

COMPETITIVENESS MIRROR







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In addition to 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. The Competitiveness Mirror aims to monitor how the targets and recommendations made by the MNB have been implemented so far, thus contributing to the necessary turnaround in competitiveness. The Competitiveness Mirror regularly assesses Hungary's progress in competitiveness, based on the 330 recommendations published in the MNB's Competitiveness Programme. The monitoring system uses both descriptive and analytical methods to measure the implementation of the central bank's recommendations.

The Competitiveness Mirror was prepared under the general guidance of Gergely Baksay, Executive Director for Economic Analysis and Competitiveness. The Competitiveness Mirror was completed with the help of staff from the Directorate for Fiscal and Competitiveness Analysis, the Directorate Economic Forecast and Analysis, the Directorate Financial System Analysis, the Digitalisation Directorate, the Directorate Insurance, Pension Funds and Intermediaries Supervision, the Directorate Lending Incentives, the Directorate Financial Infrastructures, the Directorate Monetary Policy and Financial Market Analysis, the Structured Finance Strategy Directorate as well as the Budapest Stock Exchange.

The Competitiveness Mirror is based on information available for the period ending 19 November 2020.

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Executive Summary

Hungary's successful economic convergence requires a turnaround in competitiveness, which is actively supported by the Magyar Nemzeti Bank by its competitiveness analyses and recommendations as well as by the regular monitoring of the implementation of such. Since 2013, the Magyar Nemzeti Bank has been carrying out its work in accordance with its legal mandate with a broader perspective than previously, incorporating the in-depth analysis, assessment and enhancement of competitiveness into its analytical framework. For Hungary, the key challenge in the convergence process is to escape the middle-income trap, which hardly a dozen countries have been able to accomplish over the past hundred years. Owing to the successful reforms implemented after 2010, Hungary's economy has been set on a balanced path of convergence, and thus between 2013 and 2019 the Hungarian economy grew by 3.8 per cent on average, exceeding the average growth rate of the European Union by 2 percentage points. However, in order for the minimum growth surplus of 2 percentage points to be maintained or increased over the long term requires a full-scale turnaround in competitiveness. In its 2019 report entitled 'Competitiveness Programme in 330 Points', the MNB published the areas and avenues of intervention essential to implement this turnaround, supported by specific recommendations. It is critically important to further strengthen Hungary's competitiveness even while the economic impacts of the coronavirus pandemic are being managed, since such efforts simultaneously support the recovery of the economy and continuation of the successful convergence seen in recent years.

The *Competitiveness Mirror* aims to monitor, in a structured manner, how the targets and recommendations made by the MNB in the Competitiveness Programme have been implemented so far, thus supporting their execution and contributing to the necessary turnaround in competitiveness. This publication presents the changes realised between 18 October 2019 and 19 November 2020.

Since publication of the MNB's Competitiveness Programme in February 2019, positive changes and initiatives have taken place in all areas, and the aggregate implementation of the programme rose from 22 per cent registered last year to 34 per cent. However, complete realisation of the competitiveness turnaround requires additional measures and reforms. Based on the measures and announcements up to 19 November 2020 and weighted by priority, 34 per cent of the MNB's Competitiveness Programme has already been implemented, and progress has been made in 67 per cent of the 330 recommendations. Since presentation of the Programme, of the areas covered by the Competitiveness Programme the greatest progress has been achieved in the recommendations aimed at the development of the financial system and strengthening efficient governance. The MNB's targeted programmes and the launch of the instant payment system on 2 March 2020 both made major contributions to realising the new financial model. Nevertheless, in order to ensure that the private sector can more efficiently access finance, the cost efficiency of the Hungarian financial intermediary system needs to be improved and the capital market should be further diversified. As regards strengthening efficient governance, the preparation of draft VAT returns, to be introduced from 2021 after the full implementation of online invoicing and the anticipated development of e-personal identity cards represents major steps forward, while e-administration at local governments has already been implemented. More efficient governance is supported by certain elements of the Economy Protection Action Plan which was announced in the spring of 2019. Nevertheless, there is still ample room for manoeuvre in terms of further strengthening tax administration and e-governance. Several government measures have supported the development of the Hungarian SME sector and the reinforcement of Hungary's foreign trade and international economic relations. The SME strategy presented in November 2019 and the National Digitalisation Strategy, released for peer consultation in the summer of 2020 contain several courses of action. However, there is still plenty of room for measures in the area of boosting productivity and economies of scale, as well as in research and development. Implementation of the proposals in the Artificial Intelligence Strategy presented by the government in September 2020 may foster the penetration of advanced digital solutions. In connection with the development of infrastructure, the implementation of the vast majority of the proposals has already commenced. The National Energy and Climate Strategies, which was presented at the beginning of 2020, and the Climate and Nature Protection Action Plan, built on this and containing specific measures, represent progressive courses of action in the area of making Hungary's economy greener and carbon-neutral. As regards regional convergence the "Converging Settlements" government programme has been launched.

Hungary's greatest asset is the availability of well-qualified human resources, which is the key to successful convergence.

The government's Family Protection Action Plan contributes to securing skilled human resources and the plan encourages the necessary demographic turnaround with several programmes (financial support for child bearing, personal income tax exemption of mothers in large families and increasing the capacity of nurseries). As part of the Home Creation Programme of autumn 2020, families' living conditions will further improve, since from 1 January 2021 until the end of 2022 the VAT on housing construction will once again fall to 5 per cent and those purchasing newly-built property using the family housing allowance (CSOK) may reclaim the VAT amount. Furthermore, from 1 January 2021 the state will assume half of the home improvement costs, up to three million forints, of families with at least one child. In addition, those drawing down the family housing allowance will be exempted from the stamp duty when buying a new or pre-owned home. However, the demographic turnaround requires further measures, mainly in supporting everyday life, family-friendly healthcare and further strengthening of the family support scheme tied to employment. In terms of highly-qualified human capital, the reforms aimed at the modernisation of vocational training and further education may have favourable impacts even in the short run. Over the longer term, in addition to basic skills, public education should put more emphasis on language and digital skills, essential for succeeding in the labour market. In this respect, the revised National Core Curriculum and the adoption of the Public Education Strategy applicable to the 2020 decade include a number of changes, the degree of which could be further increased. The Government Decision adopted at the end of 2019, which includes several healthcare measures, and the Act passed in autumn 2020 on service relations in healthcare – also containing a wage increase for doctors – may result in a breakthrough in the quality and sustainable funding of publicly funded healthcare. Another factor that would substantially contribute to the improved availability of a highly-qualified labour force is further strengthening of the healthcare prevention system and primary care, and in terms of financing, the establishment of Welfare Funds.

Of the measures taken to contain the coronavirus pandemic, we present those that contribute to strengthening Hungary's medium- and long-term competitiveness. These measures are included in this paragraph as well as in the summaries of the related chapters. However, in discussing the individual recommendations we elaborate on and assess only the measures that directly contribute to the implementation of the respective recommendation. Crisis management measures that – due to their temporary nature – have no substantial impact on Hungary's long-term convergence position are not presented and assessed in this publication. The competitiveness of enterprises is improved by the introduction of the possibility of a state guarantee securing the loan contracts of enterprises up to 90 per cent, as well the government's tax concessions. The cap on development reserves set aside by enterprises from retained earnings will be cancelled from 2021 and the limit for electing to use the small business tax will rise from HUF 1 billion to HUF 3 billion. From the second half of 2021, the tax administration will prepare draft VAT returns for all enterprises and payment of the local business tax will be simplified. With a view to offsetting the unfavourable labour market trends resulting from the pandemic, in the first wave of the pandemic the government provided job protection and employment creation wage subsidies, which also contribute to the renewed achievement of full employment. Due to the second wave of the pandemic, the enterprises hit hardest by the crisis may once again resort to tax relief and wage subsidies in 18 activity categories. The government provides enterprises with a special wage subsidy in respect of research and development employees, performing high value-added activity. In addition, during the second wave of the pandemic, in order to support working from home, employees can benefit from a monthly cost reimbursement during the state of emergency up to 10 per cent of the minimum wage. In autumn 2020, a wage subsidy programme was launched with a view to encouraging enterprises to employ low qualified and young jobseekers. The competitiveness of healthcare is boosted by the substantial wage increase for doctors (more than twofold), in accordance with the wage bracket recommendation of the Hungarian Chamber of Doctors, that will commence in January 2021 and be implemented in three steps by early 2023. The expansion of the telemedicine service supports the digitalisation of healthcare. Maintaining the level of families' disposable income may serve as a basis for recovery and longer-term convergence. Accordingly, during the first wave of the pandemic, the government extended the disbursement of child-care benefits expiring during the emergency until the end of the spring state of emergency and announced a fixed-term moratorium on loan instalments (until end-June 2021). The Home Creation Programme, announced in autumn 2020, simultaneously improves the housing conditions of families and boosts construction orders. From 1 January 2021 until the end of 2022, the VAT on housing construction will once again decrease to 5 per cent and those purchasing newly-built property using the family housing allowance (CSOK) may reclaim the VAT amount. Furthermore, from 1 January 2021 the state will assume half of the home improvement costs, up to three million forints, of families with at least one child. In addition, those drawing down the family housing allowance will be exempted from the stamp duty when buying a new or pre-owned home. Another component of the Home Creation Programme is that from 1 January 2021 the family housing allowance, even in the maximum amount, will be available also for the purpose of loft conversion of family houses. Furthermore, as part of the Programme, the government is setting a cap on notary fees connected to property purchases.

Competitiveness Mirror – Measuring implementation of the Competitiveness Programme

The Competitiveness Mirror evaluates the progress in the competitiveness turnaround based on implementation of the recommendations included in the MNB's Competitiveness Programme. In February 2019, the central bank of Hungary made 330 recommendations in twelve areas in its Competitiveness Programme, with the aim of improving Hungary's competitiveness and ensuring successful and sustainable convergence. The Competitiveness Mirror assessed the implementation of these recommendations for the first time in autumn 2019.

This publication is an update of the Competitiveness Mirror published in the autumn of 2019 based on the changes that have occurred since then. The update only deals with recommendations in respect of which any change has occurred since the previous publication. Part of the changes improved the level of implementation of the individual recommendations on the four-step scale. We also deal with amendments that on their own are not sufficient for moving a recommendation to the next stage of implementation.

In addition to numerous individual measures, nine larger programmes significantly affected the implementation of the recommendations. The programmes below affected 60 recommendations, and within this group they also improved the implementation status in 31 cases:

- The Government's SME strategy published in November 2019
- The Government Decree on healthcare issues passed in December 2019
- The National Energy and Climate Plan of Hungary, and the Climate and Nature Protection Action Plan published in February 2020
- The National Core Curriculum amended in February 2020
- The National Digitalisation Strategy submitted for peer consultation in June 2020
- The Public Education Strategy adopted in August 2020
- The Artificial Intelligence Strategy presented in September 2020
- The Act on Service Relations in Healthcare, adopted in October 2020 (wage increase for doctors)
- The Home Creation Programme of autumn 2020

The Competitiveness Mirror uses a 4-step scale ('not started', 'started', 'partly implemented', and 'fully implemented') to establish the degree of progress. In terms of what is to be considered as implementation, the recommendations in the 330 points fall into two groups. One part of the recommendations require the approval of a specific measure, the introduction of new regulations or adjustments to those in place. By contrast, recommendations in the other group set the directions for development, the objectives of which can be accomplished via the implementation of programmes involving a series of coordinated actions. Obviously, a recommendation of the former type may be considered as implemented when the competent institution has approved the regulatory adjustments, and one of the latter type when the programme has started. In assessing the degree of implementation, another aspect to be taken into account is whether the approved regulation or initiated programme is fully aligned with the recommendation made in the 330 points. A recommendation may be considered as partly implemented when the measure taken is similar in direction, but still different or smaller in volume, whereas a point may be considered as fully implemented when the same end has been achieved by a different method. Taking these considerations into account, the categories indicating the degree of implementation are applied with reference to the following criteria:

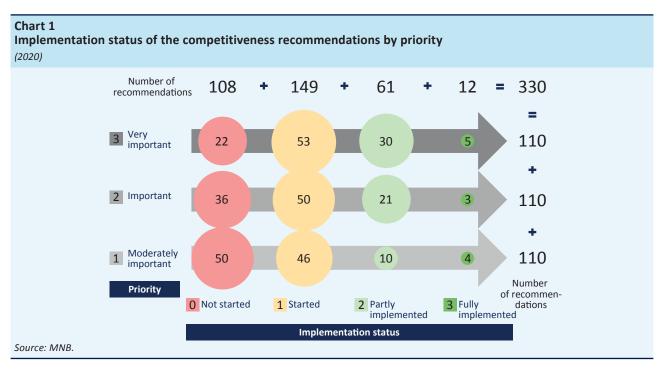
• A recommendation is 'fully implemented' when the corresponding regulatory adjustments (including amendments) have taken place, or respectively, for recommendations of a more general nature, when the programme seeking to accomplish the objective has been launched and is effectively underway. A recommendation may also be considered as fully implemented when the same end has been met by different but equally effective and efficient means.

- The 'partly implemented' category comprises programmes which have been organised and are set to be launched, as well as measures about to be approved. Additionally, this category may also contain approved measures or ongoing programmes that do not fully cover the corresponding recommendations included in the 330 points or are more limited in scope. In such cases, implementation of the initial recommendation requires changes to the programme or measure, or the adoption of a new measure.
- A recommendation may be considered as 'started' when a specific plan or strategy has been adopted for the implementation of a measure proposed as part of the 330 points. The 'started' category also includes recommendations that involve an approved measure or initiated programme, the essential elements of which have not been implemented.
- The 'not started' category contains recommendations in respect of which no measure has been approved or no specific notification has been made, or no programme involving the recommendation has been initiated.

Every recommendation is assessed in terms of the contribution of the implementation to improving competitiveness.

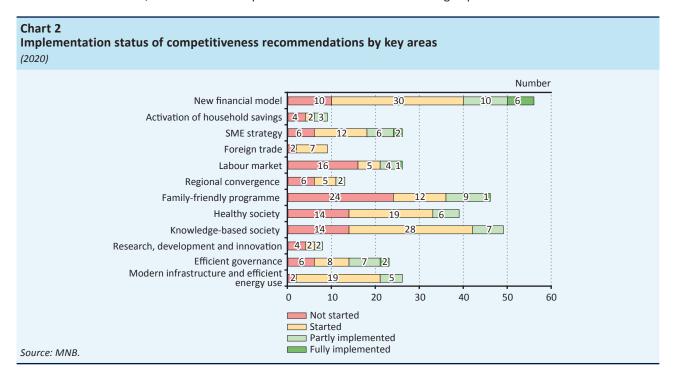
The 330 points were elaborated in the spirit that all of the parts should substantially promote the improvement of Hungary's competitiveness. Nevertheless, not all of the recommendations can be considered equally important, as some of them are key elements. The greatest importance is attached to recommendations that make the largest contribution to competitiveness, have the strongest multiplier effect, and are prerequisites for additional action. According to the degree of contribution to improving competitiveness, three categories ('moderately important', 'important' and 'very important') have been established. In all of the twelve key areas, the recommendations are classified into these groups in equal proportions, i.e. each of the three categories are comprised of 110 recommendations.

Out of the 330 recommendations of the *Competitiveness Programme*, progress has been made in 222 cases since the introduction of the programme in February 2019 (Chart 1). Within that, implementation has been started in the case of 149 recommendations and 61 have been partly implemented, while the objective has been fully reached with respect to twelve recommendations. Accordingly, overall implementation is already underway in some form in respect of 67 per cent of the recommendations. One favourable development is that the greatest progress has been made in the case of the recommendations which are prioritised as *'very important'*. In this category, 88 of the 110 recommendations are already at least in progress towards implementation. Of these, 30 have been partly implemented and five have been fully implemented.

