while new sectors emerge and pull ahead. Following the present coronavirus crisis, the development of new norms and new economic structure may be faster than after the crises of the past decades.

**1) Balance in management of prevention in health care and of the economic situation.** It is no longer possible to manage the emergence of the second wave by similar measures as in the first wave, which brought the economy to a general standstill. It is important to find such new operating scheme for social distancing and restrictive measures that ensures the protection of the health of the society and meanwhile keeps the economy above water.

**2) Simultaneous application of comprehensive measures and targeted solutions.** As during the management of the 2010 crisis, in the first wave of the coronavirus as well those measures proved to be the most efficient that exerted their impact comprehensively, in a simple form, easy to understand for the economic agents. These included, for example, the introduction of the moratorium on loan instalments, which – affecting 1.6 million customers – leaves HUF 2,000 billion surplus funds with the families and companies in 2020. The Funding for Growth Scheme Go provided roughly 8,000 domestic small and medium-sized enterprises with funding in the amount of HUF 600 billion until the end of September. During the management of the second wave, the simple, transparent measures affecting a wide range of the society must be continued to be applied together with targeted solutions.

**3) Balance between the short-term stimulation of demand and the supply-increasing effect of the competitiveness reforms.** The optimal tools of supporting economic recovery vary in the different phases of the recovery. In the short run, stimulation of demand is a priority, which essentially can be ensured the fastest by the government budget. At the same time it is important that these measures also support in the medium and long run increase in competitiveness and production capacities, the development of the critical, digital infrastructure of the 21st century and the utilisation of modern technologies.

**4) Temporary rise in debt and medium-term balance of the general government.** Due to the steadily lower revenues and the higher expenditures serving the protection of the economy, the budget deficit and debt inevitably rise in 2020. The general government indices should already improve in 2021, and with the fading of the impact of the pandemic, it is important to return to the “balance and growth” formula, which already proved to be successful in the 2010 decade.

**5) Maintenance of the balance of payments position and continued decrease in the external debt indicators.** Upon elaborating the measures it should be taken into consideration that the growth should be stimulated in a way that the effects of that remain to the highest possible degree “within the borders of Hungary”. This may help prevent the deterioration of the current account and external debt indicators and keep them close to the levels achieved in recent years.

**6) Protection of enterprises with the prevalence of efficiency.** The post-pandemic global economy may continue to operate along a materially different structure and norms than before. It is not the economy that we knew before the onset of the coronavirus that needs to be restored, but rather a system conforming to the new trends and norms. Crisis management is simultaneously also change management. The crisis permanently transforms certain sectors. The technological and consumer habits will change more rapidly, calling for adjustment by the economies. Accordingly, the crisis management and recovery measures should ensure the natural flow of capital and labour force to areas of higher efficiency, better satisfying the expectations of the future. The trap of zombie firms should be avoided.

**We developed our proposals based on domestic and international experiences in the various areas along the following principles:**

- When managing the second wave of the pandemic, we need to rely on the measures that already proved their efficiency in the first half of 2020.
- In the labour market we need to prepare for preserving jobs and later for increasing them rapidly. By strengthening the active labour market policies the qualification of the labour force should be improved and the flow of employees to the more competitive companies must be supported.
- Desirable actions in the stimulation of demand include the maintenance of household consumption and purchasing power as well as the fostering of investments and innovation. In crisis periods the multiplicative effect of public investment programmes is particularly high.
- In the industries hit hard – operating with high number of employees – targeted demand stimulation is a must.
- Within investments digital and green developments should be given priority.

- The procyclicality of the functioning of the banking sector may permanently strengthen. Central bank programmes may remain key to obtaining competitive funding. It would be expedient to support fund raising by enterprises also through the expansion of the guarantee schemes for greater efficiency.
- The efficient management of debt gridlocks and potential mass bankruptcies call for proper regulation and institutional system.
- The health protection measures to be adopted should efficiently block the spread of the pandemic at the same time hindering economic processes to the least possible degree.
- The income position of families must be strengthened and their adjustment to the changed everyday life must be supported.

