Introduction

In addition to fulfil its primary mandate for the achievement and maintenance of price stability, the Magyar Nemzeti Bank (MNB) is required by law to use the instruments at its disposal to support the economic policy of the Government, including the strengthening of competitiveness, a prerequisite for convergence. In 2015, the Hungarian Government requested the MNB to use its central bank expertise to support Hungary's sustainable convergence by improving the competitiveness of the country.

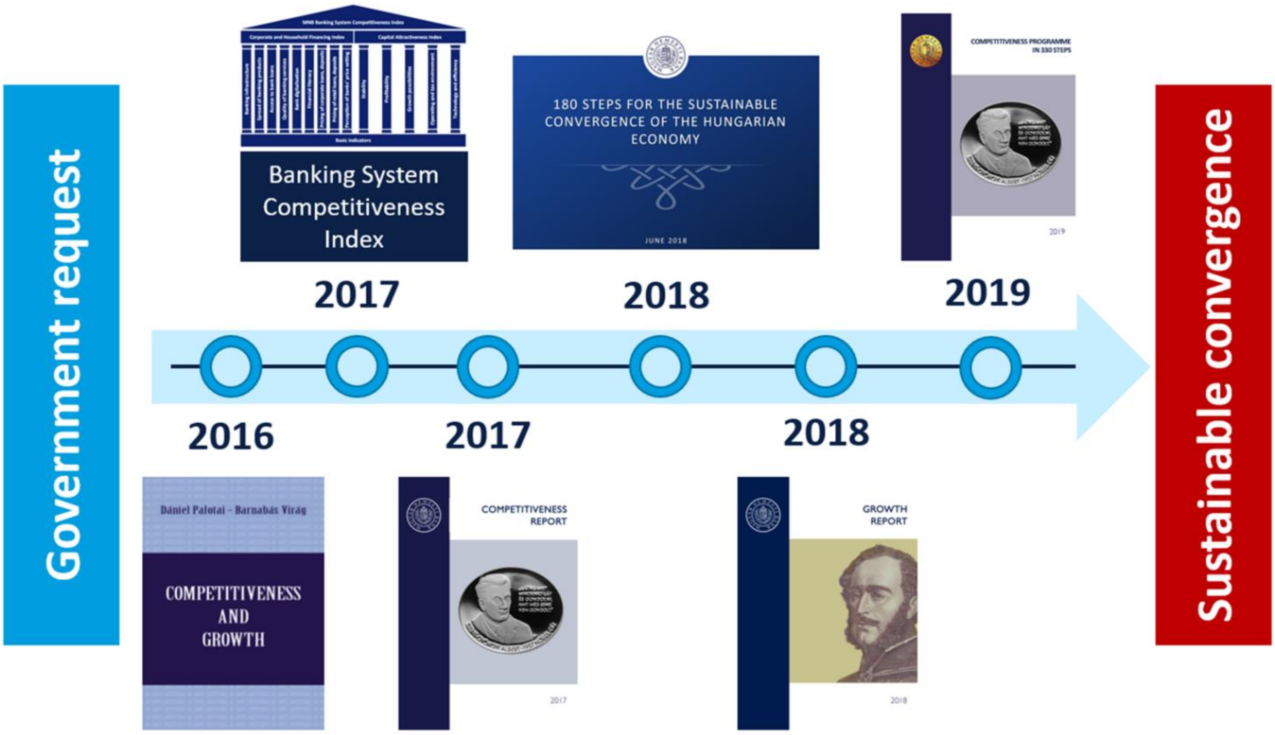
The Competitiveness Programme was designed to support the sustainable convergence of the Hungarian economy. Within that framework, the MNB proposed 330 recommendations in 12 areas with a view to support growth potential of the economy. The proposed programme is the outcome of analysis conducted since 2015, and was preceded by a 180-points set of recommendations, released in summer 2018. The Competitiveness Programme puts forward recommendations in addition to the 180 points and also gives details on them.

The turnaround in competitiveness has been made possible by the result of the economic policy reforms after 2010, the Hungarian economic model has been providing both macro-financial balance and dynamic economic growth. 2010 marks the beginning of successful fiscal and economic stabilization, followed by a turnaround in monetary policy from 2013 onwards. This has re-established the long-missing coordination between the two main branches of economic policy, creating an economic model of macro-financial balance accompanied by real growth, in which ensuring full employment is a central element. As a result of the successful reforms, 9 years after Hungary's accession, the excessive deficit procedure of the European Union was abrogated, put its public debt-to-GDP ratio on a sustained downward path, avoided a credit crunch through the central bank's revival of SME lending, completely phased out foreign currency loans from households' balance sheets, and significantly reduced the external vulnerability of the national economy by strengthening domestic sources of financing.

The Hungarian economy has been set on a path of convergence; however, permanent adherence to that path requires that additional annual growth of at least 2 percentage points above that of developed countries. Growth-friendly economic policy reforms have matured and led to a turnaround in growth by 2013, as a result of which, in 2017–2018, on average the Hungarian economy grew at a rate of 2 percentage points above the EU average, which also indicates the beginning of a turnaround in convergence. However, sustainable economic convergence requires that the growth rate of the Hungarian economy remains permanently above 4 per cent. The lessons learned from economic history are that in the case of the faster growing economies, the additional economic growth compared to the advanced regions usually exhausts before they catch up with the advanced economies. In economic literature, this phenomenon is referred to as the middle income trap. The key challenge in the convergence process for Hungary is to escape the middle income trap, which hardly a dozen countries have been able to accomplish over the past hundred years. Most of them are countries in the Far East, such as South Korea, Hong Kong or Singapore. In Europe, only Austria, Finland and Ireland have made it in the past more than half a century.