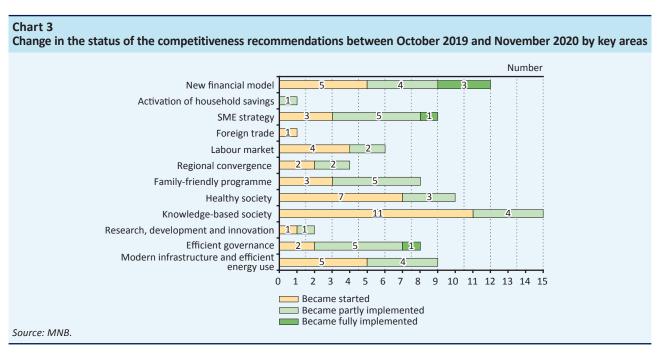


The chapter *New financial model* has the most fully implemented recommendations (6), while the other six recommendations which have been fully implemented are found in four other chapters (Chart 2). The *New financial model* also has the most 'partly implemented' recommendations (10), followed by the chapter on the *Family-friendly*

programme with nine recommendations. The twelve key areas in the Competitiveness Programme contain 72 subchapters in all, and each includes 2-9 thematically linked recommendations. In five subchapters, no progress has been made in either recommendation, while in 18 subchapters all recommendations are being implemented.

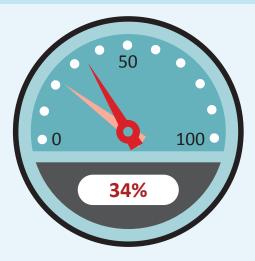


Compared to the status in October 2019, progress has been achieved in all areas, with the most increases in the chapters *Knowledge-based society, New financial model* and *Healthy society* (Chart 3). In the chapter *Knowledge-based society* the implementation of eleven measures has started, while four measures acquired partly implemented status. In the chapter *New financial model* there were three recommendations that have been fully implemented since October 2019 (the highest number), while four have been partly implemented and the implementation of five additional recommendations has commenced. In the chapter *Healthy society*, the status of three recommendations acquired partly implemented status, while the implementation of seven recommendations has started since October 2019. The implementation of nine recommendations has commenced or continued in the past one year in each of the chapters *SME strategy* and the *Modern infrastructure and efficient energy use*.



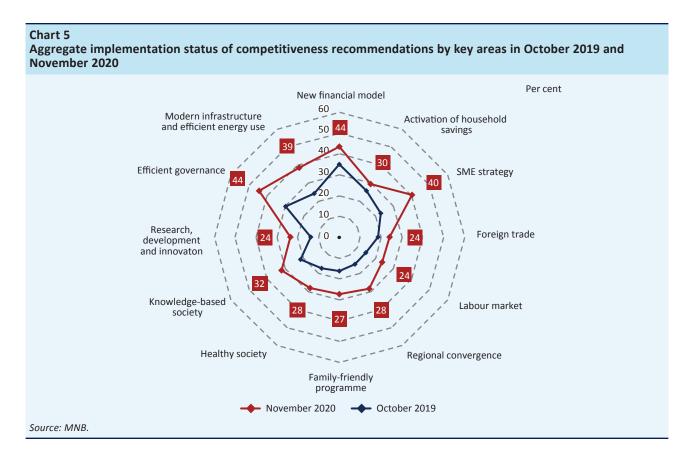
The methodology used in this publication is suitable for presenting the degree to which the recommendations have been implemented, concentrated into a single figure both by area and on aggregate. Recommendations are scored 0 to 3 according to the status of their implementation, where 0 stands for 'not started' and 3 for 'fully implemented'. The resulting score is then weighted by the priority of the recommendation concerned (this is a number between 1 and 3, where 3 stands for recommendations rated 'very important'). The resulting implementation scores are aggregated for each key area, as well as for all recommendations collectively. The aggregate implementation status is a percentage that shows the level of implementation, weighted by priority, compared to the full implementation of the recommendations.

Chart 4
Aggregate implementation status (weighted by priority) of the competitiveness recommendations (2020)



Note: In autumn 2019, the aggregate implementation status was at 22 per cent (pink pointer) and in autumn 2020 at 34 per cent (red pointer).

Based on the measures and announcements up to 19 November 2020 and weighted by priority, 34 per cent of the MNB's Competitiveness Programme has already been implemented, which exceeds the implementation status of 22 per cent measured in the autumn of 2019 by 12 percentage points (Chart 4). The recommendations in the chapters New financial model and Efficient governance have the highest implementation rate (44 per cent), followed by the chapters SME strategy (40 per cent) and Modern infrastructure and efficient energy use (39 per cent) (Chart 5). Between February 2019 and November 2020 the least progress was achieved in the areas of Research, development and innovation (24 per cent), Foreign trade (24 per cent) and Labour market (24 per cent). Progress has been made in all twelve areas over the past year. Since October 2019 the strongest growth in aggregate implementation was realised in the chapters SME strategy (17 percentage points), Efficient governance and Modern infrastructure and efficient energy use (15 percentage points each) and Regional convergence (13 percentage points). In the period under review, the least progress was made in the chapters Activation of household savings, Foreign trade, New financial model and Labour market.



In this publication, the implementation phase of the proposals is indicated by four different colours and the change in the implementation phase by coloured arrows corresponding to the new status. In the individual chapters, an evaluation of a recommendation outlined in the Competitiveness Programme in 330 points is included, if there is any new development in the implementation status of the relevant recommendation compared to autumn 2019. If this new development also results in a step forward in the implementation phase of the recommendation, the progress is indicated - in addition to the change in the background colour of the recommendation - by an arrow of the colour of the new status at the description showing the implementation of the recommendations. Red, yellow, light green and dark green indicate recommendations which are "not started", "started", "partly implemented" and "fully implemented", respectively. In the following sections we do not present recommendations with the status "not started", since no progress has been made in their implementation. However, the table at the end of the publication, which presents the recommendations together with their current implementation status, includes these recommendations as well. The priorities belonging to the individual recommendations depend on whether the recommendation has been classified as moderately important (1), important (2) or very important (3). For example, the status of the "Make it mandatory for specific merchant groups to accept electronic payment methods" recommendation has changed from "not started" to "fully implemented", and thus its background turned from red into dark green. The change in the status is also indicated by a dark green arrow. The priority belonging to the recommendation is 2, i.e. this recommendation has been classified as important. For easier orientation, the table below provides an overview at the end of each section and also at the end of the summary table concluding this publication.

Lea	ıer	ıd

Not started	Started	Partly implemented	Fully implemented
Changed to Started	Changed to Partly impl	emented 🍄 🛮 Changed to l	Fully implemented

19. Make it mandatory for specific merchant groups to accept electronic payment methods

P 2

1 New financial model

The status of implementation, weighted by priority, of the recommendations in the chapter New financial model rose to 44 per cent from 35 per cent registered in October 2019. Up to now, progress has been made in 83 per cent of the recommendations specified in this area. Since the Competitiveness Mirror of 2019, progress has been identified in relation to twelve of the 56 recommendations of the chapter, as a result of which 40 recommendations have already acquired started or partly implemented status. Moreover, the positive change in the status was not concentrated, but affected several areas, facilitating more intensive price competition and digitalisation. It implies further progress that since the snapshot taken in autumn 2019, another three recommendations of the central bank have already been fully implemented, and thus the number of fully implemented recommendations rose to six. The largest number of tasks can still be identified in the area of digitalisation, supporting the efficiency of banks and convenient banking for customers.

In recent months, the range of Certified Consumer-Friendly products, which falls within the competence of the MNB, expanded further. In addition to housing loans, consumers can also benefit from Certified Consumer-Friendly Home Insurance, providing cover for real risks, since January 2020. Starting from January 2021, the range of Certified Consumer-Friendly products will be expanded to include Certified Consumer-Friendly Personal Loans, which – in addition to stimulating competition in the personal loan market – also support the enhancement of digital processes. As a result of the greatest ever digitalisation development of the Hungarian financial sector, the instant payment system was launched on 2 March 2020 in Hungary, which was also unprecedented in an international comparison. With a view to further strengthening and deepening the digitalisation of the sector, the MNB and the Hungarian Banking Association presented its FinTech Strategy and Digitalisation Proposal Package, respectively. In addition, with the involvement of much of the sector, the central bank established the Digitalisation and Fintech Advisory Board (DFAB). In order to accelerate lending processes and make them more efficient, the possibility of enquiring about electronic wage records by credit institutions was introduced in February, the range of remote identification possibilities was expanded further and the first annual FinTech and Digitalisation Report by the MNB was published, providing a comprehensive assessment of the Hungarian financial system's level of digitalisation.

The European Commission adopted a temporary framework with a view to mitigating the negative economic impacts of the pandemic situation that developed this year, as part of which a government guarantee may be provided to secure the loan contracts of enterprises up to 90 per cent of the loan principal, utilising which the domestic guarantor institutions introduced 90 per cent institutional suretyship. The purpose of the measure is to offset the decline in credit institutions' and financial enterprises' risk appetite. Apart from lending, progress has also been achieved in fund raising in capital markets. The National Stock Exchange Development Fund as well as the Mentor and ELITE programmes strengthened state participation in the development of the domestic equity market and in the reduction of the listing expenses of profitable enterprises. In addition, EU and Hungarian capital market regulations have been harmonised. By expanding the Bond Funding for Growth Scheme, the central bank further strengthened enterprises' access to funding, which also mitigates the unfavourable economic impacts of the coronavirus pandemic. To offset the detrimental economic effects of the global crisis, in March 2020 the government announced moratorium on instalment payments on loans both for private individuals and enterprises until the end of 2020, which was prolonged until the end of first half of 2021 for four vulnerable social groups (public employees, jobseekers, pensioners and parents with children) and for enterprises suffering at least a 25 per cent drop in sales revenues.

1.1. Improve the efficiency of the guarantee scheme

1. Develop a "reverse" suretyship procedure

2

The pilot programme implemented in 2018 for the reverse suretyship procedure, which was launched by Garantiqa Hitelgarancia Zrt. (hereinafter: Garantiqa), was successful. As a continuation of this initiative, in 2019 the guarantee organisation contacted an additional 25,000 enterprises with its offer, and it continues to apply the reverse suretyship procedure in 2020. The key objective of Garantiqa is to develop a new IT solution, accessible on a variety of platforms (web interface, mobile application) and to implement such by the end of 2020, through which registered enterprises may apply online, after having been rated, for the guarantee institution's downloadable letter of intent.

2. Ease exclusion ('KO') criteria in a targeted manner



In order to increase its business activity, Garantiqa already previously took numerous targeted business development measures to boost risk appetite while at the same time maintaining prudent, conservative risk management principles. In relation to bank lending, the guarantee institution further expanded the range of eligible clients and transactions as well as the range of acceptable debtor ratings and loan-to-value ratios, together with the maximum surety amount. Accordingly, the disqualifying factors specified in the surety conditions were reduced to the statutory minimum.

3. Seek banks' commitment to increase credit portfolios that qualify as additional

2

In accordance with the provisions of Government Decision 1783/2018 (XII. 21.), in 2019 the portfolio of guarantor institutions was already dominated by additional transactions, and the share of these transactions continued to rise gradually in 2020 as well.

4. Offer more flexible guarantee rates (70 to 90 per cent)

2

Both Hungarian guarantee institutions concluded an agreement with the European Investment Fund (EIF); within the framework of this, AVHGA and Garantiqa were able to provide surety in the amount of HUF 40 billion and HUF 65 billion, respectively under the COSME (Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises). The objective of COSME is to support viable businesses by offering institutional guarantees for their borrowing in excess of the usual maximum of 80 per cent up to 90 per cent. In view of the high utilisation rates, in November 2019 EIF raised the amount of the surety that Garantiqa may undertake to HUF 160 billion and extended the availability period by 2 years. To mitigate the negative economic effects of the pandemic situation, the Hungarian guarantor institutions introduced a 90-per cent institutional guarantee to offset the declining risk appetite of financial institutions, in line with the European Commission's temporary framework.

6. Make concerted marketing efforts to promote institutional guarantees



Since 2018 Garantiqa is harmonising its marketing campaigns with partner financial institutions, as part of which the partner banks' branches regularly distribute a marketing brochure entitled "Loan guarantees". To promote the innovative IT application that will be introduced for the implementation of the reverse surety procedure this year, Garantiqa plans to carry out a concerted marketing campaign before the end of this year.

1.3. Support for credit convergence

1.3.1. Sound lending for sustainable economic growth

10. Strengthen financial literacy

2

The new National Core Curriculum (NAT), published on 31 January 2020 notes the need to strengthen financial literacy in several areas of education, including mathematics, civics education, geography, technology and design. The accredited contents of the Pénziránytű Alapítvány (Money Compass Foundation) may reach more than 430,000 students in the 2020/2021 school year. In addition, the textbooks and workbooks are also available free of charge in electronic form.

1.3.2. Cheaper banking with more intense price competition

11. Continue to promote Certified Consumer-Friendly products



The popularity of the Certified Consumer-Friendly framework is confirmed by the fact that the market share of Certified Consumer-Friendly Housing Loans (CCFHL) within housing loans that can be potentially certified was over 70 per cent by the second half of 2019. Based on the progress with the certification framework, in 2019 the MNB opted to expand the range of certified products. In addition to housing loans, consumers can also benefit from Certified Consumer-Friendly Home Insurance, providing cover for real risks, since January 2020. From January 2021, the range of Certified Consumer-Friendly products will be expanded to include Certified Consumer-Friendly Personal Loans, which – in addition to stimulating competition in the personal loan market – also supports the enhancement of digital processes. The preliminary concept of the Certified Consumer-Friendly Current Account (CCCA) has also been developed, and the MNB has started consultation with market participants prior to introduction.

14. Enable the mandatory sharing of positive credit histories

3

Enabling the sharing of positive information in the Central Credit Information System (CCIS) would reduce information asymmetry between banks and customers. In order to ensure that banks have access to positive information in CCIS, the MNB prepared its proposal for the amendment of the law, and from 1 October 2019 it prescribed the recognition of a capital requirement for lending conducted without positive credit history data. Compared to the status reported in autumn, one new development is that – as a result of the supervisory measure – the transfer of borrowers' positive credit history data has become a general expectation in banks' lending conditions.

1.4. Enhancing digital transformation in banking

1.4.1. Efficiency means lower cost for banks and lower interest rates for customers

22. Improve the coverage of POS terminals and other electronic payment solutions



For the penetration of electronic payment methods, it is essential that such can be used in a wide range of payment situations. At present, many retailers still fail to provide cashless payment methods, thereby forcing customers to hold and use cash. However, due to the amendment of the Act on Trade, starting from 1 January 2021 all merchants obliged to use online cash registers must provide the option of electronic payment. In addition to the further expansion in card payments, which are already increasingly popular, this may also substantially support the acceptance of instant payments by merchants. Although the recommendation primarily targeted the implementation of electronic payment methods in the case of retail payments, and thus it may be regarded as fully implemented due to the amendment of the law, this does not mean that there are no additional tasks in other areas, such as the electronic payment of invoices and services.

1.4.2. Banking products and services with a few clicks

24. Develop and deepen the digital transformation

3

The first half of 2019 saw the establishment of a central bank department dedicated to digitalisation. Its tasks include examining the future avenues of development in the financial system related to financial innovation and digitalisation and promoting digital transformation in the financial system's business processes and institutions. The Digitalisation and FinTech Advisory Board (DFTT), established in September 2019 with the participation of renowned Hungarian and international experts, will facilitate the MNB's work in this area as a knowledge-sharing platform. In the second half of 2019, within the framework of developing its FinTech Strategy, the MNB formulated 24 specific initiatives and recommendations that may support digitalisation of the Hungarian financial system. Also with a view to fostering digital transformation, in November 2019 the central bank conducted a comprehensive questionnaire-based survey on the digitalisation level of Hungarian banks. This was followed by personal interviews with the competent bank managers in January 2020, and -based on the results of these and incorporating the feedback from the February meeting of DFTT - the MNB was the first central bank to publish a FinTech and Digitalisation Report, which will be released regularly in the future. The government also seems very committed to enhancing the digitalisation level of the Hungarian financial system and economy: the Artificial Intelligence Coalition was formed to help the familiarisation with technological innovation and Hungary's FinTech Strategy was unveiled within the framework of the Digital Welfare Programme. Despite the numerous initiatives and several developments that commenced at banks, there is still plenty of room for development in the domestic banking sector's digital maturity, as also noted in the MNB's FinTech and Digitalisation Report. Nevertheless, in 2020 – partly due to the restrictions implemented due to the coronavirus – major progress in bank digitalisation was observed: the use of digital administration channels and product application platforms by clients increased, while the internal operation of banks successfully changed over to teleworking for shorter or longer periods.