Below we outline short- and medium-term objectives and proposals supporting the realisation of those in 9 priority areas.



## 1. LABOUR MARKET PROPOSALS



**Objective in the period of prevention: Protecting jobs**



**Objective in the period of recovery: Full reinstatement of lost jobs**

1. **Continuing and simplifying the job protection wage subsidy.** A substantial part of the funds allocated to the job protection wage subsidy is still available. When prolonging the programme, it would be advisable to further simplify the administration; when utilising it during a longer period to provide increasing state aid and to grant higher aid to employees with children.
2. **Extending the allowance of the Job Protection Action Plan available from the social contribution tax to employees who lose their jobs during the coronavirus pandemic.** The allowance applied at present applies only to those employees entering the labour market who within the past 9 months were employed in three months at the most, which limits the availability of the aid.
3. **Repeated introduction of the tax allowances related to the pandemic.** The sectors that were affected the most by the pandemic were exempted in a targeted manner from the payment of the employers' and partly of the employees' social security contributions for the period of March to June. During the second wave of the pandemic it may be expedient to introduce this again, subject to revising the affected sectors.
4. **Extending public work programme and supporting the flow to private sector employment.** Public employment may be extended in accordance with the plans announced in spring. It would facilitate the employment of public employees, if the wage of public employees hired by enterprises was paid for a certain period (e.g. for half a year) by the government, if the employer continues to employ them for the same period. This increases value added and fosters transfer to private sector employment.
5. **Introducing retraining allowance, and upon successful exam, restarting the disbursement of jobseekers' allowance.** The government may pay allowance for confirmed participation in retraining or forgive the outstanding student loan upon passing the exam successfully. Furthermore, the disbursement of jobseekers' allowance may also be "restarted" upon passing the exam successfully. International examples may be followed (SkillsFuture in Singapore and Digilyft in Sweden).





## 2. FAMILY-FRIENDLY PROPOSALS



**Objective in the period of prevention:** Strengthening the income position of families



**Objective in the period of recovery:** Demographic turnaround, sustainable growth

6. **The increasing of the amount of family tax allowance** would improve the financial situation of households with children, at the same time generating major demand in the national economy. The rate of the family tax and contribution allowance has not changed since 2011 (with the exception of families with two children); meanwhile the underlying gross wages have doubled. The indexation of the lump sum allowance allocable to one child would materially and directly contribute to the permanent increase in the income of the almost 1.1 million beneficiary households.
7. **The introduction of personal income tax exemption of mothers with three children** would further increase families' disposable income and it would represent a strong incentive to have a third child.
8. **Personal income tax exemption of mothers with small children, employed part time.** The proposal supports the return of mothers with small children to the labour market, it increases their disposable income and the tax exemption rewards having children in a targeted manner. Part-time employment facilitates the harmonisation of family and work duties. In an international comparison, the ratio of women employed part time is low in Hungary: in 2019 it was merely 5.3 percent, while the EU average was 29 percent.
9. **Paying extraordinary sick pay, if necessary, to employees with children.** If during the second wave restrictive measures need to be introduced again, the extraordinary sick pay helps those employees with children who are unable to work from home due to the nature of their job.
10. **Launching "First home" programmes.** The launching of first home programmes may support young couples in having children and increase demand in the national economy through the need for investment. Within the scope of the first home programmes, vacant municipal flats could be rented out to young couples for a fixed period and new homes could be also built.
11. **Higher jobseekers' allowance for unemployed persons with children.** The measure would improve the income position of unemployed persons with children, and would also support faster recovery of the economy.