Escaping the middle income trap requires objective and comprehensive assessment of the situation, an understanding of the lessons that may be learned from international practices, and the formulation of recommendations with Hungary's specific circumstances in mind. The MNB has pursued its work on competitiveness in that vein since 2015. In 2016, it published the book *Competitiveness and Growth* which, in addition to discussing the theory of economic catching up and the history of successfully converging countries, also provided an assessment of Hungary's situation in terms of competitiveness, including 50 recommendations for its improvement. This was followed by a more in-depth assessment of the situation in 2017 in Hungary's first *Competitiveness Report* by MNB, which provided a comprehensive diagnosis of Hungary's competitiveness against some 110 indicators, more than 90 percent of which are objective ones. As a follow-up to the assessment of the situation, recommendations were formulated in July 2018 under the title *180 Steps for the Sustainable Convergence of the Hungarian Economy*. The 2018 *Growth Report* provided definitions and detailed explanations of the macroeconomic conditions which Hungary needs to fulfil in order to approach Austria's level of development by 2030. The 330 recommendations of the *Competitiveness Programme* were proposed in 12 areas based on the above assumptions.

Figure 1: Milestones of the competitiveness work in the MNB



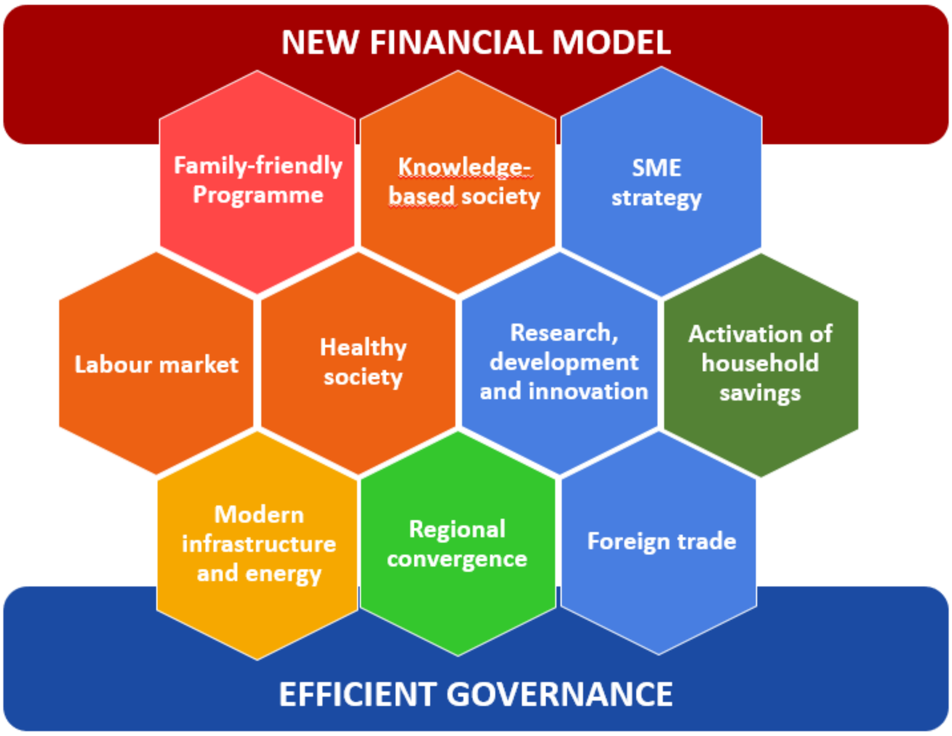
Source: MNB.

The MNB defines competitiveness as economic conditions conducive to sustainable convergence, i.e. the aggregate level of all factors underlying long-term development. In the MNB's approach, a national economy is competitive if it utilizes its available resources optimally to attain the highest possible, but at the same time sustainable level of welfare. Apart from macro-financial balance and the stability of the real economy, the competitive functioning of the economy requires a corporate ecosystem based on innovation and renewal, good institutions and effective regulation, quality education and health care, modern infrastructure, and financial resources available in a healthy structure. A well-functioning and predictable business environment needs to be established, and incentives need to be provided for investments and innovation, which, through the appreciation of qualified labour, may lead to increased productivity and permanent economic and social convergence. Nevertheless, successfully converging economies are rather heterogeneous in terms of culture, size, economic structure, resources and geographic location. As there is no general, precise definition of competitiveness, there is no single and universal recipe for successful economic convergence. It is best for every country to follow its own unique way, which may be subject to dynamic changes in space and time. Appropriate competitiveness reforms have multiplier effects that point beyond the reforms themselves, triggering a diversity of positive developments throughout the national economy with multiple levels of feedback. This enables the release of previously inactive resources with the greatest possible degree of efficiency.

Summary

The MNB's 2019 Competitiveness Programme provides a detailed description of 330 competitiveness recommendations in 12 areas, the implementation of which may greatly facilitate the achievement of a turnaround in competitiveness and Hungary's successful convergence. The systematic and logical implementation of the competitiveness reform programme may be sufficient for raising Hungary's level of development to 80 to 90 percent of Austria's level by 2030. The 12 areas of the programme cover all relevant factors of competitiveness from quantitative and qualitative indicators of physical and human capital to matters concerning institutions and the structure of the economy. As the key areas of competitiveness are interlinked at several points, the implementation of reforms may generate positive feedback. With regard to the fact that they have the greatest ability to influence all of the themes, two areas of the model should be noted specifically: the renewal of the financial model and the improved efficiency of the governance. Development in these areas may have particularly strong multiplier effects in the rest of the areas (Figure 2).