26. Support digital development related to the instant payment system



The instant payment system was launched successfully on 2 March 2020 in Hungary as well, which represented the greatest ever development in the Hungarian banking sector. In addition to instant payments, the central infrastructure operated by the MNB and GIRO also supports requests to pay and secondary identification services, and based on this market participants are able to provide their clients with widely usable innovative payment solutions. Continuous availability (24/7/365) and instant settlement enables banks to preserve their competitiveness vis-à-vis fintech contenders and also opens up a number of business opportunities for service providers newly entering the market. The MNB also actively supports the development of supplementary services, among other things, by elaborating a detailed guide for the payment situation and the QR code standard. As a result of the foregoing, by the first quarter of 2021 almost all bank clients will presumably be able to benefit from sending and receiving requests to pay and read QR codes. In addition, the fact that from 1 September 2020 the option of batched corporate credit transfers and requests to pay has become available may represent a major step forward for enterprises and public utility companies.

27. Incentivise banks to introduce package pricing in retail payment services



On several occasions, the MNB has called the attention of domestic banks – in executive circulars as well – to the fact that the full-scale spread of electronic payment methods is only possible if banks revise their tariffs. According to the MNB's survey, Hungarian banks charge high prices in a poor structure even in an international comparison. This means that only a few banks apply package pricing, which is commonly used abroad, for credit transfers. After the launch of instant payments on 2 March 2020, an increasing number of banks realise that the frequent use of the new service by clients is conditional on the application of a package priced tariff structure. Some form of package-priced account products is available at almost all domestic banks, but these are often expensive, do not support the initiation of credit transfers in unlimited number and amount, and the number of clients using these products is also low. Since most of the currently available package-priced account packages do not satisfy the MNB's requirements, further steps are necessary in this area in the short run.

Recommendation Priority 1.4.3. Convenient credit applications online

28. Make online contracting and signatures simpler and faster

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In accordance with Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorist Financing (hereinafter: AML Act) and the amendment to the Credit Institutions and Financial Enterprises Act, online contracting without personal contact became available for certain financial products. The MNB has drawn up a decree on customer due diligence and identification in line with the AML Act, which was fine-tuned in 2018, 2019 and 2020, also taking into consideration market requirements. In the present framework, clients may opt for video conversation or a "selfie-based" solution without conversation with the administrator, while the security and convenient use of the system are supported by Client Gateway integration and security elements retrievable from the electronic documents (e.g. e-identity card). The Hungarian Banking Association, together with the MNB, is also committed to improving online contracting. Several points of the digitalisation proposals published by the Association deal actively with this issue.

29. Enable credit institutions to submit electronic queries for the income statements held by the National Tax and Customs Administration



Electronic income enquiries were launched in practice as well, and consequently this option has been available to the market participants since February 2020. The technical details of the concept behind providing electronic income statements were developed by the MNB in early 2019, in cooperation with the National Tax and Customs Administration and BISZ Zrt. Subsequently, in June 2019, the amendment of Act CL of 2017 on the Rules of Taxation created the necessary legal framework, while the content-related criteria were defined in Government Decree 260/2019 (XI.7). Electronic access that enables faster information flows improves the efficiency of lending and enhances the banking system's competitiveness. Based on the feedback from domestic banks, the directions of development that may foster this process have been identified, such as obtaining consent more easily and providing more up-to-date data of a wider range of debtors.

30. Reduce the notarial fees associated with housing loans

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The Government announced that it would maximise the notarial fees associated with property purchases; details of the regulation are not yet known.

33. Set up a central appraiser database

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One of the crucial elements of the mortgage lending process that involves a great degree of manual work while also being time-consuming and costly is the appraisal of collateral. In connection with this, the MNB is working on the development of a framework that supports appraisals without on-site survey, two core elements of which are to provide access to anonymised information and data necessary for appraisals and to ensure the applicability of statistics-based appraisal methodologies, which may be enhanced on the basis of data. Another important element of the framework may be the reporting by banks related to property transaction data ordered by the MNB, commencing in 2021, and the e-property register currently under development.

34. Automate the land registry information system (TakarNet) while ensuring continuous availability

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Administrative procedures linked to mortgage lending can be significantly simplified by automating querying of Land Registry information and providing access to the database outside of office hours, which would also enable banks to automate processes on their side. The MNB has contacted stakeholders to determine the details of the recommendation on this development. Compared to last autumn, one new development is that realisation of the objectives will be supported by the e-property register project, launched in 2019, with expert support from the MNB. In October 2020, by Decree 19/2020 of the Minister of Prime Minister's Office, the Government set up a working group to support professional governance for the e-property register project managed by the Lechner Knowledge Centre and to make the policy and strategy decisions. The total cost of the project is around HUF 14 billion, financed from EU and government funds.

1.5. Widen the capital market

1.5.1. Get successful domestic companies listed

41. List state-owned enterprises through a stock ownership plan for small investors



The MVM Group and the Budapest Stock Exchange signed a long-term, five-year strategic cooperation agreement. Exploitation of the synergies between the activities of the two organisations may produce significant results at general societal level as well, primarily in the area of investments which are sustainable in terms of business, the environment and society. The key objective of the agreement is to make the MVM Group, which has more than 60 member companies, eligible for listing, i.e. the comprehensive realisation of this high level of financial and economic maturity.

42. Provide incentives for listing of banks

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After MKB Bank Plc's admission to trading, BSE recently conducted negotiations with several market participants. One of the most important of those is Gránit Bank, the listing of which was supported by the stock exchange by professional materials. It received information on the ELITE Programme and received capital from the resources of Széchenyi Funds. The Bank plans to start its preparation for listing in the near future.

43. Establish a modern corporate bond market

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On 26 March 2019, the Monetary Council of the MNB decided to launch the Bond Funding for Growth Scheme (BGS) on 1 July 2019, within the framework of which the central bank purchases bonds with a rating of at least B+ issued by non-financial corporations domiciled in Hungary, from September 2020 already in the total amount of HUF 750 billion, instead of the initial HUF 300 billion, which was later increased to HUF 450 billion. The programme seeks to improve the efficiency of monetary policy transmission by increasing liquidity on the Hungarian corporate bond market. By boosting the liquidity of the corporate bond market, the MNB's intention is to help economic actors rely to the appropriate extent on bond issues, rather than solely on bank loans, when acquiring funds, so that central bank interest rate decisions can more efficiently influence developments in corporate funding costs. More than 250 companies had registered for the programme by mid-September 2020, and the bonds of 46 firms have already received the rating necessary for central bank purchase. The first central bank purchase took place under the BGS in mid-September 2019. Over the past one year, 33 corporations issued bonds under the programme, the aggregate face value of which exceeded HUF 620 billion. Information is available on the central bank's corporate bond purchases and credit ratings on the Magyar Nemzeti Bank's website. Owing to the corporate bond issuances, the outstanding bonds of Hungarian non-financial corporations more than doubled in nominal value, and thus the domestic bond market started its convergence to the average of European and regional countries.

44. Ensure state participation in the development of the domestic equity market



The National Stock Exchange Development Fund supports the admission of corporations to trading with capital since 2018. In addition, within the framework of the Mentor programme (both the Economic Development and Innovation Operational Programme (GINOP) and the Central Hungary Region, as mirror projects) aid for 50 per cent of the costs of listing on the stock exchange and 100 per cent of the ELITE programme can be provided to eligible corporations. The Mentor programme will support corporations under the present scheme until the end of March 2023. Already 3 companies have received funding in the stock exchange listing part and negotiations are being conducted with further 4-8 companies. Under the ELITE programme, 18 GINOP companies and 9 KMR companies received funding.

1.5.2. Promote an environment to support the development of the capital market



48. Ensure consistency between capital market rules and general EU practices

The implementation of the EU's Prospectus Regulation (2017/1129/EU) in the provisions of the Hungarian Capital Market Act (Act CXX of 2001) was completed in December 2019. Further minor amendment is likely to take place still this year in Bill No. T/13105 on the Amendment, for the purposes of approximation of laws, affecting certain elements of the financial intermediary system, which clarifies the public status of MTFs among the provisions related to the Capital Market Act (Section 2). With this, harmony in the key elements of the EU and Hungarian regulation has been achieved. The remaining minor open issues will likely to be settled by interpretation and resolutions.

51.

Priority Recommendation 1.6. Improve the competitiveness of the insurance and fund sectors **%** 3

In the non-life segment, the MNB has set out to develop a framework with better services to increase product value to customers. As a first step, the concept of Certified Consumer-Friendly Home Insurance (CCHI) has been developed, establishing minimum standards for the terms and conditions and procedural issues of retail home insurance products. The keywords of the CCHI include comprehensiveness, utility, clarity, digital solutions, green considerations and familyfriendly solutions. The MNB published the call for applications and the first applications have been received: consequently, CCHI products are already available in the market. Product development by insurers is in progress, and additional applications are likely to be submitted still this year, which will be supported by the MNB by launching a website suitable for comparing products.

52. Provide legal and technological means to facilitate changing insurers

Increase the product value to customers in non-life insurance

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With a view to boosting competition and improving the price-to-value ratio of insurance products, the MNB makes efforts to ease changing insurers by customers through a variety of tools. As the first step in this regard, the possibility of switching insurers at a quarterly interval was integrated in the requirements pertaining to the application for Certified Consumer-Friendly Home Insurance, pursuant to which the insured may terminate the contract with 30 days' notice to the end of the calendar quarter. The insurer must provide this opportunity after the expiry of the third quarter from risk inception.

53. Enhance the system of the Annual Cost Rate (ACR) and extend it to the pension funds sector

The MNB has set out to extend the ACR system successfully in the insurance sector for ten years to the pension funds sector, and to develop a pension fund cost rate that is not based on past data, which is able to forecast the total cost for the policy, consistent with the insurance ACR and enables the comparability of pension funds. Therefore, as a first step, it developed the MNB recommendation on the calculation and publication of the annual cost rate of voluntary pension funds, which may become an efficient tool for comparing pension funds and the competing pension insurance products from 2020. This instrument is expected to boost competition in both markets. The pension fund ACR has already entered into force since the previous issue of the Competitiveness Mirror, as following consultations with the market participants, the recommendation was promulgated in September 2019; thus, pension funds can apply it after 1 January 2020. According to the recommendation, the funds submit the calculated values to the MNB by 28 February 2020, and the MNB makes the data available to a wide range of clients. Further steps may include limitation of traditional insurance policies similar to unit-linked insurance and the shift towards customised ACRs.

54. Develop the digital links between the insurance and banking sectors

The MNB started its blockchain project, the first project based on distributed ledger technology (DLT) among its 2019 developments, the use of which may be regarded as a revolutionary innovation not only in Hungary, but also internationally. The purpose of the development is to simplify the endorsement, registration and confirmation of insurance policies - primarily home insurance - linked to mortgage loans, to resolve the decades-long data exchange problems between banks and insurers and to reduce the administrative burdens stemming from administration between the two institutions and difficulties in information flows. During the year the MNB prepared the IT requirements specification necessary for the development and launched the related public procurement procedure.

Legend

Not started	Started	Partly implemented	Fully implemented
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2 Activation of household savings

Weighted by priority, the implementation of the recommendations in the chapter Activation of household savings rose to 30 per cent from 26 per cent between October 2019 and November 2020. Since last autumn, in the field of activating household savings, some modest progress has been achieved in implementing the MNB's recommendations. Accordingly, the implementation of 55 per cent of the recommendations has commenced. In one of the nine points of the chapter, the degree of implementation increased, and minor progress was achieved with another two recommendations. In 2019, the Hungarian Government Securities Plus (MÁP+) bonds made the greatest contribution to implementation. These securities offer attractive investment opportunities for those wishing to make savings, and thus they were able to increase the ratio of debt held by residents within government debt. At the end of September 2020, the stock of MÁP+ amounted to HUF 4,820 billion.

Despite the unchanged status of most of the recommendations, several government measures were taken during the period under review. It is worth noting that from November 2019 the sales of MÁP+ government securities through the post offices commenced officially, which supports the geographical diversification of the supply. The low redemption statistics registered in the free redemption period of MÁP+ (around 2.5 per cent on average) implies that households regard the product as a long-term investment. In parallel with this, the product structure of retail government securities has also become simpler with the gradual phase-out of several schemes.

2.1. Strengthening retail government debt financing

1. Increase maturity of bonds and redesign the product structure of retail government securities

On 8 April 2019, the Government Debt Management Agency (ÁKK) announced the transformation of the retail government securities portfolio. One of the most important elements of this was the introduction of the Hungarian Government Security Plus (MÁP+) in June 2019. In parallel with this, several schemes were phased out (Six-month Hungarian Government Security (FMÁP), Treasury Saving Bill+ (KTJ+), 2-year Government Security (2MÁP), Bonus Hungarian Government Security (BMÁP)), in order to simplify the range of retail products. From November 2019, the interest on the 1-year Government Security (1MÁP) and the interest premium on the Premium Hungarian Government Security (PMÁP) declined. The last FMÁP scheme expired in December 2019. Interest payment on the first MÁP+ series and the 5-day free redemption period commenced in mid-December, when on average 2.5 per cent of the initial stock of the series was redeemed. This implies that the worries that households may regard the MÁP+ security as a short-term investment are unfounded. As a result of the foregoing, the 5-year MÁP+ has become the most important element of the retail product offering, and it took just one year for the new securities to account for one half of households' overall government securities holdings. All of this points to an increase in the average residual maturity of the retail government securities holding, which is a positive development in terms of the stability of government debt financing.

2. Encourage the transition from cash savings to government securities

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Steering the Hungarian population's cash holdings, which are high in an international comparison, into government securities savings would be beneficial from various aspects (e.g. it would help reduce foreign dependence and improve the efficiency of monetary policy transmission). Thanks to its attractive parameters, the MÁP+ may help to steer the cash held by the population for holding wealth towards savings. This is mostly attributable to the fact that from November 2019 the printed version of MÁP+ is also available at the designated post offices of Magyar Posta Zrt., which also supports the geographical diversification of government securities purchases. Nevertheless, to accelerate the channelling of cash savings into government securities, further incentives are needed and sales channels need to be expanded.

5. Develop sales channels



In order to broaden the investor base of retail government securities, MÁP+ is now available at post offices and through the agents of the Fundamenta-Lakáskassza building society network. In addition, since November 2019, the printed version of MÁP+ is also available at the designated post offices of the Magyar Posta Zrt. Nevertheless, in order to increase the geographical diversification of purchases, further measures should be taken. Within that, increasing the efficiency and popularity of direct sales by the Hungarian State Treasury is of key importance, as it represents the cheapest sales channel both for the government and the population (e.g. increasing the number of cash payment points, improving the accessibility of treasury customer service offices). Furthermore, the containment measures introduced during the spring wave of the coronavirus pandemic may have contributed to the decrease in demand for government securities, since purchases of MÁP+ are dominated by personal transactions, as the availability of online sales channels at banks is limited. These experiences highlighted the importance of improving digital sales channels.