### 3. HOUSING MARKET PROPOSALS



**Objective in the period of prevention:** Reversing the deteriorating housing market trend



**Objective in the period of recovery:** Building at least 30,000 homes annually, modernising the stock of dwellings and making it greener

12. **Finalisation of the selection of brownfield areas** and stipulating it in a legislative act to ensure the launch of the programme as soon as possible.
13. **Restoring the general 5 percent VAT rate on housing supplementing it with a 4 percent sector-based special tax** in order to boost the development of new homes for sale, from which developers would be exempted in the brownfield areas.
14. **Extending the possibility of VAT reimbursement to all settlements** for the construction of new residential property for private purposes subject to the conditions presently in force.
15. **Rented flat programme for young people and public servants.** In this way, the target group would have access to modern, energy-saving homes, which provide proper conditions for starting a family. This requires the development of the regulatory framework for home renting and support for the financing of tenement flat construction projects by state guarantee.
16. **Fostering the expansion of the range of domestic construction material manufacturers and capacity** in order to reduce the import ratio of construction. Surveying and fostering industrial innovations. Increasing mechanisation in construction further.



## 4. GENERAL AND TARGETED DEMAND STIMULATING MEASURES



**Objective in the period of prevention:** Protecting the standards of living, supporting the industries hit by the pandemic



**Objective in the period of recovery:** Continuous strengthening of the purchasing power

### 17. **Targeted prolongation of the moratorium on loan instalments, with semi-annual review.**

The Magyar Nemzeti Bank welcomes the decision of the Government on the prolongation of the moratorium, in line with the proposals of the central bank. The prolongation targets families with children, pensioners, those losing their job and public workers, and those companies that struggle with financial difficulties due to the pandemic.

### 18. **Reducing gas prices gradually.** Recently the import price of gas substantially declined, which gives room for reducing gas prices for households. The reduction of the controlled price in two steps, commencing in 2021, would be an efficient means of increasing disposable income in real terms gradually.

### 19. **Increasing the wage of employees in the health care and education sector.** In the public sector, employees in health care and education faced particularly large challenges due to the pandemic. For rewarding their extraordinary efforts we propose to introduce temporary wage supplement during the pandemic, while in the medium term a comprehensive wage review should be performed. The wage increase may help retain and increase the workforce.

### 20. **Supporting domestic tourism through SZÉP card and direct benefits.** We propose to cancel the fringe benefit tax paid in respect of the Széchenyi Recreation Card (SZÉP card) in full for a temporary period, as the SZÉP card increases demand for the sectors hit by the pandemic (accommodation, catering, entertainment).

### 21. **Supporting the purchase of staple food through SZÉP card for large families and pensioners.** The Széchenyi Recreation Card should be expanded with a new sub-account, usable for the purchase of staple food (the amount on the “catering” sub-account could be also used for this). The state would transfer the benefit to large families and pensioners, or create cards, as necessary.

### 22. **Similarly to catering in restaurants, the VAT rate on home-delivered and takeaway food should be also reduced to 5 percent.** The measure would support restaurants as well as growth in purchasing power.