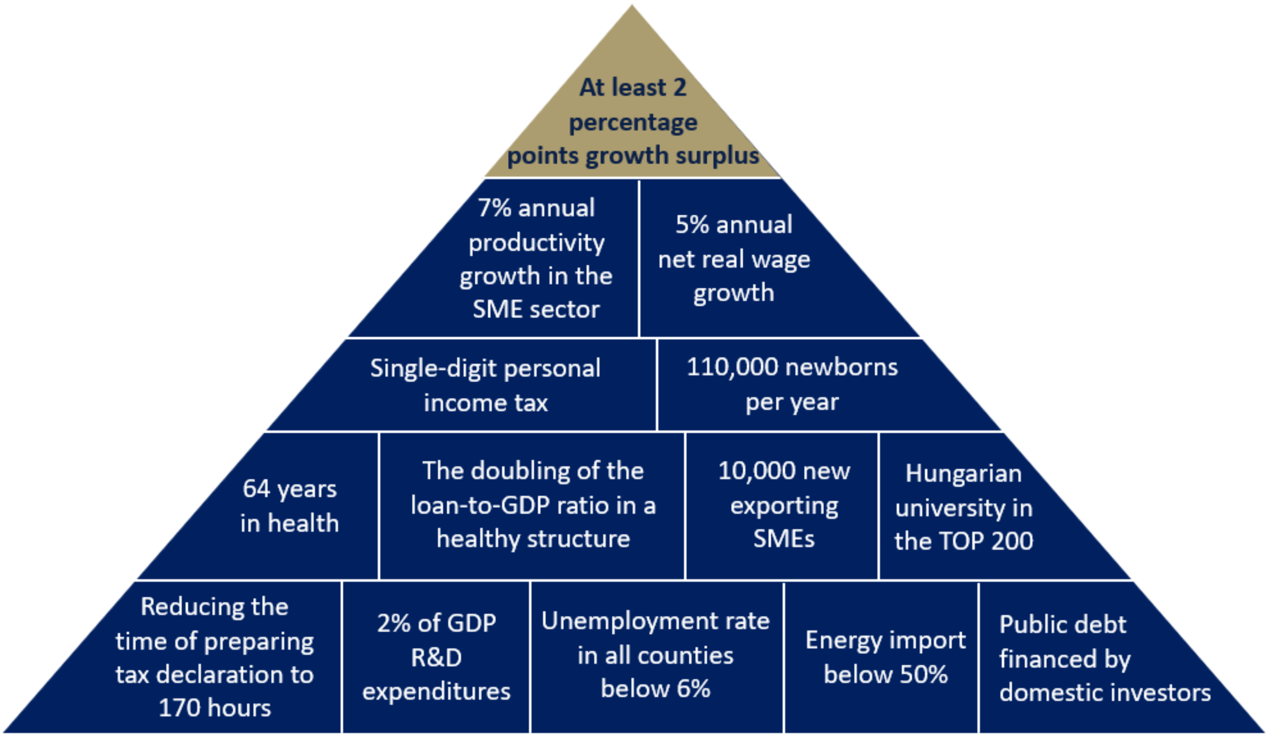
Figure 2: Areas of the MNB Competitiveness Programme



Source: MNB.

The Competitiveness Programme is part of the work that the MNB has been pursuing for years, and is closely related to earlier publications on competitiveness. In formulating the recommendations, the MNB took into account the objectives already set in its 2018 Growth Report (see Figure 3 for a summary). The most important objective is to achieve the additional annual growth of at least 2 percentage points over reference countries that is required for convergence. This may be enabled by increased productivity, which may give rise to dynamic real wage growth, potentially exceeding 5 per cent in annual terms. The increase in productivity is driven by improvements in the efficiency and export capacity of small and medium-sized enterprises, reduced state bureaucracy, and developments in corporate financing. The activation of household savings may contribute to financing both the corporate and the public sectors. As economic convergence requires population growth, the objectives include a change in demographic trends, an increased healthy life expectancy, and an improved level of educational attainment, which may also be supported by a cut in the personal income tax in recognition of the higher wages payable on higher educational attainment.

Figure 3: Main objectives of the proposed Competitiveness Programme



Source: MNB.

New financial model

The efficient allocation of capital is a prerequisite for sustainable economic growth. The renewal of the financial system supports convergence through a prudent increase in lending, by strengthening alternative forms of financing and promoting digital solutions. Balanced economic growth requires economic agents' access to finance that does not threaten financial stability, and is appropriately priced and available. The recommendations put forward in the chapter on the new financial model contribute to ensuring that credit is more widely accessible in a way that better supports economic growth, and to improving the operational efficiency of financial institutions. Some of the measures are designed to support companies to have access to required financing for their development under competitive conditions, whichever stage of their lifecycle they are at. In addition to bank loans, more room should also be given to alternative forms of financing, e.g. many companies may find breakthrough opportunities in the capital market. Further measures are considered to support the financial sector's adoption of digital solutions on a wide scale, improving cost efficiency, as well as promoting access to cheaper and higher-quality services.

Activation of household savings

Hungary's external vulnerability has decreased significantly in recent years, primarily due to the ability to rely on internal (forint) financing rather than external (foreign currency) financing. The additional financing required may be provided by virtue of a high savings rate and households' steadily increasing demand for government securities and capital market investments. Hungary's external vulnerability decreased as households' holdings of retail government securities increased dynamically; yet domestic cash holdings that remain high even by international standards, and low investments in the domestic capital market suggest that there is still room to activate savings. The recommendations put forward in the field of activating household savings seek to encourage households' increased spending of their recent savings on purchases of retail government securities, and to allow domestic investors to take on a more prominent role in the capital market. Among other measures, the achievement of that objective may be facilitated by a transformed product portfolio of retail government securities, increased financial incentives, or the implementation of technological innovations and convenience functions. In the stock exchange, the activity of domestic investors may be positively influenced by tax exemption on stock dividends, incentives for employee stock ownership plans, and strengthening domestic institutional investors.

SME strategy

The SME strategy proposed by the MNB focuses on increasing productivity, which may be achieved by increasing investments and economies of scale, and by strengthening innovation capacities, and may provide a basis for wage growth at a similar rate. SMEs comprise a vast majority of Hungarian enterprises, providing 70 percent of total employment and producing about one-half of the total value added. However, as their labour productivity is a mere one-third of large enterprises, a more efficient utilization of capital and labour to create economies of scale is the most important task in the SME sector in order to leverage growth potentials. Compared to other countries, micro and small enterprises have an excessive share in the Hungarian SME sector, leading to a productivity loss due to inadequate exploitation of the economies of scale. An increase in the share of medium-sized enterprises, accompanied by a decrease in that of the smallest, would in itself considerably increase the competitiveness of the sector. Additionally, it is important to provide support for the clearing of the market so that no resources are committed to inactive businesses. Such a size consolidation may be facilitated by appropriate regulation of acquisitions and mergers. An increase in investment activity may be supported by the deductibility of investments from the local business tax base, accompanied by the possibility of immediate recognition in the corporate income tax base. Assistance should also be provided for the development efforts of the smallest businesses, for which the MNB recommends an assistance scheme with eligibility conditional on wage increases. Another reason for the low productivity of the Hungarian SME sector is that only one in every five SMEs innovates. In addition to the setup of non-profit consulting centres, the establishment of an innovative entrepreneurial ecosystem would be facilitated by the deductibility of education expenses from the corporate income tax base. ICT developments in SMEs could benefit from the newly established János Neumann Fund.