Legend

Not started	Started	Partly implemented	Fully implemented
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3 SME strategy

Weighted by priority, 40 per cent of the recommendations included in the chapter SME strategy had been implemented by November 2020, compared to 23 per cent registered in autumn 2019. This marks the strongest progress achieved out of all of the chapters. In the recent period, the government took several measures that are favourable for the SME segment. Implementation of more than three-quarters of the recommendations made by the MNB in 2019 has already started or has been completed. Two recommendations have been implemented in full and six have been partially implemented. Some progress has been achieved in implementing another twelve recommendations. The most important change is that on 5 November 2019 the document entitled "Strategy for strengthening Hungarian micro, small and medium-sized enterprises (2019-2030)" was adopted, in which the Ministry of Innovation and Technology, in charge of policy, together with the Ministry of Finance, describe their ideas related to SMEs. The strategic document regards raising SMEs' productivity, increasing the value added created by Hungarian-owned SMEs and improving their export capacity as the objectives to be achieved, which corresponds to the main directions previously formulated by the MNB. The strategy intends to contribute to the growth of the SME sector by recommendations elaborated to a varying level of detail in seven pillars. The pillars of actions cover the tax environment, development of the business environment, strengthening SMEs' innovation and digital capacities, easing access to funding, fostering the internationalisation of SMEs, the acquisition of entrepreneurial skills and support for generation change.

As a result of the amendment of the Annual Development Framework at the end of 2019 and in August 2020, new elements were added to the EU business support scheme. Of these, it is worth mentioning the call to provide SMEs with IT capacities and the launch of the scheme aimed at foreign market entry. As regards the method of support, the new scheme provided as a conditionally refundable aid is a very positive development. The essence of this new capacity development aid is that the amount to be repaid from the aid depends on the performance of the beneficiary company during the maintenance period. Accordingly, upon outstanding business performance the aid is fully converted into a non-refundable aid. Hungary's Creative Industry Strategy for the period 2020-2030 was published in October 2020 and an advisory programme has also been announced in connection with this.

The National Competitiveness Council discussed the revision of the local business tax at its February meeting, where the Council anticipated more favourable taxation conditions compared to previous practice. Until the publication of this Report, of the proposals the one related to the cancellation of the local business tax top-up requirements was approved, which is a major administrative easing for enterprises. As regard EU funds, the availability of funds for SME counselling (mentoring) increased, and the question of clustering repeatedly came up indirectly, which also improved the status of the respective recommendations. In the recent period, several government measures supported the SMEs' ICT developments. Accordingly, we regard the related recommendation as partly implemented. Another positive development in infocommunication developments is that the government increased the amount of EU funds dedicated to this purpose.

Of the recommendations outlined in the chapter, the largest deficit can be observed in the implementation of recommendations aimed at increasing economies of scale. Although the SME strategy issued in November contains promising elements, the launch of a programme fostering generation change and improvement in Hungarian legislation related to insolvency procedure are still of key importance. The amendment of the Bankruptcy Act this year, which introduced new elements with regard to composition between debtors and creditors and reduced administrative burdens, may improve the efficiency of the economy's output side.

In order to address the unfavourable business impacts of the coronavirus pandemic, the cap on development reserves set aside from retained earnings will be cancelled for enterprises from 2021 and the duration of taxation mentoring for startup companies will increase from six months to one year.

3.1. Increase SME productivity through investments

2. Enable the immediate deductibility of investments in the corporate tax base

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Starting from the 2019 tax year, the cap on development reserves set aside from retained earnings was raised to HUF 10 billion, and in September the cap was cancelled. In addition, the amendment in force since 10 June 2020 made it possible to tie down the total amount of pre-tax profit compared to the previous 50 per cent. As a result of the changes, investments can essentially be recognised immediately. The measure simultaneously reduces tax (due to the deductibility) and increases profit (due to accrual).

3.2. Increase productivity in the SME segment through greater economies of scale

5. Support acquisitions and mergers

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In September 2020, the Hiventures venture capital fund of the Hungarian Development Bank ("Investpro" business line) created a large corporation financing fund. The HUF 150 billion capital fund provides companies struggling with financial difficulties with liquidity and in the event of domestic and foreign acquisition it supports maintaining Hungarian ownership. In addition, it also provides funding for development and investments, including property investments.

6. Make liquidation proceedings simpler and faster

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The SME strategy adopted in November 2019 refers to its "Second chance" programme as a flagship measure. The objective of the programme, supported by international organisations including the European Commission, is to ensure starting business afresh after the bankruptcy of an undertaking. It also focuses on the prevention and avoidance of the development of bankruptcy situations. In addition to the recommendation aimed at the Second chance programme, the SME strategy also outlines a Doing Business Action Plan, which envisages revision of the regulations related to the settlement of insolvency. In view of the coronavirus situation, the amendment of the Bankruptcy Act on 1 August eased regulations with regard to composition between the debtor and creditors. In order to accelerate and simplify the procedure, and reduce the administrative burdens of the parties, the Bankruptcy Act is supplemented with rules applicable to electronic correspondence between creditors, the parties to the procedure and the court administrator, and the liquidator. Cooperation between the liquidator and the creditors was simplified. The enforcement of creditors' interest in court became more efficient in the case when the former managers of the debtor make steps that prejudice creditors' interest. The composition procedure was also simplified. All of these measures may have positive impact on the length of restart.

3.3. Improve SME competitiveness through targeted measures

8. Increase the innovation management capacity of SMEs by establishing a non-profit advisory centre

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On 15 January 2020, the Government announced the launch of the second round of the Hungarian Multi Programme (Future Hungarian Multinationals), which simultaneously provides advisory services and non-refundable aid to the participating companies. In addition to the Hungarian Multi Programme the Modern Model Factory programme also offers advisory services to SMEs. Furthermore, the IFKA Közhasznú Nonprofit Kft. organises 2-day free training for restarting entrepreneurs. Following the amendment of the Annual Development Framework at the end of 2019, the GINOP (Economic Development and Innovation Operational Programme) 1.1.9 priority programme was launched, which set the goal of improving entrepreneurial attitudes. A GINOP call for bids with a volume of HUF 1.5 billion for the broadening of entrepreneurial skills also commenced, which may serve the purposes outlined in the measure. In addition to the foregoing, the Hungarian Development Bank Group (MFB Group) developed and launched a new, free online entrepreneur platform, called Összetartók.hu, with objective of providing enterprises with an online meeting point to establish new business relations and to offer useful professional assistance for the resolution of funding problems and development opportunities. The GINOP-1.2.8-20 call for bids, published in May and meant to support Industry 4.0 developments, specifically the increasing SMEs' productivity with the proviso that asset purchases may not exceed 20 per cent of the eligible costs, and thus it is more likely that SMEs will spend the remaining amount on innovation services and education. It is also a positive fact that the financial allocation of the tenders exceeds previous allocations under the tender several times. It may be also regarded as a step towards the objective that in August the financial allocation for the call for bid entitled "raising infocommunication awareness of SMEs" increased, and thus HUF 6.4 billion is available for this purpose (the training was carried out by the Hungarian Chamber of Commerce and Industry, as the consortium leader).

9. Support the operation of clusters



The call for bids 'Supporting the high-quality supply of services by professional cluster organisations' available two years ago under GINOP was closed, and currently no direct subsidy instrument is available in Hungary for cluster development. Nevertheless, supporting clustering remains a strategic direction. In addition, the area received indirect support.

The SME strategy announced in November 2019 includes the Support the emergence of clusters and other forms of networks in its measures. The same document anticipates the re-evaluation of the Industrial Park and Technological Park regulation to ensure that the specialisation emerging within the parks fosters the development of cooperation among enterprises and the emergence of clusters. The SME capacity development scheme (GINOP 1.2.10), published in October 2019, supports clustering by setting the condition that the SME to be supported – unless it is active in priority sectors – must be a member in an accredited innovation cluster. The integration of this guarantee in the tender framework is in line with the objectives outlined by the MNB.

10. Support the emergence of clusters and other forms of networks

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Although some progress has been made in the area, there is still no distinct policy change. Although the Government directly pressed for the formation of a specific cluster (Plastic Industry Cluster), apart from that most of the measures tended to support the objective indirectly (e.g. the Regional Innovation Platforms (RIP) suite of programmes, raising the financial allocation for the Higher Education and Industry Cooperation Centres scheme, National Laboratories). In the future, policy support for the area may improve due to the fact that the SME strategy published in November 2019 specifically mentions the MNB's recommendation in its action plan.

11. Communicate state-sponsored programmes and opportunities on a broad base

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The Ministry of Finance launched a mobile phone application, enabling enterprises to obtain information on current tenders in a fast and easy manner. The Night of Modern Factories will be organised this year as well.

12. Support the operation of mentor networks



Mentoring is named as an activity to be supported (e.g. INPUT programme) in the "Startup competence development" measure of the SME strategy adopted in November 2019, and the measure aimed at generation change also contains elements of mentoring. The latter is included in the new GINOP 1.1.10 tender. Within the framework of GINOP, the objective is to prepare Hungarian-owned enterprises for generation change and to provide assistance to enterprises which are in or near a crisis situation. The financial allocation of the call for bids is HUF 1.5 billion. The National Entrepreneurship Mentor Programme has also continued and was joined by the Hungarian Development Bank in June as a collaborator. The Modern Enterprises Programme launched in 2016 has already reached 12,000 enterprises, providing assistance for their infocommunication developments.

3.4. An inspiring environment for entrepreneurship

16. Support university incubators and spin-offs



The SME strategy supports the creation of university spin-offs by envisaging the "Development of the university innovation ecosystem" through the establishment of "proof-of-concept" funds. In addition, following a review of previous incubator programmes, the Ministry for Innovation and Technology which is responsible for policy in this area, will also elaborate the new scheme for the incubator and accelerator network.

This February, a university startup centre was set up in the Budapest University of Technology and Economics. Pursuant to the agreement between the centre and the Hungarian Development Bank, the Hiventures fund provides aid to its enterprises in the incubation phase. Based on the statements of the person in charge of policy, the eight science parks to be established this year will have a university centre, and thus there are good chances for the emergence of additional incubators after the end of the programme. The anticipated expansion of the National Research, Development and Innovation Fund may strengthen the financing of university startups: the Slip Road (Gyorsítósáv) programme and the SME Start innovation programme may appear as new elements in the tender offering.

17. Organise and support relevant startup conferences and meetups



As part of the SME strategy, entrepreneurs' participation in conferences and workshops will be a supported activity.

18. Grant a corporate tax exemption for aspiring entrepreneurs in their first three years

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One step in this direction in this year's amendment of the Corporate Tax Act is that the tax base allowance on investments in startups was increased. The annual limit was HUF 20 million, while from now on the HUF 20 million limit will be valid per investment. The SME strategy envisages no tax exemption for SMEs, but plans to facilitate the understanding of taxation rules (entitled National Virtual Incubator Programme). Another factor in this regard is that, pursuant to the September 2020 decision of the Economy Protection Operational Corps, the taxation mentoring of startup enterprises has increased from six months to one year.

3.5. Qualified human resources in small businesses

21. Provide digital courses conditional on achievements



The November 2019 SME strategy envisaged several programmes fostering SME education, and the modification of the Annual Development Framework at the end of last year also had a positive effect on the financing of vocational training. It is worth mentioning the GINOP 6.2.5 programme, which was announced in September 2019 to standardise the digital methodology of vocational training, thereby supporting the objectives of the Digital Education Strategy Action Plan. The aid scheme will be also available in Budapest. The GINOP 6.2.8 call for bids which was announced in July is aimed at the development of digital learning materials for certain professions. The official in charge of policy raised the financial allocation of this priority tender by almost HUF 3 billion in August. The objective is to achieve that new technological developments can be integrated in the curricula as soon as possible, and that knowledge is available to the widest possible range of professions.

3.6. Support an SME sector that is competitive in modern times

22. Make company websites mandatory

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The SME strategy envisages that the digital preparedness of micro enterprises calls for targeted support and, in accordance with this, the elaboration of a new sustainable model. The policy intends to achieve this through training programmes. According to the 2019 Eurostat data, 38 per cent of the enterprises with more than ten persons still have no website, while the EU average is 22 per cent. It should be also noted that this ratio in Hungary corresponds to that measured in 2012, and thus there is still plenty of room for improvement.

23. Develop digital infrastructure in rural areas

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In March 2020, the development of the second phase of the new generation access (NGA) networks commenced after the announcement of a priority tender with a financial allocation of HUF 5 billion (the first phase was HUF 50.3 billion). The second phase of the Superfast Internet Programme (SIP) was announced on the basis of this. However – presumably due to the increased funding requirement resulting from the coronavirus – the programme was suspended at the end of May.

24. Tighten rules for the management of ICT risks



According to the legislation, which changed on 1 July this year, the companies of the Hungarian business sector that operate infrastructure critical for the national economy have been put under the administrative control of the National Cyber Defence Institute. These companies implemented stricter cyber defence measures. The National Digitalisation Strategy, published in June 2020, mentions in connection with its judgement related to the digital state that it is necessary to examine the information security of the presently operating system. The strategy contains no measures in this area dedicated to the private sector. Accordingly, it may only be regarded as partly implemented.

25. Establish the János Neumann Fund to support firms' ICT developments



In November 2019, the Digital Welfare Capital Programme, with a total amount of HUF 7.5 billion, was launched as part of the Digital Welfare Programme, which provides SMEs with digital development opportunities. The requested amounts can range from HUF 10 million to HUF 500 million. The programme is also supplemented with a credit instrument, allowing companies to apply for credits from HUF 5 million to HUF 200 million. The target group of the subsidy scheme includes non-IT enterprises that would like to implement digital developments. The already existing programmes (e.g. GINOP 3.2.1 - Modern Enterprises Programme and GINOP 3.2.2 - Support for the digital development of enterprises) are good complements to the capital programme, primarily through the financing of awareness-raising, surveys and customised proposed solutions. In addition to the foregoing, a priority tender was announced under the latest amendment of the Annual Development Framework, which is meant to improve the availability of high performance computer services to SMEs (GINOP 3.1.5-19). In addition, the operation of Neumann János Nonprofit Közhasznú Kft. also supports the implementation of the MNB's recommendation, which – among other things – fosters the international market entry of startups developing innovative digital technologies within the framework of the INPUT Programme (GINOP 3.1.3). The amendment of the Annual Development Framework in August also had a positive impact on the area: the funds of the 3 priority axes to support infocommunication developments rose by 10 per cent on average. During the public consultations related to the operative programmes planned for the financial cycle commencing in 2021, the entity in charge of policy envisaged the creation of dedicated programmes in connection with the integration of digital technologies inside and outside enterprises to manage areas with larger deficits.

26. Prefer knowledge-intensive industrial services in EU funds' disbursement

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Although no dedicated tender was published, one positive development is that in Phase III of the Hungarian Multi Programme, which commenced in July, service sector companies are also subsidised. The Government's intention to set up an artificial intelligence centre (through the GINOP 3.2.8 scheme) supports the MNB's original recommendation. As part of the Artificial Intelligence Strategy, the National Data Asset Agency has been established, the most important duty of which is to open up public data assets within an organised framework. Another positive development is that one of the most promising trends, i.e. drone development, has been captured from the side of services by launching the ZalaDRONE project on the infrastructure of the ZalaZone test track. As regards autonomous driving, the owner increased the capital in the market-leader AlMotive, a company with Hungarian links, with the contribution of Széchenyi Capital Fund Management. Over the longer term, the implementation of the objectives of the Creative Industry Strategy 2020-2030, which was completed in October, may also facilitate the support of manufacturing by services. Linked to the strategy, Moholy-Nagy University of Art and Design (MOME) launched a free business development course on a digital platform, commissioned by the Ministry for Innovation and Technology. In October 2020 public consultation started on the tender supporting enterprises in the fashion and design sector.

Legend



4 Foreign trade

Weighted by priority, the status of implementation of the recommendations in the chapter Foreign Trade rose to 24 per cent from 19 per cent, compared to the status presented in the 2019 Competitiveness Mirror. Minor progress has been made in the foreign trade recommendations. Among the proposals related to the area, the implementation of one has started since autumn 2019, and thus overall the implementation of 78 per cent of the recommendations has started. The SME strategy adopted in November 2019 treats increasing SMEs' activity in external markets as an independent pillar. Furthermore, a GINOP scheme with a smaller volume has also commenced for enterprises wishing to export. Several smaller programmes have been created to strengthen exports of services.