## 5. PROPOSALS RELATED TO THE FINANCIAL SYSTEM



**Objective in the period of prevention:** Targeted support for vulnerable debtors, maintaining accessible funding



**Objective in the period of recovery:** Growth supporting prudent lending, fostered by guarantee

23. **Fostering corporate fund raising by guarantee programmes.** Guarantee is an efficient means to maintain funding, but during the pandemic Hungary lags behind in expanded guarantees in an international comparison. There are market frictions in the area of high-amount loans with longer maturity, hindering economic policy objectives. We propose to expand the guarantee programmes for small and large corporate loans and bonds.
24. **New housing loan programme to foster the building of energy-saving homes.** The present low – both in a regional and historical comparison – housing market renewal level may be substantially increased by a financing programme, which grants long-term funds at favourable interest rate for the population’s home-creating objectives, bearing in mind energetics and green considerations. The central bank’s programmes may also provide support for the funding. When introducing measures affecting the housing market, efforts should be made to balance demand and supply.
25. **Reform of corporate bankruptcy proceedings.** The efficiency of the moratorium on corporate loan instalments is jeopardised by the outstanding trade accounts payable exceeding HUF 15,000 billion in total, which fall outside the scope of the moratorium, since in the present legislative environment real corporate reorganisation is not supported. The development of the infrastructure linked to reorganisation represents an important element of the enhancement of the bankruptcy proceedings (e.g. foundation of asset management company, see point 27). In addition, by accelerating payments it must be prevented that the gridlock commences from the government or local government sector, thereby jeopardising the liquidity of corporations.
26. **Risk transfer based on reinsurance.** In addition to the reform of the legal framework, in order to reduce the contagion effects of the corporations through supplier and client relations, it is necessary to develop a credit insurance risk transfer model based on reinsurance between the market participants and the government – based on best EU practices (Germany, the Netherlands, Belgium) – to ensure that domestic companies can continue to extend credits to their clients under credit insurance protection.
27. **Active participation of the Hungarian Development Bank (MFB) in the set-up of an asset management company and in the support of infrastructure projects.** The MFB is able to support the economy’s faster recovery, through an asset management programme efficiently supporting the fast cleaning of non-performing loans and through the funding of environment-friendly and infrastructural developments.



## 6. INCREASING PUBLIC, FDI AND CORPORATE INVESTMENTS



**Objective in the period of prevention:** Stimulate growth



**Objective in the period of recovery:** Improving the competitiveness of enterprises, enhancing the level of technology

28. **Developing health care infrastructure and research capacity.** Improving hospital buildings and instruments, and creating out-patient screening centres may contribute to employment creation and stimulate investments, as it generates demand for construction, surgical instrument manufacturing and IT companies. Health care research and development is one of the most important industry of the future, where Hungary has strong traditions.
29. **Improving the connection of Hungary with Hungarian-populated borderlands by road and rail.** The Via Carpathia project and the tighter connection of trans-border Hungarians to the Hungarian economy both call for the improvement of road and rail infrastructural connections in the northern and eastern parts of the country.
30. **Accelerating the nursery development programme.** The 2020 Budget Act contains a total appropriation of HUF 9.5 billion for this purpose, of which HUF 2.1 billion has been disbursed until the end of July.
31. **Accelerating the absorption of previously received EU advances.** A large part of the advances for the implementation of EU projects are available at the actors of the government sector.
32. **Strengthening the attraction of foreign direct investments (FDI) of high value added.** Foreign investments implemented from FDI do not increase the economy's external debt ratios, while production by new technology may have positive effects on the development of the whole economy. Priority should be given to investments where the larger part of value added of the expected production is generated by domestic actors, thereby maximising the positive effects on GDP growth.
33. **Local business tax allowance on investment and R&D expenditure.** We propose that the depreciation charge of investments should be deductible from the tax base of the local business tax, and that enterprises should be able to deduct fivefold of their R&D expenditure also from the tax base of the local business tax.
34. **Rescuing endangered companies of national economy importance by the government's temporary shareholding.** Similarly to other countries of the European Union, it may become necessary in the extraordinary situation in Hungary as well to provide state aid to companies otherwise operating profitably.