Foreign trade

Hungary is highly active in foreign trade; however, the share of domestic value added in exports is moderate, while there also appears to be significant room for increasing the number of exporting SMEs. Hungarian products which are competitive in external market are excessively dependent on the input of imported goods, and exports are concentrated to a relatively limited group of companies. Our highly open foreign trade is essentially attributable to the large enterprise segment, with the SME sector providing only for approximately 20 percent of the total volume of Hungary's foreign trade. Recommended objectives include increasing the number of exporting SMEs from the current 32,000 by an additional 10,000 and increasing the share of value added in exports from its current level of approximately 50 percent. An increase in the number of exporting SMEs may be driven by strengthening the export of services more extensively, or by exploiting more the geostrategic benefits offered by China's One Belt One Road initiative. The increase in the domestic value added in exports would be supported by focusing investment support on knowledge-intensive manufacturing sectors that are well embedded domestically, and by increasing the share of Hungarian suppliers.

Labour market

Regarding the Hungarian labour market, it is particularly important that labour reserves are exploited more efficiently, wages are increased sustainably, accompanied by personal income tax cuts, and that lifelong learning and further training is strengthened. Although Hungary has come close to full employment as a result of its successful economic policy, there is still unexploited labour market potential in case of the inactive, Hungarians living abroad, and employees in lower value-added jobs (e.g. public employment). Hungarian average wage has also increased significantly since the turnaround in growth, however, the level of average wage remains considerably below the EU, and over the longer term that gap may be reduced through continued wage convergence accompanied by increase in productivity. A sustainable increase in wages requires additional reductions in the labour tax burden, in particular a cut in the personal income tax to 9 percent. The activity of more vulnerable groups in the labour market may primarily be increased through the instruments of the tax regime, in which a prominent role may be occupied by the extension of the Job Protection Action Plan. Additionally, the employment of groups that have looser ties with the labour market may also be supported by the promotion of atypical forms of employment. Incentives for Hungarians living abroad to return home may be provided through wage increases in high-demand professions, and foreign recruitment. In order to ensure the continuing development of the labour force, efforts should be made to improve the institutions of adult education and training.

Regional convergence

In Hungary, significant regional differences can be identified in terms of the level of economic development and economic activity. The territorial effect of economic developments is twofold: the economy is characterized by the concentration of businesses and labour, which will produce a productivity surplus in the short term, but in the longer term it will intensify the economic and social differences between regions. As a result, in more developed regions of Hungary (Western Transdanubia and Central Hungary) the utilization of labour capacities has virtually been maximized due to the high demand for labour, whereas the eastern part of the country is characterized by high labour supply and low demand. In parallel with the regional inequalities of the labour market, the level of development in Western Transdanubia and Central Hungary is above the average, while that in the eastern and south-western parts of the country fall considerably short of the national average. In order to reduce regional inequalities, we have set the objective as reducing the unemployment rate to below 6 percent in every county. The target for the unemployment rate may be achieved by encouraging the mobility of labour, which may also extend to support for commuting and housing. As regards the level of development, cohesion particularly requires intensive support for economic centres outside Budapest and for development efforts that rely on local resources.

Family-friendly Programme

Similarly to the underlying demographic developments in other European countries, trends in Hungary are also characterized by a steady decline and ageing of the population. It is a positive sign, nevertheless, that Hungary's fertility rate has already been on the rise in recent years, although it remains well below 2.1, the rate required for the natural reproduction of society. Measures on family policy that have been implemented in the past period and those announced in February 2019 provide considerable support for starting and expanding families. However, given the importance of the issue, the development of family support measures is unlikely to be considered complete for long and, with that in mind, we have formulated additional recommendations which, together with the ongoing programmes, may contribute to the achievement of the desired demographic turnaround. Consideration must be given to the fact that the birth of the first, second and third children may be encouraged by different incentives, respectively. Our recommendations aiming at the achievement of the demographic turnaround include specific elements in the family support benefits, the family tax system, the children's day care system, measures to increase women's participation in the labour market, as well as the family's first homes and the pension system. Among these, we attach particular importance to supporting mothers' re-entry to the labour market, which would primarily be facilitated through the promotion of atypical forms of employment, and a significant increase in nursery capacities. However, as the benefits of a demographic turnaround starting today would only be felt on the pension system over a horizon of several decades, the present demographic challenge could be mitigated by a supplementary pension system seeking to achieve the widest possible coverage. On those grounds, we are recommending guaranteed membership (i.e. by default) in the existing voluntary system, or in the new welfare funds that could be suitable for health and supplementary pension purposes, and could also effectively serve other purposes (such as houses, parenting, elderly care) in arrangements and where individual contributions would be supplemented by employer and public transfers. As a further incentive to the demographic turnaround, parenting would be taken into account in the pension formula, which would strengthen both the sustainability and the equity of the pension system.

Healthy society

Similarly to other countries across the region, the health status of the Hungarian population falls short of the level of Western Europe, creating major inefficiency and productivity and growth gaps for the economy. In this chapter, we do not attempt to propose a comprehensive health care reform, as that would go beyond the scope of this publication. The greatest contribution to the sustainability of the health care system and to increasing the healthy life expectancy could be made by increasing the health awareness of the population, and by placing much more emphasis on prevention than at present. We attach particular importance to ensuring that in addition to the prevention of diseases and striving for healthy lifestyle, diseases should be detected at the earliest possible stage by regular physicals and screening tests, as well as by a strengthened general practitioner system. Individual actors of the health care system are currently striving for cost-effectiveness separately, which, however, will produce inadequate overall outputs. The public health care system has spare efficiency capacities in a number of areas (such as the utilization of beds and day-care), the utilization of which could be facilitated by reinforced professional and financial controls.