The government's intention to support the more knowledge-intensive activities, on an individual basis, for factory expansions and greenfield investments, is in line with the MNB's competitiveness recommendations. In terms of industry value added content it is still of key importance that not only the weight of the high-tech industries increases, but the domestic companies can also join the global value chains through industrial services. It will be important in the future that Hungary should be able to respond to technological changes taking place in the world as a technology producer. The biggest chance for this is in the vehicle industry, which may be also supported, for example, by the ZalaZone test track. It is a positive development that the sectors with high demand multipliers – and consequently with high domestic embeddedness – such as food production, pharmaceutical industry and tourism, are benefiting from additional aid (independently of the economic effects of the coronavirus).

The strengthening of the economic ties to Asian economies that started years ago continued with several agreements. The establishment of institutional guarantees continued in developed markets (United States) and also in developing markets (e.g. Serbia, Ghana, Laos, Ruanda, Bangladesh).

4.1. Increase the activity of Hungarian small and medium-sized enterprises abroad

1. Strengthen export of services (besides export of goods)



An aid programme worth USD 160 million commenced in Laos, where Hungarian firms perform the renovation of the entire sewer in the capital of Laos; they are also participating in food safety developments and the development of the electronic identity card system. A similar agreement was also concluded between Hungary and Ruanda. The joint investment fund of Indonesia and Hungary, established in January 2020, may foster Hungarian services exports in transport and water management projects. A call for bids with a total amount of HUF 400 million was published for Hungarian companies wishing to export green technology to the countries of the Western Balkans region. In November 2020, a programme was launched to support the development of sports innovation technology for export.

2. Exploit the benefits offered by China's Belt and Road Initiative

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Cooperation agreements and contracts between the two countries and state-supported investments are proceeding steadily. On 12 November 2019, MÁV-REC Kft. and the Chinese Central European Trade and Logistics Cooperation Zone signed a logistics cooperation agreement in China. Also in November 2019, the Chinese Cosco Shipping group purchased an equity stake in Hungary's BILK intermodal logistics centre, which may improve the efficiency of the country's goods transport. The importance of Hungary – and at the same time its central role in China's Belt and Road Initiative – may be strengthened by the memorandum of understanding signed with Fudan University in December 2019. The two parties' aim to achieve that the university sets up a campus in Budapest, thereby one of the world's top 40 universities would be present in Hungary. The 5G network in Hungary will be installed in cooperation with the Chinese Huawei. It is also meant to strengthen economic relations that since the end of 2019 Budapest can be reached directly by plane from two additional Chinese cities. The broadening of the relations is also evidenced by the establishment of a Chinese-Hungarian health centre in Budapest at the end of 2019. In terms of economic relations, the Lenovo plant, worth HUF 8.2 billion, which will be the company's first plant in Europe, may be regarded as an important step. UTA airlines launched three cargo flights per week between Zhengzhou and Budapest in October 2020, thereby improving logistics traffic between the two countries.

3. Support the entry into fast-growing new markets with stable institutions

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The Government's investment programme in Vojvodina, which has provided Vojvodinian stakeholders with funding for developments on a continuous basis since 2016, is meant to strengthen economic relations in the Carpathian Basin. In November 2019, the Hungarian Export Promotion Agency (HEPA) opened a representative office in Belgrade. In May, Hungary joined the investment fund of the Turkic Council, and in June the Three Seas Initiative Investment Fund, dedicated to fostering Central European relations. The National Export Protection Programme, established with a total amount of HUF 25 billion to support Hungarian companies wishing to grow and extend in exports market and acquire new markets, is in line with the MNB's Competitiveness Programme in 330 points. Government Decision 1818/2020 (XI.18.) raised the total amount of the programme by HUF 50 billion to HUF 75 billion. It may enhance the return on the programme that it is aimed at investments in the markets of neighbouring countries, targeted the most by Hungarian companies. The Ministry of Foreign Affairs and Trade announced its programme, with a total amount of HUF 9 billion, for expansion in the Balkans in October 2020, under which enterprises may apply for non-refundable aid. As regards the more remote regions, in September a cooperation agreement was reached with Bangladesh, which enables Hungarian companies to enter the market. Further news relating to Hungary is that Tungsram is establishing a subsidiary in Abu Dhabi and is building a factory worth USD 4 million, with financial support from the Hungarian government. In October 2020, Eximbank opened a credit line of USD 700 million for Hungarian companies wishing to invest in Saudi Arabia. Government Decision 1817/2020 (XI.18.) allocates additional funding in the amount of HUF 35 billion to support economic programmes abroad.

4. Support foreign traders in Hungary, introduce a new trading house concept

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Pillar V of the SME strategy adopted in November 2019 supports the internationalisation of enterprises. The programme fostering SMEs' foreign market entry is included in the strategy as a flagship measure. The programme facilitates SMEs' international market entry and their joining the international networks and global value chains by targeted, customised consultancy and preparation. The purpose of external market preparation is to foster SMEs foreign market entry, enlarge the circle of enterprises with exportable products and to provide assistance to already exporting companies for broadening their activity. In line with provisions of the SME strategy, a tender to foster foreign market entry of SMEs was launched in October 2019, and it is aimed at consulting services. The Columbus Hungarian-US joint fund, with Eximbank's contribution of HUF 7 billion, is meant to foster the penetration of Hungarian SMEs in the US market. In addition to the foregoing, this January the Ministry of Foreign Affairs and Trade announced an export development programme for SMEs. The total amount of the programme is HUF 3 billion, and aid may be primarily requested for attending foreign exhibitions and fairs, organisation of shows, marketing activity and obtaining certificates. The Hungarian Multi Programme, financed through GINOP, supports Hungarian foreign trade companies indirectly.¹

4.2. Utilise the knowledge received with FDI

7. Channel public development funds to manufacturing sectors that are knowledge-intensive or well embedded domestically

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It is in line with the intentions of the MNB's Competitiveness Programme that upon awarding individual government decisions, throughout 2019 support for activities more deeply embedded in Hungary enjoyed priority (the ratio of support for electronics and automotive industry declined to 30 per cent compared to 40 per cent registered in 2018). The agreement concluded between the Ministry of Foreign Affairs and Trade and National Association of Pharmaceutical Manufacturers (MAGYOSZ) supports the manufacture of pharmaceutical products, a sector with a long history in Hungary. A GINOP tender is to be announced in November to support complex investments by corporations in the food industry, also characterised by strong embeddedness. As a result, the manufacturing industry with one of the highest demand multipliers will be supported.² The Government raised the aid for tourism, which also has a high multiplier, through a GINOP tender, and the sector also benefited from dedicated funds within the Economy Protection Action Plan. The health industry will receive independent development funds from budgetary sources. This measure intends to support Hungarian healthcare manufacturers (the budget of the programme is HUF 50 billion, which the Ministry of Finance intends to raise in the near future). The Investment Support for Large Companies (NBT), re-launched by the Ministry of Finance, aids medium-sized and large corporations with a substantially higher budget compared to the previous programme.

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¹ Although the programme focuses on companies capable of international expansion, it contains no specific criteria related to this (the implementation of foreign expansion would remain the duty of HEPA, which was supported by the organisation in charge of policy by additional funding through GINOP 1.3.7).

² Support for food industry is no longer a novelty. Dedicated sectoral funds were available previously as well (primarily in the form of combined credit products).

5 Labour market

Weighted by priority, the status of implementation of the recommendations in the chapter Labour market rose to 24 per cent from 15 per cent registered in October 2015. Since the announcement of the Competitiveness Programme, implementation of 40 per cent of the labour market related recommendations has commenced. Since the publication of the 2019 Competitiveness Mirror the status of six recommendations has changed, which relate to the reduction of taxes on labour, incentives for Hungarians living abroad to return home and the education system. In addition, new measures were announced in respect of further two recommendations, but those had no effect on the status of their implementation.

The reduction of taxes on labour continued with a further decrease in the social contribution tax. Hungarians living abroad may be persuaded to return home by easing the conditions of certain family support elements and by the wage increases in healthcare and education. In connection with adult education, progress has been made in the transformation of the National Training Register (OKJ) system and in the development of the skills of senior generations. Some progress has been also achieved in increasing entrepreneurship. This year, working as a pensioner became more favourable in several cases. The gap between wages paid for public work and the minimum wage increased further.

Apart from the aforementioned measures, due to the coronavirus pandemic the Government supported the labour market via a number of programmes. With a view to protecting jobs, the Job Protection Wage Subsidy programme was introduced, which supported employment in reduced working time, while the Job Creation Wage Subsidy provided aid for the employment of jobseekers. The Labour Force Subsidy for Enterprises programme, which was launched in October, specifically fosters the employment of low qualified and young jobseekers through wage subsidies granted to enterprises. Enterprises hit hardest by the second wave of the pandemic may again resort to tax relief and wage subsidies in 18 activity categories. To make working from home more flexible, during the emergency period employers and employees may depart from the provisions of the Labour Code pertaining to teleworking. Moreover, employees may benefit from monthly reimbursement of costs up to 10 per cent of the minimum wage.

5.1. Activate labour market reserves for the private sector

2. Increase the difference between the wages paid for public work and the minimum wage 2

The difference between the wages paid for public work and the minimum wage is steadily growing, strongly influenced by the large minimum wage increases in recent years and the unchanged level of public work wages since 2017. While in 2012–2013 gross public work wages amounted to 77 per cent of the minimum wage, this had dropped to 55 per cent by 2019. As a result of the minimum wage increase in 2020, the ratio of wages paid for public work compared to minimum wage decreased to 51 per cent. The widening difference between the wages paid for public work and the minimum wage can further encourage public workers to find employment on the primary labour market.

Raise the permitted upper limit on the amount of earnings for persons employed below the retirement age or while receiving pension

The conditions of working as a pensioner became more favourable in several cases after the measures adopted last year. From 1 July 2020, not only the earnings of pensioners in employment relationships, but the earnings of all pensioners in their own right working in any form of employment are exempted from the insurance obligation and the obligation to pay contribution, which means the abolishment of the earnings limit. Accordingly, in addition to women benefiting from preferential pension after the 40-year eligibility period, work may be performed in any form of legal relationship (e.g. under contracts for entrepreneurial or agency contract) without limitation in the private sector. However, the earnings limit is maintained in the case of those receiving a service benefit or early retirement benefits.

5.3. Sustainable increase in wages

12. Continue the reduction of taxes on labour



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Among the taxes on labour, the cuts of the social contribution tax that started in 2017 from 27 per cent continued. From 1 July 2020, the social contribution tax decreased from 17.5 per cent to 15.5 per cent, since due to the situation which developed as a result of the coronavirus the Government waived the condition stipulated in the wage agreement, i.e. the 6 per cent increase in private sector real wages. The measure primarily supports the demand side of the labour market.

5.4. Incentives for Hungarians living abroad to return home

14. Increase wages paid in high-demand jobs in the public sector



In 2020, wages were increased in several high-demand jobs. The four-step wage increase for healthcare specialists and health visitors, announced in 2019, continued on 1 January and 1 November 2020 with a 14 per cent and a 20 per cent increase, respectively, which will be followed by an additional increase of 30 per cent on 1 January 2022. The substantial pay rise for doctors, in accordance with the wage bracket recommendation of the Hungarian Chamber of Doctors, will commence in January 2021 and will be implemented in three steps by early 2023. In addition, for their dedication in combating the coronavirus pandemic, on 1 July 170,000 healthcare workers received a one-off income supplement in the gross amount of HUF 500,000. From July 2020 the wage of teachers rose by 10 per cent, which was implemented in the form of introducing an occupational allowance. Furthermore, also from July, the wage of teachers engaged in vocational education rose by 30 per cent, which involves 32,000 specialists.

15. Increase awareness of family support elements, run campaigns to raise awareness of the educational and health care system supported by the state



From summer 2020, the duration of confirmed social insurance relationship in Hungary, prescribed for the application for prenatal baby support, decreased from 180 days to 90 days, which may ease access to the support for those returning from abroad. Experiences show that in the case of those returning from the United Kingdom the confirmation of the legal relationship in the UK is difficult, and therefore the possibility of equitable procedure is now also permitted upon application for family housing allowance (CSOK).

Recommendation Priority 5.5. Strengthen the system of adult training

19. Ensure that first qualifications can be obtained free of charge in adult training

P 2

With a view to further strengthening vocational education, the scheme of education under the National Training Register (OKJ) was revised from the 2020/2021 school year. The list of available courses was significantly simplified: instead of the more than 700 qualifications previously included in OKJ, vocational training institutions now offer 177 vocational qualifications, 76 specialist vocational qualifications and 25 and cultural and art vocational qualifications. Basic professions can already be acquired in the school system, which may serve as foundation for additional qualifications. The acquisition of a second profession in the school system is free for adults now. In the future, the duration of education will be shorter, and thus qualification can be acquired faster.

20. Develop digital and language skills in senior generations



Within the framework of the Digital Welfare Programme Network, 1,500 subsidised community internet access points have been set up countrywide in the amount of HUF 5 billion, where all those interested can receive guidance and useful advice from the mentors working there. Within the framework of additional projects aimed at narrowing the digital gap, until the end of 2019 almost 182,000 persons participated in digital competence training. In addition, a further HUF 2 billion was spent on the support of local or locally known professional and social organisations capable of reaching and addressing those who do not use digital tools yet.

5.7. Strengthen entrepreneurial propensity

25. Incorporate entrepreneurship skills into public and tertiary education



Within the framework of the 2020 "PÉNZ7" (Money Week) public education thematic week, the focus of the series of lectures aimed at increasing entrepreneurship was on "From Idea to Business". More than 217,000 students from 1,200 schools participated in the thematic week.

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6 Regional convergence

Weighted by priority, the status of implementation of the recommendations in the chapter Regional convergence rose to 28 per cent from 15 per cent registered in October 2019. On the whole, since publication of the Competitiveness Programme, progress has been made in seven of the 13 recommendations fostering regional convergence, i.e. in 53 per cent of them. Since the last Competitiveness Mirror published in autumn 2019, the status of four recommendations has changed. In addition, measures were taken in respect of another three recommendations without changing the status of implementation.

The support for increasing labour market mobility continued by announcing the construction of additional workers' hostels. In addition, the planned start of the Urban Home Creation Programme and further improvement in interurban transport may also foster mobility. In the case of less developed regions, the launch of several new programmes may also contribute to increasing employment and the development of enterprises, thereby also increasing the competitiveness and population retention of rural areas. Developments under existing programmes, such as the Modern Cities Programme, the Hungarian Village Programme and additional settlement programmes (TOP – Territorial and Settlement Development Operational Programme, VEKOP – Competitive Central Hungary Operational Programme) continued in rural areas. In addition, in order to help the most disadvantaged settlements to catch up, the measures of "Converging Settlements" programme are now being implemented in 67 settlements under the control of the Hungarian Charity Service of the Order of Malta. Of the recommendations aimed at the financing of less developed regions, further progress has been achieved in increasing the absorption of funds from the European Investment Bank by concluding new loan contracts.

6.1. Encourage labour mobility

1. Support labour market mobility by providing incentives for commuting

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The "Development of Workers' Hostels" programme, announced by the Ministry for Innovation and Technology, has been further expanded to foster employees' mobility. Pursuant to the measure announced in August 2020, aid is provided in the amount of HUF 5.6 billion for the establishment of 19 new workers' hostels. In the first three phases, the programme provided local governments with funding for the establishment of 20 workers' hostels between 2017 and 2019, and from 2020 non-municipal companies may also apply for the aid. In addition, the implementation of the "Road to the labour market" programme has continued, which primarily assists the employment of disadvantaged labour market groups by providing travel and housing subsidies.

2. Support labour market mobility by supporting change of residency status



Labour market mobility may be supported by the Urban Home Creation Programme, envisaged by the Government, which would facilitate the construction of new homes of affordable price and rent in urban brownfield areas. The programme primarily aims to increase the supply side of the housing market, but it may also be an efficient way to support employment through changing the place of residence.

3. Provide mobility incentives to supplement the employment benefits granted to public employees



Although the expansion of the "Development of Workers' Hostel" programme and its extension to enterprises does not specifically target the mobility of public employees, it may support their employment in the primary labour market. In addition, the implementation of the "Road to the labour market" programme has also continued in the case of public employees, which may help increase their mobility.