## 7. PROPOSALS RELATED TO GREEN ECONOMY



**Objective in the period of prevention:** Fostering demand

**Objective in the period of recovery:** Sustainable growth

- 35. Accelerating changeover to renewable energy production and improving the electricity network.** By enhancing the domestic regulation (e.g. by credit guarantee programme, extending the duration of the aid from the current 15 years to 20 years) it would be possible to improve the financing conditions and thus more substantial volume of investments could be achieved. This is an important goal not only in terms of climate change, since there are also domestic manufacturers of parts for solar power stations, while the construction is implemented primarily by domestic companies. In addition, with a view to integrating the renewable energy sources in the network, we propose to improve the electricity network and make it suitable for systemic feedback, to install smart meters and in the longer run to apply high capacity electricity storage.
- 36. Comprehensive building energy efficiency programme.** The energy efficiency of the Hungarian stock of residential and public buildings is extremely poor, while the necessary investments are not carried out. A comprehensive renovation programme supported by state incentives could resolve the problem through its economies of scale, reducing the emission of greenhouse gases (and utility expenditures), at the same time supporting Hungarian construction and employment. A non-refundable aid ratio of 20-40 percent may be necessary, to be supplemented by state credit guarantee and interest subsidy.
- 37. Developing the bio- and food recycling infrastructure.** Hungary recycles only a small part of bio-waste at households or corporations. The development of the necessary collection logistics and processing plants would be an investment offering environmental and economic benefits.
- 38. Renovation of water public utilities.** We propose to plan and implement the national renovation of the water public utilities, and to digitalise the renovated and newly built water public utilities (e.g. monitoring of water consumption by smart meters), which also supports the penetration of smart cities.
- 39. Addressing the water problems of agriculture, improvement of irrigation based on natural water retention.** Small scale water retention and the utilisation of the reservoir capacity of drought-stricken deep flood area would necessitate one-off investment, which would be recovered several times in terms of climate adjustment and welfare. Efficient utilisation of the water resources would contribute not only to the increased competitiveness of agriculture, but “water conservancy” is also an excellent opportunity for technological export for domestic companies engaged in water resource management and water economics.



## 8. ACCELERATION OF DIGITALISATION



**Objective in the period of prevention:** Adjustment to the pandemic



**Objective in the period of recovery:** Leading digital economy built from domestic resources

40. **Government order for IT equipment manufactured in Hungary.** The coronavirus highlighted that distant learning and the application of digital education methods necessitate that all students have smart devices and that this form of education facilitates preparation for the labour market demands of the future. As regards to medication, telemedicine is faster, more efficient and – at present – also safer than traditional methods.
41. **Supporting the Hungarian information security software industry and enhancing the digital creative industry.** The applied IT solutions call for the installation of modern security systems. It would be a major progress if Hungary were able to rely on its own resources in the development of these. In addition, the domestic development of software connected to the digital solutions of the creative industry (e.g. gaming industry) may also support economic growth.
42. **Connecting government IT investments and databases to create e-administration solutions.** Ensuring full online administration (even through mobile application) of the matters dealt with by the public administration client centres and the connection of the databases of public administration organisations would require major IT investments, generating large-scale demand for the Hungarian IT industry.
43. **Development of 5G-based digital infrastructure.** The public development of roads and motorways suitable for autonomous cars, the launch of programmes aimed at the development of smart parking systems and the creation of operating theatres suitable for remote surgery, necessitate 5G developments and at the same time support economic growth.
44. **Increasing the efficiency of real estate transactions and construction through IT developments.** We propose to develop the e-property register to ensure more efficient and faster administration. Supporting the penetration of the building information modelling (BIM) as well as the creation of construction statistical databases would enhance the efficiency of constructions.





## 9. ORGANISATION OF EVERYDAY LIFE AND ECONOMY



**Objective in the period of prevention:** Protection of health



**Objective in the period of recovery:** Healthy human resources

45. **Supporting home office work.** Teleworking should be encouraged in all areas where personal presence is not of key importance. In order to develop a proper teleworking infrastructure, it would be reasonable to provide companies with interest-free loan, state aids or the possibility of tax deduction, for example, for purchasing laptops and the setup of virtual workstations.
46. **Tightening the pandemic prevention rules applicable to the use of public transport.** It may be necessary to maintain and expand the current rules in public transport.
47. **Flexible shaping of the rules of pandemic prevention in schools.** With a view to avoiding repeated full changeover to digital education, additional protective measures may be necessary in public education.
48. **Maintaining distance learning in tertiary education.** The academic subjects the teaching of which is feasible online without major quality impairment should continue to be delivered in the form of distance learning.
49. **Expanding public-subsidised coronavirus tests, particularly in health care and education.** The public subsidies for PCR test performed in private health care may primarily facilitate the identification of suspicious cases. We propose testing employees in the education and health care sectors regularly.
50. **Providing teleworking upon the request of employees with children.** Employees should provide parents with small children with the possibility of teleworking on a mandatory basis in jobs where the work can be performed from home as well.