Furthermore, considerably more private financing would be needed via compulsory institutionalized channels (such as health funds and private health insurance). A major increase in the importance of the system of health funds and supplementary private health insurance would meaningfully increase the efficiency of the individual's out-of-pocket expenditures that are currently being made. Consequently, we are recommending guaranteed membership in health funds (or the welfare funds proposed above) in arrangements where individual contributions would be supplemented by employer and public transfers.

Knowledge-based society

One of the main challenges for the education system is to prepare the young for a future state of the labour market that is increasingly difficult to predict because of the accelerating development. The challenges of modern times may only be met by means of continued self-development and lifelong learning. In the future, in addition to providing the necessary encyclopaedic knowledge, the education system should focus on the acquisition of adequate basic skills (including, in particular, IT skills and foreign languages) and financial literacy, while students should be vested with the ambition and ability of continuous learning. It is also important that the education system should be more effective in reducing the inequalities between students that come from their differing social and economic backgrounds, and in reducing the level of early school leaving, which is high by regional standards. Hungary should also increase the share of tertiary graduates, particularly in science, which could primarily be facilitated by means of improved international opinion on Hungarian tertiary education institutions, higher expenditures, and lower drop-out rates.

Research, development and innovation

Strengthening research and development and innovation may facilitate the transition of Hungary's quantity-driven economy to a knowledge and technology based model. At present, Hungary's innovation activity falls considerably short of the average of the European Union. This is partly attributable to the structure of the economy, namely the fact that large multinationals tend not to relocate their innovative processes to Hungary, while the innovation activity of domestically owned smaller businesses falls short of not only that of large enterprises, but also competitors of similar sizes across the EU. In 2017 R&D expenditures amounted to 1.35 per cent of GDP, which is 0.7 percentage point below the EU average, and 1.8 percentage points below the Austrian value. Hungary's innovation capacities would be increased if R&D expenditures as a percentage of GDP could be raised above 2 per cent by 2030. Growth in the number of joint projects of enterprises and publicly funded research organizations may help the achievement of that objective. An increase in R&D headcount may be facilitated by the extension of the tax allowance for developers holding PhDs to private-sector researchers holding university degrees, and by increasing the wages of assistant research and development staff. R&D&I activity may be strengthened by reducing patent maintenance fees and by conditionally decreasing the employers' contributions payable by SMEs implementing R&D investments.

Efficient governance

The efficient functioning of the state influences the competitiveness of the economy as a whole through a number of channels, for which meaningful support could be provided by reduced bureaucracy and the acceleration of digital transformation. As the public administration is expensive to run, it is essential that expenditures are utilized efficiently. Gains in operational effectiveness could be achieved through reduced bureaucracy, the optimization of workflows and of the headcount of public administration, the elimination of parallelisms, and the digital transformation of public administration. While Hungary's developments on e-governance are ongoing, the degree of digitalization in public services still falls considerably short of other countries of the European Union. One of the major accomplishments in recent years has been the completion of personal income tax returns by the tax authority, covering almost 4 million taxpayers. Conversely, as regards corporate operations the time spent with tax administration is still considered high: in 2018, an average enterprise spent 277 hours with preparing tax declaration compared to the EU average of 172 hours, which indicates that additional measures are needed to reduce that time requirement. In parallel with the reduction of the size of the shadow economy (e.g. through the extension of online cash registers and the EKÁER system), market distortions are also being reduced, accompanied by increased tax collection efficiency, which generates higher tax revenues for the budget at constant tax rates. A further reduction in tax evasion may be facilitated by phasing out the financial transaction levy in the household segment, extending the use of online cash registers, and continuing to provide support for electronic payment methods.

Modern infrastructure and efficient energy

The modernization of conventional infrastructure and the development of modern infrastructure are both important drivers of competitiveness, in addition to which successful convergence may also be supported by reducing the energy use of the Hungarian economy, and strengthening the green economy. The density of Hungary's railway and road network is adequate, but its quality falls short of the European average in several respects. The development of the railway network may be assisted by increasing the share of electrified railway lines, while road transport could be made faster and safer through motorway extensions and by making them suitable for self-driving cars. Although Hungary has a fast and reliable telecommunications infrastructure, efforts are needed to keep pace with modern technologies: new generation telecommunications networks need to be spread, while information security needs to be increased. The share of net imports in Hungary's energy use is 58 per cent, which could be reduced to below 50 percent by increasing the share of the production and use of environmentally friendly domestic energy sources, developing domestic energy storage, and indirectly, by increasing energy efficiency. The wider use of environmentally friendly energy sources could also help increase the share of renewable energy sources within the total energy use from 13 percent to 30 per cent by 2030.

Annex to the Proposal

A LIST OF THE 330 POINTS OF THE MNB'S COMPETITIVENESS PROGRAMME

1. New financial model
1. Develop a "reverse" suretyship procedure
2. Lift K.O. criteria in a targeted manner
3. Seek banks' commitment to increase credit portfolios that qualify as additional
4. Offer more flexible guarantee rates (70 to 90 percent)
5. Redesign bank processes related to higher risk taking
6. Make concerted marketing efforts to promote institutional guarantees
7. Extend tax benefits for 'business angels' in the case of businesses that have been running for more than 3 years
8. Facilitate co-investment opportunities through government assistance
9. Mitigate customers' interest rate risks
10. Strengthen financial literacy
11. Further promote Certified Consumer-Friendly Mortgage products
12. Reduce lead times for loan replacements
13. Reduce administrative burdens and charges related to early repayment
14. Enable the mandatory sharing of positive credit histories
15. Establish the continuous querying of credit histories
16. Enable simple and user-friendly bank account switching
17. Increase the comparability of bank account plans
18. Develop and promote bank account plans to improve the banking relations of pensioners and socially disadvantaged people
19. Adopt standardized bank account statements
20. Establish a uniform credit application interface for small businesses
21. Optimize branch networks
22. Improve the coverage of POS terminals and other electronic payment solutions
23. Provide a tax benefit off the financial transaction levy to encourage the upgrade or replacement of obsolete IT systems and for developments related to the instant payment system
24. Develop and deepen the digital transformation
25. Provide a tax benefit to encourage the development of mobile payment applications
26. Support digital development related to the instant payment system
27. Incentivise banks to introduce package pricing in retail payment services
28. Make online contracting and signatures simpler and faster
29. Enable credit institutions to submit electronic queries for the income statements held by the Tax Administration
30. Reduce the notarial fees associated with home loans
31. Replace notarial certification with a central digital platform
32. Establish full online processing for taking out unsecured loans
33. Set up a central appraiser database
34. Automate the land registry information system (TakarNet) while ensuring continuous availability