4. Improve interurban passenger transport

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From July 2020, railway and interurban coach transport was placed under common control, which facilitates the introduction of harmonised timetable and tariffs as well as the development of railway feeder networks and connections, fostering mobility. The modernisation of the Southern connecting railway bridge over the Danube, connecting the eastern and western conurbation of Budapest more tightly, will be completed by September 2022. The reconstruction of the Budapest-Veresegyház-Vác and the Budapest-Lajosmizse suburban railway lines will commence, along with the development and connection of the railway and suburban railway (HÉV) network in Budapest and the procurement of 54 modern suburban railway carriages.

6.2. Direct support for less developed regions

6. Ensure strong reliance on the sectoral and technological specialisations of economic centres outside Budapest

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In March 2020, the "Coordination Forum of the National, Economic and Cultural Zone of Northeast Hungary" was established, which assists the creation of national, economic and cultural zones in Hajdú-Bihar County, Szabolcs-Szatmár-Bereg County, Jász-Nagykun-Szolnok County and Borsod-Abaúj-Zemplén County by way of the "Creative Region — Boundless development" programme. Key objectives include increasing the zone's population retention power, developing its infrastructure, economy and culture and strengthening its competitiveness, which calls for dedicated developments targeted at the region. The tender entitled "Support for the developments of micro and small enterprise operating in disadvantaged settlements", available from January 2021 with a total amount of HUF 5 billion, may also assist enterprises in rural areas. In addition, foreign and domestic investments as well as economic and infrastructure developments of the Modern Cities Programme, continuing this year, further support the development of economic centres outside Budapest. In the case of the latter, it is a novelty that in addition to the 23 towns of county rank, county-level local governments may also receive funding from the programme.

7. Provide for the favourable treatment of tenders based on local suppliers and resources



Within the framework of the GINOP tender entitled "Fostering employment growth", which was announced in December 2019, support is provided to increase the number of employees in the SME sector in four regions of the county with a total amount of HUF 12 billion, as long as the employment growth is connected to the creation of a new facility or product, capacity increase or transformation of production process. Enterprises operating in the Northern Great Plain, Northern Hungary, Southern Transdanubia and Southern Great Plain areas may submit applications under the tender, if they undertake to increase the number of employees by 3-15 persons and maintain the new jobs for at least three years. The programme may contribute to the more efficient utilisation of labour force in less developed regions. The success of the tender is evidenced by the fact that the available total amount has been increased by more than HUF 4 billion compared to the original announcement. It was announced in September 2020 that, as part of the economy development strategy, the government is creating four economy development zones (Southern Transdanubia, Northwest Hungary, Southern Great Plain and Northeast Hungary) to foster coordinated, balanced regional developments. Furthermore, another factor supporting regional convergence is that MFB Invest Zrt., part of MFB Group, launched a thematic Enterprise Development Fund in Nyíregyháza – after Debrecen, Székesfehérvár and Kaposvár – with a total amount of HUF 5 billion for the implementation of the development and investment opportunities of local and regional enterprises.

6.3. Funding in less developed regions

13. Increase the absorption of funds from the European Investment Bank (EIB)

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The total value of the loan contracts signed with the EIB Group amounted to EUR 891 million in 2018, of which the EIB's direct share was EUR 747 million and that of EIF was EUR 144 million. The amount of the agreements concluded with EIB increased further in 2019 and reached EUR 775 million. In January 2020, the Government and EIB concluded a new loan agreement for EUR 150 million for the improvement of the education infrastructure. The agreement facilitates the building of new schools and sports facilities and the modernisation of existing ones. In addition, Volán Buszpark Kft. also signed a loan contract with EIB in January to finance the Green Bus Programme in the amount of EUR 47 million (the total loan amount will be EUR 140 million). It still can be realistically assumed that the EIB's contribution will increase in the larger infrastructural, energy and business development plans implemented in the years to come.

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7 Family-friendly programme

Up to November 2020, progress had been made in 48 per cent of the family-friendly recommendations presented in the Competitiveness Programme. As a result, weighted by priority, the status of implementation of the recommendations in the chapter rose to 27 per cent from 16 per cent registered in October 2019. Out of the 46 points aimed at achieving a demographic turnaround, one has been fully implemented, another nine have been partly implemented, and the implementation of twelve recommendations has started. It may be regarded as a positive trend that eleven months after the Family Protection Action Plan was announced in February 2019 the monthly birth rate started to increase and every month it has exceeded the rate registered in the same month of the previous year since December 2019. In the first nine months of 2020, the number of newborn babies exceeded the year-on-year figure by 3,251.

In 2020, implementation of the Family Protection Action Plan that was announced in February 2019 continued. Starting from 1 January 2020, the full exemption of mothers with at least four children from personal income tax and the childcare benefit for grandparents entered into force. Major progress has been made in the family-friendly development of the healthcare system. From 1 July 2020, a government-funded infertility treatment system based on uniform professional principles was established, artificial insemination procedures became free, and from 1 February 2020, medicines used in treatments are also available free of charge, and infertility examinations are also available at no cost. From 1 July 2021, the amount of the infant care benefit will increase significantly, after raising the infant care benefit from 70 per cent to 100 per cent of the mother's salary. The home creation of families will be supported by the renewed introduction of the preferential, 5 per cent VAT on housing, applicable to home construction started by the end of 2022, supplemented by the possibility of reclaiming even the 5 per cent VAT content by those using the home purchase subsidy scheme for Families (HPS). In addition, from 2021 the Government is launching a home improvement programme. The government assumes half of the home improvement costs of families with at least one child, up to HUF 3 million, and families wishing to have a loft conversion done in their house may apply for the maximum HPS amount. The full exemption of new or pre-owned property purchased with HPS from duty and the setting of a cap on notarial fees connected to property purchases from January 2021 also supports families' home creation efforts. There remains room for further measures to support the everyday life of families with small children, home creation and mitigation of the demographic challenges of the pension system.

The government adopted several measures to support families' income situation during the coronavirus pandemic as well: on the one hand, the duration of disbursement of child-care benefits expiring during the state of emergency was prolonged until the end of the state of emergency announced in the spring, and on the other hand, households may benefit from a moratorium on loan instalments until the end of 2020. In September 2020, the government decided to prolong the moratorium on loan instalments by another six months for debtors with at least one child.

7.1. Strengthen the elements of the family support system

1. Raise the ceilings applicable to the infant care allowance and the childcare allowance

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From 1 July 2021, the amount of the infant care allowance will increase from 70 per cent to 100 per cent of the mother's salary. As a result of the change, mothers' income will be higher during the 24-week maternity leave than their net wage paid while they worked, since the infant care benefit is only subject to personal income tax. From 1 January 2020, the maximum monthly amount of the childcare allowance rose to HUF 225,400 in parallel with the rise in minimum wage.

5. Support parenting by higher-education students

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The amount of the graduate childcare allowance rose in January 2020, in line with the rise in the minimum wage and the guaranteed wage minimum. In the case of students participating in bachelor programmes, the amount of the monthly amount of the graduate childcare allowance is 70 per cent of the minimum wage (HUF 161,000), while in the case of students participating in master programmes or undivided programmes offering a master's degree or PhD it is 70 per cent of the guaranteed wage minimum (HUF 210,600).

7. Promote parenting (by awareness raising, advertising of family support elements, and support for preparatory training)

Young people are encouraged to have more children by the Sibling booklet, the latest volume of the Three Princes, Three Princesses Movement, delivered to the parents of all children born in Hungary through the district nurse service. The government helps families living in disadvantaged areas in the Ózd, Salgótarján and Bátonyterenye districts with a layette package. The 1,500 packages worth HUF 15,000 each, contain – among other things – a baby bathtub, clothes and a guidebook.

7.2 Family-friendly development of the health care system

8. Provide for the prevention and treatment of diseases that inhibit parenting



Form 1 February 2020, comprehensive infertility examinations became free. Ministry of Human Capacities Decree 2/2020 (I.30.) on the Amendment of certain ministerial decrees of health insurance subject determines the precise range of infertility examinations financed by public funds, the financing scores belonging to those and the institutions that perform the free infertility examinations. In Phase II of the Family-friendly Maternity Ward Tender, 53 healthcare institutions received aid in the total amount of HUF 3.4 billion to develop a shift in attitude and modern care practices during prenatal care and childbirth. In autumn 2020, the National Laboratory for Human Reproduction, led by the University of Pécs, was established, benefiting from a public aid of HUF 2.5 billion, which intends to reduce the ratio of infertile couples through integrated clinical research.

10. Provide more active support for artificial insemination

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Based on the Government Decree published in Issue 211 of 2019 of the Hungarian Official Journal, the Hungarian Government purchased private healthcare institutions performing infertility treatments to ensure the wide availability of infertility treatments. The ownership rights over these institutions are exercised by the National Healthcare Service Centre. As a result of the public acquisition of these institutions, from 1 July 2020, a government-funded infertility treatment system based on uniform professional principles was established, artificial insemination procedures became free, and from 1 February 2020, the medicines used in treatments are also available free of charge, and infertility examinations are available at no cost. For the financing of the measure, at the end of 2019 the 2020 appropriation for combined medical treatment within curative and preventive care was raised by HUF 2.5 billion, while in the case of medicine reimbursement expenditures the appropriation was increased by almost HUF 800 million. As a result of the measures, the number of patients having access to the treatment increased, which may have positive effect on the birth rate as well.

13. Reduce vaccine prices

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From autumn 2020, the HPV vaccine has become available free of charge also for seven-grader boys, which they can get in school with a parent's declaration of consent.

7.5. Support for the daily lives of families with children

23. Support the re-entry of women into the labour market following childbirth



One development supporting the return of women to the labour market is that from 1 January 2020 the childcare allowance may be also received by the working grandparent, subject to the parents' and the grandparent's mutual decision, if both parents are engaged in an occupation. The 2020 Budget Act contains an appropriation of HUF 1.3 billion for the expenditures connected to the grandparents' childcare allowance. In addition, it also supports the return of mothers with small children to the labour market that under the tender 'Supporting the return to the labour market of those rearing small children' in the Economic Development and Innovation Operational Programme (GINOP), parents who return to the labour market and place their child in a family- or workplace-run nursery can apply for an allowance of up to HUF 40,000 from August 2019. The contribution to the nursery fee has been used by more than two thousand mothers with small children since August 2019. From 1 July 2020, young mothers receiving infant care allowance, childcare allowance and childcare benefit may also apply for the reimbursement of the costs of language exam, driving course and driving test, the purpose of which is to support subsequent employment opportunities of mothers.

25. Support summer camps for children

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In summer 2020, more than 80,000 children participated in Erzsébet day camps, with government funding of HUF 2 billion. All applicants were admitted to the camps. 40 per cent of the participant children were socially disadvantaged. In summer 2020, almost 700 children living in single-parent families participated in day camps organised by the Single Parents' Centre and supported by the Ministry of Human Capacities.

7.6. Support for home starters

29. Extend eligibility for non-refundable assistance under the family housing benefit scheme (CSOK) as an incentive for birth of second children

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According to the announcement by the government in October 2020, the permitted use of HPS will be further expanded. The government, supporting the creation of multigenerational homes, has also made HPS available for loft conversion of family houses.

33. Develop new district concepts to improve the territorial allocation of housing developments



Based on the announcement made by the government in April, a VAT rate of 5 per cent, instead of 27 per cent, will apply to the sales and letting of new homes in brownfield zones. Brownfield areas are lands, typically in the inner area of towns, that have been previously used, but have subsequently become vacant, derelict or underutilised and are often strongly contaminated by industrial or construction waste. At present, the government is working on the precise delimitation of brownfield areas. The announcement on the final areas subject to preferential VAT is expected by the end of this year. According the latest, October 2020 announcement, starting from 1 January 2021 the VAT on housing will once again decrease to 5 per cent until 31 December 2026 for newly built homes with final building permits received by 31 December 2022, which will generally foster growth in home construction. According to the government's announcement, those resorting to HPS may also reclaim the reduced, 5 per cent VAT.

35. Increase the duty allowance on first home purchases



One development that supports home buying by families is that starting from January 2021 those purchasing new or pre-owned property with the home purchase subsidy scheme for families (HPS) will be fully exempted from duty. The measure may contribute to achieving a demographic turnaround, which may be further supported by the more wideranging support for home purchases by young people.

7.7. Support for home creation by the expansion of construction capacities

37. Increase the construction workforce

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The output and order book of the construction industry already started to decline in the second half of 2019. It was stated at the autumn 2020 meeting of the Home and Real Estate Market Advisory Board (LITT) that the capacity utilisation of construction had decreased. 90-95 per cent of the sector's capacity is utilised. In addition, in June 2020 a 22-per cent decrease in the amount of construction orders was registered in annual terms. Furthermore, the total value of construction works available in public procurement procedure also falls short of the value registered a year ago by 30 per cent. The data of the survey (Economic Sentiment Indicator), published regularly by the European Commission, also show that construction labour shortage eased and it is the deteriorating economic prospects that hinder growth in the performance of construction. In the light of the foregoing, the priority of expanding labour force has become moderately important.

38. Scheduled market entry of public investments

2

In its January 2020 package of proposals, the Home and Real Estate Market Advisory Board (LITT) emphasised that it is essential to develop a countercyclical public investment policy, which takes into consideration the capacity needs of the private sector. According to the package of proposals, consideration should be given to setting up a Home Creation roundtable, as a government coordination body between the competent ministries to support the housing of families and young people more efficiently. In addition, the MNB has prepared its New Housing Market Concept, one important proposal of which is to control the government's construction market role more strongly and schedule it in line with market needs.

39. Ease administrative barriers to home construction



At its September 2020 meeting, the Economy Protection Operational Corps reviewed the administrative burdens in construction and elaborated a package of proposals, which includes (i) development of one-stop shop and further digitalisation; (ii) fine-tuning and standardising the settlement image rules; (iii) strengthening the cooperation of authorities in the area of on-site inspections, using risk analysis in inspections; (iv) simplifying the administration connected to water and sewer lead-in in Budapest; (v) reducing administrative burdens related to geotechnical measurement.

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8 Healthy society

Up to November 2020, 28 per cent of the recommendations in the Healthy society chapter was implemented, which exceeds the status registered in October 2019 by 11 percentage points. Between the autumn of 2019 and the autumn of 2020, in terms of the recommendations aimed at improving the health of the population, the implementation of another ten recommendations commenced, and thus progress has been made in 64 per cent of the recommendations. The implementation of 19 recommendations has started, while six have been partly implemented.

In Government Decision 1798/2019 (XII.23.), the government called on the relevant ministries to make the preparations necessary for reforming the financing of public healthcare. The preparatory works cover, among other things, the development of a financing scheme built on real costs, the development of hospital controlling systems, the review of performance volume limits, financing across levels of care and the elaboration of pay-for-performance financing methods. The key objective of the government in this area is to prevent the accumulation of debts by publicly owned hospitals by the end of 2020. By 1 January 2020 healthcare providers rendering non-public financed services also had to join the Electronic Health Service Space (EESZT) and from 1 June 2020, at the latest, they had to start data supply, which also facilitates the application of the uniform healthcare database of wide coverage, and within that the full tracking of patient pathways and writing prescriptions without personally visiting the doctor. In January 2020, the mobile application named LifeSaver, assisting the work of the ambulance, started, which may make calling the ambulance faster and simpler for those in need of help. The application won the Digitalisation Project of the Year award in 2020.

In summer 2020, 170,000 healthcare workers received a one-off wage supplement in the gross amount of HUF 500,000 for their work during the coronavirus pandemic. Due to the pandemic situation, several forms of provision built on telemedicine (remote consultation, eased writing of prescription) were introduced on a temporary basis, of which the possibility of prescription over the phone will remain in place permanently. In summer 2020, the Ministry of Human Capacities and the Ministry of Interior carried out a comprehensive survey, covering several areas of healthcare with the involvement of more than 140,000 healthcare workers, the results of which will be used by the government for the improvement of the healthcare system. From July 2020, the rules applicable to the use of medical service without entitlement have been tightened. According to the new law, those who fail to pay the monthly contribution – at present amounting to HUF 7,710 – for 3 months, will not be entitled to free medical care and medicine price subsidy. From autumn 2020 the HPV vaccine has become available free of charge also for seven-grader boys, which they can receive at school subject to the parent's declaration of consent.