35. Increase the share of mortgage and consumer loans sold through digital channels
36. Ensure that administrative and operational requirements are proportional to the risks that are being addressed
37. Provide wider access to available information sources for new entrants to the market
38. Facilitate close cooperation between innovators and the regulator through the Innovation Hub
39. Grant preliminary operating licences in the Regulatory Sandbox framework
40. Enhance the Regulatory Sandbox with the capability to grant exemptions from regulatory provisions
41. List state-owned enterprises through a stock ownership plan for small investors
42. Provide incentives for the listing of banks
43. Establish a modern corporate bond market
44. Ensure state participation in the development of the domestic equity market
45. Grant tax exemption on long-term investment accounts holding newly listed shares
46. Launch a specialized trading platform tailored for SMEs
47. Ensure the deductibility of listing expenses from corporate income tax
48. Ensure consistency between capital market rules and general EU practices
49. Improve access to digital platforms
50. Appoint a government or ministerial commissioner for stock exchange development
51. Increase the product value to customers in non-life insurance
52. Provide legal and technological means to facilitate insurer switching
53. Enhance the system of the Annual Cost Rate (TKM) and extend it to the funds sector
54. Develop the digital links between the insurance and banking sectors
55. Increase CASCO penetration
56. Develop the system of guarantees in the insurance and the funds sectors
2. Activation of household savings
1. Increase maturities and redesign the product structure of retail government securities
2. Encourage a transition from cash to government securities
3. Use technical innovations and convenience services for retail government securities purchasing
4. Redesign the arrangements for granting tax benefits, rethink the concept of long-term investment accounts
5. Develop sales channels
6. Grant tax exemption on stock dividends
7. Provide incentives for employee stock ownership plans
8. Establish welfare funds through a combination of pension and health savings
9. Extend dividend tax exemptions to pension savings accounts
3. SME strategy
1. Reduce the investment limit from HUF 500 million to HUF 100 million for the development tax benefit available to SMEs
2. Enable the immediate deductability of investments from the corporate income tax base
3. Ensure the deductibility of investments from the local business tax base
4. Provide assistance for SME wage increases subject to investment commitments
5. Support acquisitions and mergers
6. Make liquidation proceedings simpler and faster

7. Provide a 2-year dividend tax waiver for companies undergoing a generation change in management
8. Increase the innovation management capacity of SMEs by establishing a non-profit consulting centre
9. Support the operation of clusters
10. Support the emergence of clusters and other forms of networks
11. Communicate state-sponsored programmes and opportunities on a broad base
12. Support the operation of mentor networks
13. Provide preferential grant application and borrowing options for young and female entrepreneurs
14. Increase the number of co-working offices in large cities
15. Increase the number of accelerators sponsored by large corporations
16. Support university incubators and spin-offs
17. Organize and support relevant start-up conferences and meet-ups
18. Grant a corporate income tax exemption for aspiring entrepreneurs in their first three years
19. Reduce the social contribution tax further for SMEs
20. Enter into strategic partnership agreements with innovative SMEs
21. Provide digital courses conditional on achievements
22. Make company web sites mandatory
23. Develop digital infrastructure in rural areas
24. Tighten rules for the management of ICT risks
25. Establish the János Neumann Fund to support the ICT developments of companies
26. Prefer knowledge-intensive industrial services in EU funds’ disbursement
4. Foreign trade
1. Strengthen exports of services (besides export of goods)
2. Exploit the benefits offered by China’s One Belt One Road initiative
3. Support the entry into fast-growing new markets with stable institutions
4. Support foreign traders in Hungary, introduce a new trading house concept
5. Enable market-ready companies to operate temporarily in international co-working offices
6. Separate country, sector and product promotion and corporate brand building
7. Channel public development funds to manufacturing sector that are knowledge-intensive or well embedded domestically
8. Provide incentives for strongly subsidized enterprises to use Hungarian suppliers
9. Give priority to supporting productive investments on the services side when programming for the next EU budget cycle
5. Labour market
1. Public employee wages to be paid by the state following private sector employment for certain period where the employer will continue employing them for at least the same length of time
2. Increase the difference between the wages paid for public work and the minimum wage
3. Raise the permitted upper limit of the amount of earnings for persons employed below the retirement age or while receiving pension
4. Provide additional incentives for atypical forms of employment in order to encourage capacity building and organizational development
5. Expand the unskilled employees category of the Job Protection Action Plan

6. Extend the Job Protection Action Plan to employees' contributions
7. Extend the Job Protection Action Plan up to the minimum wage
8. Extend the Job Protection Action Plan in the form of sector-specific allowances based on criteria for the whitening of the economy
9. Provide an incentive for the employment of pre-retirees by granting a tax exemption on employers' pension fund contributions
10. Introduce a counter-cyclical labour market contribution
11. Promote targeted work time reduction combined with full or partial social contribution tax compensation and/or public wage compensation in vulnerable groups
12. Continue the reduction of taxes on labour, introduce a single-digit personal income tax rate
13. Attract digital nomads
14. Increase wages paid in high-demand jobs in the public sector
15. Increase awareness of family support elements, run campaigns to raise awareness of the educational and healthcare system supported by the state
16. Support Hungarian companies' recruitment abroad through deduction of expenditures and tax benefits
17. Simplify the recognition of degrees obtained abroad
18. Introduce output criteria and independent examination centres in the system of adult education and training
19. Ensure that first qualifications may be obtained free of charge in adult training
20. Develop digital and language skills among senior generations
21. Provide incentives for lifelong learning by allowing education expenses to be deducted from the corporate income tax base
22. Introduce a mandatory further training minimum for companies
23. Reimbursement of the fees of successfully passed examinations for the most renown international certifications
24. Support the retraining of labour released as part of reducing red-tape by covering costs and granting allowances on contributions
25. Incorporate entrepreneurship skills into public and tertiary education
26. Run domestic and foreign media programmes for the promotion of entrepreneurship
6. Regional convergence
1. Support labour market mobility by providing incentives for commuting
2. Support labour market mobility through supporting change of residency status
3. Provide mobility incentives to supplement the employment benefits granted to public employees
4. Improve interurban passenger transport
5. Introduce coupon benefits based on the Polish model
6. Ensure strong reliance on the sectoral and technological specializations of economic centres outside Budapest
7. Provide for the favourable treatment of tenders based on local suppliers and resources
8. Introduce a territorial compensation mechanism to counterbalance the labour drain
9. Introduce a compensation mechanism for teachers taking up employment in less developed regions
10. Incorporate territorial differentiation into the Széchenyi Card Programme
11. Provide a combination of capital and funding through banks' participation
12. Provide a wider range of benefits in 'Free Enterprise Zones'

13. Increase the absorption of funds from the European Investment Bank
7. Family-friendly Programme
1. Raise the ceilings applicable to the infant care allowance and the child care allowance
2. Raise the amount of the one-off maternity allowance subject to an employment relationship (introduce a progressive allowance amount for additional children, depending on the number of children)
3. Introduce an initial capital scheme for young returnees who undertake to have children in Hungary
4. Provide a one-off health fund allowance to cover the expenses of childbirth care
5. Support parenting by tertiary education students
6. Ensure the constant review of the elements of the family support system, and the analysis of their efficiency
7. Promote parenting (through awareness raising, advertising of family support benefits, and support for preparatory trainings)
8. Prevent and treat of diseases that inhibit childbearing
9. Run an information campaign on insulin resistance and provide free insulin resistance screening for women of childbearing age
10. Provide more active support for artificial insemination
11. Provide a wider range of subsidized examinations during pregnancy
12. Reduce the number of foetal deaths through improvements to prenatal care
13. Reduce vaccine prices
14. Align consulting hours to working hours
15. Ensure that the employment-related elements of the family support benefits follow the dynamic increase of wages (e.g. through the family tax base allowance)
16. Reform the regime of the family tax base allowance by allowing negative taxation
17. Grant full tax exemption for mothers in large families on a broader base
18. Increase the family tax base allowance for the children of mothers giving birth under 30 years of age
19. Ensure that nursery care is available for all Hungarian children between 2 and 3 years of age
20. Increase kindergarten capacities in order to enable admissions to mini groups from 2.5 years of age
21. Support the use of private nurseries and private kindergartens through public contributions to tuition fee
22. Make family-friendly improvements to the public education system (e.g. longer office hours aligned with working hours)
23. Support the re-entry of women into the labour market following childbirth
24. Create a family-friendly workplace environment and provide incentives for on-site childcare in the workplace
25. Support summer camps for children
26. Clarify the legal status of babysitters
27. Set up a public school bus system
28. Make family-friendly improvements to the services of the financial system
29. Extend eligibility for non-refundable assistance under the Housing Subsidies for Families (CSOK) scheme as an incentive for the birth of the second child
30. Adjust the figures specified in the CSOK rules so that the scheme may effectively follow up developments in the real estate market

31. Remove the HUF 35 million cap on the CSOK available for the purchase of used homes
32. Tighten the rules applicable to the purchase of homes for investment
33. Develop new district concepts to improve the territorial allocation of housing developments
34. Utilize vacant public housing
35. Increase the duty allowance on first home purchases
36. Arrange for the continuous review of the cap on the duty allowance on new home purchases
37. Increase the construction workforce
38. Arrange for the scheduled market entry of public investments
39. Lift administrative barriers to new housing
40. Ensure that the number of children raised is taken into account in the pension formula (for new pension benefits)
41. Ensure that the family tax allowance is taken into account in the pension formula (for new pension benefits)
42. Enable guaranteed membership in supplementary pension funds
43. Support employers' contributions to supplementary pension funds
44. Increase the effectiveness of state subsidies in supplementary pension funds
45. Increase investment and cost efficiency and security
46. Ensure that welfare funds provide a range of family-friendly services and support home purchases
8. Healthy society
1. Promote healthy eating habits through information and tax benefits
2. Incorporate basic health knowledge into public education curricula
3. Extend the public health product tax
4. Increase the excise duty on spirits
5. Increase the excise duty on tobacco products to reduce smoking and the costs of related diseases
6. Provide opportunities for regular sports activities
7. Offer grant schemes to support the creation of quality work and home environments
8. Strengthen the functions of the general practitioner system
9. Support regular physicals and screening tests
10. Set up a National Health Database
11. Develop and systematically implement a comprehensive mental health package
12. Strengthen the system of emergency medical services
13. Extend funding methods based on patient cooperation
14. Strengthen rehabilitation care
15. Increase capacities for long-term and home care by strengthening cooperation between health and social care systems
16. Establish a public funding system based on actual costs
17. Ensure that administration and controlling on a case-to-case basis is implemented in health care institutions
18. Review the application of performance volume limits
19. Introduce a financing method across levels of care
20. Extend the application of pay-for-performance financing methods
21. Set up a professional feedback system for patient treatment histories
22. Establish a transparent remuneration system