Between 2021 and 2023, the salary of doctors will be significantly increased in three steps, more than doubling on average. The wage increase covers doctors, dentists and pharmacists, employed in inpatient and outpatient institutions maintained by the central and local governments, who then will uniformly have a new, healthcare service legal relation. In parallel with the wage increase several regulations will be also tightened: from now on doctors may undertake part-time jobs only subject to prior permission, patients may not be treated by the same doctor in the public and private care institution and both the giving and acceptance of gratuity will be an indictable offence. Channelling out-of-pocket payments to professional institutions could considerably boost the transparency and effectiveness of the system, however, the implementation of the recommendations has not started in this area.

8.1.1.

Preventing illnesses

Recommendation Priority 8.1. Strengthening of prevention

1. Promote healthy eating habits through information and tax benefits

% 3

In September 2020, the National Committee for the Promotion of Breastfeeding was set up, the objective of which is to increase the number of breast-fed infants in Hungary. The professional activity of the Committee covers the period from the beginning of pregnancy to the end of breastfeeding, which may as well last for several years in the life of families. Within the framework of the Rural Development Programme, 170 farmers' markets were established in recent years with total tender budget of HUF 12 billion. Famers' markets strengthen local economy and provide household with better quality fresh food.

2. Incorporate basic health knowledge into public education curricula



In December 2019, the Kindergarten Ball Programme, involving more than four thousand kindergartens and facilitating sports activities for roughly 300,000 children, was launched. The sporting goods, which include – among other things – skills development equipment, balls, team strips and foldable goals, contribute to the general motor coordination skills development of children and retain their natural mobility characteristic of their age. In December 2019, the school health services, performing important health improvement and information work in educational institutions, received roughly HUF 300 million. The Public Education Strategy for the period of 2021-2030, presented in summer 2020, sets the goal of health-conscious education in kindergartens and schools. According to the Strategy, training for health consciousness must commence as early as possible and children must be motivated for daily exercise.

6. Provide opportunities for regular sports activities

3

In Phase 5 of the 'I Believe in you!' Sports Programme, sports organisations may submit applications for HUF 250 million. The purpose of the Programme – with a view to improving Hungary's national health indicators – is to increase the number of people involved in leisure sports, training people for healthy lifestyle, and including as many young people as possible in youth sports and talent development.

8.1.2. Supporting early recognition

8. Strengthen the functions of the general practitioner system

3

In Phase II of the "Three Generations for Health" tender, 64 practice communities received aid in the total amount of HUF 4.7 billion for the more efficient performance of national health duties and for prevention. At the end of 2019 dentists engaged in primary and special care dentistry received a one-off supplementary benefit, and from 2020 they receive higher compensation by HUF 250,000 for overheads monthly (HUF 380,000 per month). From autumn 2020 the HPV vaccine has become available free of charge also for seven-grader boys, which they can receive at school subject to the parent's declaration of consent.

9. Support regular physicals and screening tests

3

Budapest-based Central-Eastern European Academy of Oncology held its constituent meeting in January 2020, which intends to coordinate and improve the oncological work of 20 countries in the area of prevention, diagnosis, treatment and research. Under the coordination of the National Korányi Institute of Pulmonology the introduction of lung cancer screening with low radiation dose CT has started, which is expected to be extended nationwide from 2021. A paediatric ophthalmologic screening bus visited the three hundred most disadvantaged settlements. The children of vulnerable families receive the glasses deemed necessary based on the tests free of charge. One of the measures of the Artificial Intelligence Strategy presented in September 2020 is the development of AI applications in the area of prevention, screening and diagnostics. In 2020, the compulsory screening of healthcare workers for hepatitis is carried out for HUF 600 million, which exceeds the amount spent on this in 2019 by HUF 200 million. Apart from the screening, the treatment of healthcare workers tested positive is also free of charge.

10. Set up a National Health Database



From 1 June 2020, healthcare providers rendering non-public financed services are also obliged to report data to the Electronic Health Service Space (EESZT), which allows the full monitoring of patient pathways. In August 2020 EESZT moved to the Governmental Data Centre, offering a higher level of security, which facilitates the satisfaction of demand for digital services, that are increasingly popular due to the pandemic, and provides more efficient IT background for future developments. The Artificial Intelligence Strategy presented in September 2020 contains a measure aimed at making health data assets available and developing the infrastructure that supports its exploitation. In addition, transformative projects include the elaboration of the rules pertaining to the use of healthcare data, the certification system of data analysis applications and the data utilisation campaign targeting the importance of data usage. The range of data to be reported to EESZT broadened significantly in November 2020 (e.g. occupational health data and the result of tests performed by district nurses), and 10 new patient registers have been also launched.

12. Strengthen the system of emergency medical services

2

From the end of December 2019, Hungarian-owned ambulance helicopters replaced the leased Austrian helicopters. For the replacement nine used Norwegian ambulance helicopters were procured for HUF 14.2 billion. Providers of medical transport services receive additional subsidy in the amount of HUF 376 million until the end of 2020 for the replacement of vehicles operated for ten years. The National Ambulance Service received earmarked aid of HUF 100 million for premature infant emergency. On 23 January 2020, the mobile application named LifeSaver, assisting the work of the ambulance has started, which may make calling the ambulance faster and simpler for those in need of help. The ambulance can be called by pushing a button, and they have all necessary data already at the time of the emergency call, provided by the patient in advance upon downloading the application. Furthermore, the application also specifies the location of the pharmacy, hospital and defibrillator closest to the user, and it contains first aid information and information on the coronavirus pandemic. The application won the Digitalisation Project of the Year award in 2020.

8.1.3. Supporting recovery from illnesses

14. Strengthen rehabilitation care

2

2

After 1 August 2019, the coding rules regarding inpatient rehabilitation care were modified in line with the professionals' proposal. The new coding system based on the Rehabilitation Care Programmes (REP) will serve as the basis for performance-based financing. The capacity of the Szent Ferenc Hospital in Budapest, which serves the 2 million people living in Central Hungary in cardiology rehabilitation, was doubled from a public subsidy of HUF 3 billion. From November 2019 all children below the age of 18 suffering from spinal muscular atrophy (SMA) can get the necessary treatment free of charge. From 1 January 2021 vision rehabilitation will be free of charge for all sight-impaired or blind people over 16 years of age in Hungary. In summer 2020, the diabetes centres and civil organisations assisting children with type 1 diabetes received aid in the amount of almost HUF 600 million.

15. Increase capacities for long-term and home care by strengthening cooperation between health care and social care systems

From 1 January 2019, the home nursing allowance for children (GYOD) was introduced, which is paid to the parents of children who are unable to support themselves, independent of the child's age, and amounts to HUF 100,000 gross in 2019 and HUF 123,910 in 2020 per month. Based on the government's decision, by 2022 the amount of the allowance will reach the gross minimum wage. From 2020, the monthly base amount of the care benefit and the home nursing allowance for children will grow from HUF 32,600 to HUF 39,365 gross. In 2020, HUF 55 billion is allocated from the budget for care benefits, which is twice as high as the 2018 figure. In Government Decision 1798/2019 (XII.23.) the government called on the Minister for Human Capacities to revise the chronic care system and make a proposal for its needs-based transformation, and within that to elaborate the forms of attendance care and the rules of using them. In December 2020, the government provided HUF 1 billion extra financing for specialist home care and hospice care to provide the staff necessary for the high quality medical attendance.

16.

Recommendation Priority 8.2. Transforming the health financing system 8.2.1. Reviewing the public financing scheme

The key objective of the government is to prevent the accumulation of debts by publicly-owned hospitals by the end of 2020. In order to achieve this, based on Government Decision 1798/2019 (XII. 23.), a comprehensive expenditure data collection covering all healthcare professions and the revision of reimbursement fees have commenced to develop a funding system based on real costs. In summer 2020, the Ministry of Human Capacities and the Ministry of Interior carried out a comprehensive survey, covering several areas of healthcare (e.g. funding, structure, sector governance) with the involvement of more than 140,000 healthcare workers, the results of which will be used by the government for the improvement of the care system.

17. Ensure that administration and controlling on a case-to-case basis is implemented at health care institutions

In Government Decision 1798/2019 (XII.23.), the government called on the Minister of Human Capacities to assess the additional resources necessary for the comprehensive development and operation of a controlling and monitoring system that serves as a basis for the oversight and control of healthcare providers falling under the control of the National Healthcare Service Centre, and to make a proposal for the necessary legislative changes. The Artificial Intelligence Strategy presented in September 2020 contains a measure related to the AI support capacity planning and administration.

18. Review the application of performance volume limits

Establish a public funding system based on actual costs



% 3

In Government Decision 1798/2019 (XII.23.), the Government called on the Minister of Human Capacities to make a proposal for the methodology of determining the funding of institutions based on care events, aligned with real needs and for the definition of the corresponding performance volume limits, also taking into consideration management incentive aspects.

19. Introduce a financing method across levels of care



In Government Decision 1798/2019 (XII.23.), the Government called on the Minister of Human Capacities to make a proposal for the elaboration of integrated, patient-focused, bundled forms of financing across levels of care. In addition, the Government called on the relevant ministries to take measures (1) for creating the conditions of flexible capacity planning by aligning the care capacities with the number of inhabitants in the respective region, and considering the government's health strategy as well as the regional demographic and morbidity indicators; and (2) for developing optimal patient pathways by strengthening and rationalising region-based care obligation in respect of outpatient and inpatient medical treatment. In October 2020, the Government allocated HUF 15.8 billion for the development of the outpatient management system.

20. Extend the application of pay-for-performance financing methods



The Government called on the Minister of Human Capacities in a decision to make a proposal for the elaboration of pay-for-performance financing methods.

8.2.2. Improving the situation of human resources

22.

Establish a transparent remuneration system

Between 2021 and 2023, the salary of doctors will be significantly increased in three step and more than doubling on average. The Government approved the new wage categories, developed by the Hungarian Chamber of Doctors based on Austrian doctors' salaries, in October 2020. The wage increase covers doctors, dentists and pharmacists, employed in inpatient and outpatient institutions maintained by the central and local governments, who then will uniformly have a new, healthcare service legal relation. In parallel with the wage increase several regulations will be also tightened: from now on doctors may undertake part-time jobs only subject to prior permission, patients may not be treated by the same doctor in the public and private care institution and both the giving and acceptance of gratuity will be an indictable offence.

23. Increase the number of health care personnel and staff

3

From 1 July 2019, the salaries of healthcare personnel and staff will increase by 8 per cent (including maternity nurses and the employees of the Hungarian National Blood Transfusion Service (OVSZ) and the National Ambulance Service (OMSZ)). During the multi-stage wage increase programme that began in 2016, the wage of healthcare personnel and staff will grow by 14 per cent in January 2020, another 20 per cent in November 2020 and an additional 30 per cent in January 2022 relative to the base. In summer 2020, 170,000 healthcare workers received a one-off wage supplement in the gross amount of HUF 500,000 for their work during the coronavirus pandemic. The government allocated HUF 101 billion for the one-off extraordinary bonus. Within the framework of investments with a total value of HUF 8.5 billion, new nurse hostels are being built in Kaposvár, Kecskemét, Szombathely and Nyíregyháza, and at further twelve locations the existing hostels will be renovated, which – together with the wage increases – may contribute to retaining and increasing the number of healthcare professionals. The four new nurse hostels will accommodate 368 nurses, while the renovations will result in the modernisation of accommodation for another 1,209 nurses.

8.3. Improvement of the care system

8.3.1. Strengthening control in the provision system

31. Strengthen professional and financial control

3

In Government Decision 1798/2019 (XII.23.), the Government called on the relevant ministries to take measures for the development of targeted institutional debt management programme, facilitating improvement in the management of publicly funded healthcare providers, which is based on the governing body's operational management framework plans and implemented under close monitoring in the range of institutions involved in the reduction of debt exposure. Based on the new Social Insurance Act adopted in December 2019, from July 2020, the rules applicable to the use of medical service without entitlement have been tightened. According to the new law, those who fail to pay the monthly contribution – at present amounting to HUF 7,710 – for 3 months, will not be entitled to free medical care and medicine price subsidies. In parallel with the doctors' wage increase commencing in 2021, the rules applicable to doctors will be significantly tightened (e.g. they may undertake part-time job only to prior permission, they may not treat a patient in the public system already treated by them at a private healthcare provider). Controlling compliance with these rules will be key to the success of the reform.

32. Ensure standardised measurement and publication of the performance of health care institutions and patient satisfaction

P 2

In Government Decision 1798/2019 (XII.23.), the Government called on the relevant ministries to make a proposal for the introduction of quality indicators in outpatient and inpatient care, and to take measures for the elaboration of indicators reflecting the efficiency and effectiveness of the institutions' patient care activity.

33. Increase the reporting obligations of private health providers

P 2

By 1 January 2020, healthcare providers rendering non-public financed services also had to join the Electronic Health Service Space (EESZT) and from 1 June 2020, at the latest, they had to start data supply.

34. Introduce a management assessment system in public institutions

1

At the most indebted hospitals, a performance assessment of managers will be introduced, and when distributing consolidation funds, the NEAK will take into account the responsible financial management of the institutions, just like the change in their financial performance over time. The Government called on the Minister of Human Capacities to take into consideration the management incentive aspects as well when defining the performance volume limits.

8.3.2. Increasing efficiency in the provision system

38. Developing telemedicine

1

The Government called on the relevant ministries to take measures for the development of a legislative environment that supports modern healthcare processes and forms of provision. Due to the pandemic situation, several forms of provision built on telemedicine (remote consultation, eased writing of prescription) were introduced on a temporary basis, of which the possibility of prescription over the phone will remain in place permanently. In October 2020 the government allocated HUF 2 billion, from EU funds, for the establishment of a national healthcare call centre and online information centre.

39. Increase reliance on innovative technologies to simplify care management

2

Within the framework of the Thematic Excellence Programme of the Ministry for Innovation and Technology, the Semmelweis University won a grant in the amount of more than HUF 1.7 billion, as a result of which it uses artificial intelligence in more than eleven translational sub-projects. The Artificial Intelligence Action Plan, commencing in 2020, treats healthcare as a priority area. One of the measures of the Artificial Intelligence Strategy presented in September 2020 is the propagation of existing AI applications and the development of additional AI-based applications. Furthermore, additional flagship projects of the Strategy include the establishment of a National Healthcare Laboratory, which supports healthcare R&D and startup incubation and the testing of AI application developments in healthcare. According to the announcement of the Ministry for Innovation and Technology, from 2021 an independent medical and healthcare industry research and development will be set up along with the opening of tenders supporting research projects resulting in patents and exportable products. Within the framework of the healthcare industry aid programme launched in summer 2020, the government is allocating at least HUF 50 billion to provide 50-80 per cent support for investments, realisable within six months, necessary for the manufacture of products connected to the coronavirus pandemic.

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9 Knowledge-based society

In autumn 2020, the aggregate implementation status of the recommendation included in the chapter Knowledge-based society was 32 per cent, which exceeds the level of 21 per cent registered in October 2019 by 11 percentage points. Up until autumn 2020, progress had been made in 35 recommendations, i.e. in 71 per cent of them, fostering the development of a knowledge-based society. Seven recommendations have already been partly implemented, while the implementation of twenty-eight recommendations has started.