23. Increase the number of health personnel and staff
24. Elaborate the conditions of a system of supplementary private health insurance
25. Guaranteed membership in the health funds and provide targeted incentives for in and out payments
26. Extend support to prevention and service invoices
27. Provide tax benefits on corporate healthcare packages
28. Provide tax benefits on private health insurance
29. Ensure that minimum requirements, professional and financial directives and protocols are regularly reviewed and updated
30. Develop a clear definition of the care package covered by social security
31. Strengthen professional and financial control
32. Ensure standardized measurement and publication of the performance of health institutions and the satisfaction of patients
33. Increase the reporting obligations of private health providers
34. Introduce a management assessment system in public institutions
35. Increase the capacity for active day-care
36. Reallocate and reduce pharmaceutical expenditures on a professional basis
37. Treat pharmaceutical trade as a strategic industry
38. Develop telemedicine
39. Increase reliance on innovative technologies to simplify care management
9. Knowledge-based society
1. Introduce a grounding grade 0 in primary schools on demand
2. Elaborate a National Core Curriculum focusing on skills development and practical knowledge
3. Improve the methods and forms of teaching and learning
4. Ensure standardized measurement and publication of the performance of educational institutions and the satisfaction of stakeholders
5. Introduce a basic examination at the end of primary school studies
6. Increase the weight of sciences and information technology in secondary school admission examinations
7. Improve career guidance and promote increased awareness in career planning
8. Implement course reform in the secondary school system
9. Apply output criteria and more flexible curricula
10. Strengthen dual vocational training
11. Strengthen the links between vocational training schools and market actors
12. Ensure flexible switching between various forms of education
13. Reduce (early) school leaving without qualification
14. Allocate more public and private funds to education
15. Increase the number of primary school teachers and teaching assistants
16. Provide regular further training for teachers
17. Improve the social esteem of teachers, kindergarten teachers and nursery nurses by extending and enhancing the career path model
18. Redesign language examination requirements and align school programmes accordingly
19. Provide state support and premises for extra-curricular foreign language activities and language exam preparatory courses

20. Provide the option to take secondary school admission and secondary school leaving examinations in English
21. Promote more active participation in exchange programmes with other countries
22. Provide incentives for foreign students to stay in Hungary
23. Provide bi- and multilingual education in each Hungarian county
24. Promote subtitled films and series
25. Develop and maintain information technology instruments in schools and vocational training centres
26. Develop digital learning materials
27. Integrate programming into the teaching of mathematics
28. Create a competitive environment in tertiary education
29. Develop the infrastructure and equipment of tertiary education institutions
30. Strengthen links between tertiary education and companies
31. Channel market needs and private capital into education
32. Raise R&D expenditure in tertiary education to 0.5 percent of GDP
33. Provide opportunities to lease university infrastructure
34. More attractive career path for university professors
35. Ensure that the ranking criteria for tertiary education institutions are taken into account in funding
36. Support dual degree programmes
37. Support publications in English
38. Launch specific postgraduate courses in order to reverse student emigration
39. Widen the enrolment base of tertiary education
40. Increase the capacity of dormitories
41. Extend merit-based and needs-based scholarship schemes
42. Make tuition fees in tertiary education dependent on academic progress
43. Redesign the course structure of tertiary education
44. Increase student activity
45. Increase opportunities for partial training abroad
46. Introduce another science subject in addition to mathematics as a mandatory secondary school leaving examination
47. Reduce the dropout rate in university courses
48. Deepen financial literacy
49. Provide further training for financial professionals
10. Research, development and innovation
1. Extend the tax allowance for PhD graduates to researchers holding university degrees
2. Increase the number of research and development assistant staff through further wage increases
3. Provide state coverage of 50 percent of the costs of doctoral courses for employees over 30 years of age
4. Encourage enterprises to raise their R&D expenditures through enhancements to the business environment (reduction of red tape, more benefits for R&D)
5. Grant special assistance for companies at the start of their life cycles for their R&D expenditure
6. Reduce employers’ contributions for SMEs implementing R&D investments

7. Reduce patent maintenance fees
8. Favourable accounting treatment of patent revenues
11. Efficient governance
1. Audit, rationalize and remove parallelisms in the system of public institutions
2. Raise average wages in public administration, and reduce bureaucracy
3. Promote wage bill management and performance measurement instead of headcount management
4. Measure the efficiency of state-owned enterprises and of services provided by state agencies
5. Adopt the Estonian model to ensure that all matters dealt with in government one-stop shops may also be processed online
6. Interlink the databases of administrative organizations
7. Enhance mobile applications for simpler processing
8. Increase the share of auto-populated information in electronic forms and datasheets
9. Carry out regular online satisfaction surveys for public services
10. Develop the tax authority and increase its efficiency
11. Implement the scheme for corporate income tax and value added tax returns produced by the Tax Administration
12. Develop a taxpayer-friendly, transparent website, provide online processing for a wider range of matters
13. Discontinue the use of supplements to the advance corporate income tax
14. Gradually shift the corporate income tax to “cash-based taxation”
15. Reduce administrative burdens
16. Extend tax obligations to digital multinationals
17. Continue the roll-out of online cash registers
18. Phase out the financial transaction levy
19. Make it mandatory for specific merchant groups to accept electronic payment methods
20. Whitening of the construction industry
21. Consolidate and improve the efficiency of the Treasury system
22. Provide treasury account servicing for local governments and state-owned enterprises
23. Improve the Treasury’s customer relations, particularly in the sale of retail government securities
12. Modern infrastructure and efficient energy
1. Provide electrified railway access to every town with at least 30,000 inhabitants and to the Northern Balaton region
2. Ensure traveling speeds of at least 160 km/h on all principal railway lines
3. Replace or modernize railway engines and passenger wagons
4. Establish an intermodal hub in every county seat, and develop railroad freight terminals
5. Upgrade the M1 and M7 into three lanes
6. Promote the construction of motorway feeder roads bypassing localities
7. Enable the use of self-driving cars on highways
8. Develop 5G technology by opening higher frequency ranges and providing state subsidies for the development of smaller cell sizes
9. Subsidize the spread of fibre optic cables
10. Improve insulation across the power grid
11. Increase the share of underground power cables

12. Provide subsidies for increasing the number of higher-amperage connections in households
13. Upgrade the capital and all county seats into smart cities
14. Develop Hungary's information security software industry
15. Grant tax benefits to improve corporate energy efficiency
16. Allocate public funds to support the introduction of energy audits
17. Improve household energy efficiency through more intensive subsidization of renovations
18. Continuously assess opportunities for further reductions in regulated energy prices
19. Add high-capacity power storage facilities to the power grid
20. Allocate HUF 50 billion in subsidies for wind and solar power plants
21. Allocate HUF 50 billion in subsidies for SMEs' environmental protection investments
22. Modernize and equip water utilities with smart meters
23. Enhance the sewerage infrastructure in localities with fewer than 2,000 inhabitants, and increase the number of wastewater treatment plants
24. Increase the share of recycled waste, and introduce the deposit and return system
25. Strengthen support for electric vehicles
26. Improve the agricultural irrigation infrastructure