The amended National Core Curriculum that was published in January 2020 and implemented from September 2020 in a phase-out system for grades 1, 5 and 9 affects several of the recommendations. The development of students' competence receives more attention than before. The range of defined basic competences covers language and digital skills as well as children's acquisition of proper learning methods. Starting from September 2020, the vocational training system also underwent a complete change. Two types of vocational training institutions were developed: the five-year secondary technical school and the three-year vocational training school, where students receive scholarships depending on their academic performance. Teachers' salary in vocational education rose by 30 per cent on average. The Graduate Career Tracking System has been launched, which provides objective, quantitative data on graduates' labour market situation. From September 2020, all students in public education and vocational training receive their textbooks, which comply with the amended National Core Curriculum, free of charge. In order to reduce (early) school leaving without qualification, 10,500 teachers working in socially disadvantaged settlements received a one-off benefit of HUF 500,000 in 2020. From September 2020, a school security guard system was introduced in public education and vocational training institutions where the head of the institution initiated this. The Public Education Strategy for 2021-2030, presented in summer 2020, contains several development avenues which were also outlined by the MNB. Among other things, the Strategy covers methodological developments, the elaboration of a performance assessment system, the improvement of advanced education for teachers, an increase in the number of teaching assistants and an increase in the efficiency of language teaching and preparation for the digital world.

Similarly to the new operating model of the Corvinus University of Budapest in 2019, starting from 1 August 2020 the operation of the University of Veterinary Medicine, the Moholy-Nagy University of Art and Design, the Neumann János University, the University of Sopron, the Széchenyi István University, the University of Miskolc and the University of Theatre and Film Arts is funded by foundations. Dual degree programmes commenced at several universities (Corvinus University of Budapest, Budapest Business School, Szent István University), and Fudan University, which is ranked among the world's top universities, established a campus in Budapest. From 2020, admission to higher education is conditional on taking an advanced level school-leaving examination in at least one subject. On the other hand, the criterion of having a language certificate — originally planned to be introduced at the same time — has not entered into force yet. From 1 February 2020, the amounts of scholarships and maintenance grants in higher education increased significantly. In the new operating model of the Corvinus University of Budapest, the Corvinus scholarship covering the students' tuition fee depends on their academic performance. The government supports the development of universities' innovation ecosystem, the establishment of competence centres and creating organisations that ensure long-term cooperation between higher education and industry via several channels in the form of GINOP projects and direct grants.

- 9.1. Improving the public education system
- 9.1.1. Primary education focusing on development of skills

2. Elaborate a National Core Curriculum focusing on skills development and practical knowledge

4P:

The National Core Curriculum significantly changed from September 2020. The development of students' competence receives more attention than previously, which is facilitated by activity-based forms of learning organisation, collective learning and applying differentiated individual work to a greater extent. The range of defined basic competences covers language and digital skills as well as children's acquisition of proper learning methods. The amendments were introduced in a phase-out system in grades 1, 5 and 9.

3. Improve the methods and forms of teaching and learning

3

According to the amended National Core Curriculum, schools are expected to integrate into the local curriculum several classes that focus on multidisciplinary topics necessitating the synthesis of knowledge from various subjects. In the initial phase of language learning, the new regulation anticipates experience-based, playful teaching focusing on verbalism instead of expectation-focused teaching. The development of digital competences is achieved not only within the framework of the dedicated subject (digital literacy), but is also integrated into other subjects. The Public Education Strategy for 2021-2030, which was presented in summer 2020, includes reforming teachers' in-service training system as a task to be solved. This includes broadening the supply of specialist methodological training and the implementation of in-service trainings focusing on the transfer of pedagogic tools and solutions directly applicable in daily teaching and education.

4. Ensure standardised measurement and publication of the performance of educational institutions and the satisfaction of stakeholders

1

In order to ensure the achievement of the educational institutions' strategic goals, a monitoring system applicable to the managers of institutions will be developed in accordance with the Public Education Strategy. The objectives of the individual institutions are determined by the provider, while the state controls the work of the institutions at a systemic level via an external school inspectorate. The results obtained through the monitoring system will serve as a basis for determining the bonus pay of institutions' directors.

6. Increase the weight of sciences and information technology in secondary school admission examinations



According to the new National Core Curriculum, to increase students' interest, in the future the teaching of science subjects may be combined in grades 7 and 8. The development of digital competence will take place within the framework of several subjects, and thus these will appear in the admission process to a greater degree. The orientation of students with special education needs toward science and IT careers appears as a direction for development in the Public Education Strategy.

7. Improve career guidance and promote increased awareness in career planning



The Public Education Strategy specifies the enhancement of initiatives supporting vocational guidance, with special regard to the measurement of competences forming the basis for career choices, as a direction for development. One of the key areas in the Vocational Training 4.0 strategy is the coordination and renewal of career guidance activities. The transition between public education and higher education, the choice of career and vocational guidance are supported by the Graduate Career Tracking system available on the diplomantul.hu website. The online interface provides objective, quantitative data on graduates' labour market situation. Initially, the system provides the anonymous academic and labour market data of 138,000 graduates. Within the framework of the Let Us Teach for Hungary, in the 2019/20 school year 200 university students are mentoring 800 primary school pupils in 35 small settlements. The first digital adventure centre (MobillTy) was opened in Győr, the purpose of which is to provide young people planning to continue their studies with a graphic presentation of the world of IT.

9.1.2. Strengthen secondary education

8. Implement curriculum reform in the secondary school system



Based on the amendment of the National Core Curriculum, civics education appears in grades 8 and 12 as an independent subject, which intends to support the preparation of students for everyday life with practically-oriented information. To develop scientific knowledge – and particularly mathematics, natural science, engineering and technical, and IT skills – in grade 11 of the grammar school, students who do not learn a scientific subject in an increased number of classes or elective courses must take a subject taught using a complex approach based on the examination of phenomena, expanding scientific knowledge, in a timeframe of two hours per week.

10. Strengthen dual vocational training



Based on Act LXXX of 2019 on Vocational Training, starting from September 2020 vocational education and training has undergone significant transformation. From now on, there will be two types of vocational education institutions: the five-year secondary technical school and the three-year vocational school. The secondary technical school combines certain features of the grammar school and vocational training. Participants in this form of education learn the same curriculum in maths, Hungarian literature and grammar, history and foreign languages as those studying in grammar school. They take school-leaving examination in these general subjects, but they do not need to choose a fifth subject for school-leaving examination as their vocational exam is acknowledged as such. Students receive scholarships depending on their academic performance. After passing the basic industry exam or school-leaving exam, they may participate in specialisation education conducted by dual education institutions with a vocational training labour contract and they are entitled to a monthly salary. Those completing the education and acquiring professional qualification are entitled to a one-off career-starter benefit, while socially disadvantaged students may apply for special scholarships.

13. Reduce (early) school leaving without a qualification

3

In order to reduce (early) school leaving without qualification, 10,500 teachers working in socially disadvantaged settlements received a one-off benefit of HUF 500,000 in 2020. From September 2020, a school security guard system was introduced in public education and vocational training institutions where the head of the institution initiated this. School security guards attended a special training, where they were prepared to maintain the order necessary for learning and development in the school environment simply by their presence. The government launched a tender for parents with small children, which offers 12-month training opportunities with a HUF 100,000 monthly scholarship, where the applicants may complete their interrupted primary and secondary school education. Of the scholarship HUF 40,000 is retained monthly – as a motivation to complete the training successfully – of which HUF 20,000 is paid when the participant in the programme reaches the exam completing the training, while the other HUF 20,000 is paid upon passing the exam. The objective of the programme is to ensure that by the end of 2022 the education of 2,500 parents with small children is achieved from the total amount of HUF 3 billion.

9.1.3. Making teachers' career more attractive

14. Allocate more public and private funds to education

3

From September 2020, all students in public education and vocational training receive textbooks which comply with the amended National Core Curriculum, free of charge. In addition, 106,000 socially disadvantaged primary school pupils receive free school supplies containing equipment corresponding to their grade. The allocation for three years for the distribution of school supplies between 2020 and 2022 amounts to almost HUF 3 billion. Starting from the 2022/23 school year, a monthly scholarship of HUF 20,000-40,000 – depending on academic performance – will be introduced in a phase-out system within the framework of the Arany János Programme fostering talent development and remedial education. The European Investment Bank is providing funding of HUF 50 billion for the modernisation of the institutions of basic level education and the development of the sports infrastructure used by children.

15. Increase the number of primary school teachers and teaching assistants

P 2

From 2020, students in the primary school teacher bachelor's programme can also apply for the Klebelsberg Scholarship Programme, where students may benefit from a monthly scholarship of maximum HUF 75,000 depending on their academic achievement. The Public Education Strategy sets the goal of increasing the role of contributors directly assisting the education and teaching work, who can support and relieve teachers. Among the related directions of development, in addition to increasing the headcount of teaching assistants and specialised staff, another element is the revision of the regulation governing teaching assistants, to ensure that the special features of the individual institutions can be enforced to a greater degree.

16. Provide regular further training for teachers

3

3

Included in the Public Education Strategy as a direction for development are the reform of teachers' advanced education and, in connection with this, the professional development of cooperation between higher education institutions and teacher training faculties as well as the assessment of the possibility of providing public financing for advanced education institutions and individuals obliged to participate in advanced training.

17. Improve the social esteem of teachers, kindergarten teachers and nursery nurses by extending and enhancing the career path model

From July 2020, the salary of teachers in public education was supplemented with a 10-per cent sectoral professional allowance. All teachers are entitled to the professional allowance, and thus the measure affects 170,000 persons. In parallel with this, institution directors and their deputies received a management allowance depending on the number of students. This was facilitated by the amendment of the Public Education Act in 2019. Also, from July 2020, the average salary of teachers working in vocational education rose by 30 per cent, and in parallel with that the new further education and assessment system was also implemented. The legal status of the respective teachers changed, but they can retain the benefits connected to the teaching profession, the long-service award and paid leaves. The salary increase affects 32,000 teachers, for which the budget provides an additional appropriation of HUF 35 billion annually. In 2020, 10,500 teachers working in 400 socially disadvantaged settlements will receive a one-off grant of HUF 500,000. The purpose of the programme is to facilitate that socially disadvantaged children work off their deficits and at the same time to support that teachers neither leave the area nor change career. One of the goals set forth in the Public Education Strategy is to improve the teachers' social esteem by developing a complex incentive system, which also includes the development of the benefits scheme.

9.1.4. Increasing the efficiency of language teaching

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18. Redesign language examination requirements and align school programmes accordingly

One of the objectives of the Public Education Strategy is to improve foreign language skills. More specifically, increasing the number of students acquiring proper qualification complying with the Common European Framework of Reference for Languages, developing the language skills of students and teachers in a native environment and creating modern infrastructural conditions for improving foreign language competences (including traditional and digital contents, classroom environments) were set as the directions for development. The first measure to realise these objectives is that from 2021 HUF 1.5 billion will be available for the further education of foreign language teachers in a native environment.

19. Provide public support and premises for extra-curricular foreign language activities and language exam preparatory courses

2

From January 2020, the state aid connected to the first successful language exam of young people below 35 years rose from HUF 35,000 to HUF 40,250. The amended National Core Curriculum intends to rely on extra-curricular activities to a greater degree to enhance the efficiency of language teaching.

Recommendation Priority 9.1.6. Enhancing digital skills 25. Develop and maintain information technology instruments in schools and vocational training centres 3

As a task, the Public Education Strategy specifies the continuous development and professional maintenance of institutions' digital infrastructure and resources along with creating the conditions for its stable operation, with particular regard to the most disadvantaged regions.

26. Develop digital learning materials

3

As a result of the cooperation between the Széchenyi István University of Győr and market participants, a Digital Game-based Teaching Studio commenced operation, where the schoolmasters and teachers of the future can participate in modern training. According to the amended National Core Curriculum, students must be provided with the opportunity to use digital equipment, the internet, presentation tools, and with access to electronic libraries during the education process. From 2020, the development of digital competences is achieved not only within the framework of the dedicated subject (digital literacy), but is also integrated into other subjects (e.g. mathematics, Hungarian literature and grammar). The objectives specified in the Public Education Strategy include the strengthening of digital content and textbook development, the provision and maintenance of digital curriculum aligned with the revised content regulation and the promotion of digital learning, teaching and knowledge sharing. Additionally, further directions for development include the development of students' and teachers' digital competences, the elaboration of methodological recommendations and procedures for the framework of using own devices, the fostering of digital pedagogical solutions and supporting digital literacy and safe internet use. The measures in the Artificial Intelligence Strategy presented in September 2020 include the sharing of knowledge related to AI technologies with society and preparing the educational system for the use and threats of AI. The Strategy sets the goal to provide 100,000 persons with basic level education and make 1 million persons aware of AI.

27. Integrate programming into the teaching of mathematics



The amendment of the National Core Curriculum specifies the learning achievements connected to the use of digital tools to be acquired within mathematics as a subject (e.g. preparing charts using a spreadsheet programs, use of dynamic geometric software). The measures in the Artificial Intelligence Strategy presented in September 2020 include the joint development of mathematical and IT skills.

9.2. Internationally recognised tertiary education

9.2.1. Boosting competition among tertiary education institutions

28. Create a competitive environment in tertiary education

3

Similarly to the new operating model of the Corvinus University of Budapest in 2019, from 1 August 2020, the operation of the University of Veterinary Medicine, the Moholy-Nagy University of Art and Design, the Neumann János University, the University of Sopron, the Széchenyi István University, the University of Miskolc and the University of Theatre and Film Arts is funded by foundations. The general purpose of the model change is that universities, as the drivers of local social life, education of intellectuals and economic development, should provide – flexibly responding to demands – the educational, research, innovation, arts, sports and cultural services with background for continued improvement in the competitiveness of their region and Hungary as a whole.

29. Develop the infrastructure and equipment of tertiary education institutions



The National Research, Development and Innovation Fund provided grants to three universities in the total amount of HUF 8.5 billion for the setup of competence centres and the development of research infrastructure. Another five projects received policy approval in the total amount of HUF 12 billion, which will be funded from a subsequent GINOP project. In summer 2020, the tender entitled "Strengthening of Regional Research Institution Capacities" was published within the framework of GINOP, which supports the development of research infrastructure for higher education institutions and research sites operating as members of the Eötvös Loránd Research Network (ELKH). Projects complying with the conditions may be eligible for non-refundable aid in the amount of HUF 400 million to HUF 4 billion from a total financial allocation of HUF 8.5 billion.

30. Strengthen links between tertiary education and companies

P 2

With a view to developing an organisation that supports long-term cooperation between higher education and industry, in spring 2020 the government announced a GINOP tender with a total amount of HUF 39 billion, the purpose of which is to utilise in the economy the R&D&I results achieved by the cooperation of the actors of several professional fields. A tender in the total amount of HUF 5.4 billion was announced in August 2020, to foster cooperation of enterprises – primarily micro, small and medium-sized enterprise – with regional vocational education centres and create clusters with higher education institutions. The Óbuda University in cooperation with Ikarus received a grant of HUF 1.6 billion for development of an electric bus chassis system within the framework of GINOP.

31. Channel market needs and private capital into education

3

With a view to developing and efficiently operating a results-oriented university innovation ecosystem, the programmes of 16 universities benefited from grants in the total amount of HUF 1.5 billion in autumn 2019. In the second phase of the project, another HUF 1.5 billion will be distributed after evaluating the progress achieved by the projects.

32. Raise R&D expenditure in tertiary education to 0.5 per cent of GDP

2

In cooperation with the European Molecular Biology Laboratory (EMBL), the Hungarian Centre of Excellence for Molecular Medicine will be set up in the University of Szeged, within the framework of the Horizon 2020 project with a budget of EUR 52 million. December 2019 saw the opening of the Design Competence Centre, which will be strengthening the innovation, research and development, and knowledge industry role of the Moholy-Nagy University of Art and Design (MOME). In spring 2020, the Óbuda University received a government grant of HUF 900 million for market-oriented research activities in the area of medical IT systems.

9.2.2. Improving the international competitiveness of Hungarian tertiary education

34. More attractive career path for university professors



Up until 30 June 2020, students in undergraduate, master's or doctoral education as well as postdoctoral students, young lecturers and researchers, were eligible to apply for the total amount of HUF 4 billion of the New National Programme of Excellence. The objective of the programme is to foster the scientific performance of universities, to strengthen the new generation of researchers, to make scientific career attractive and to help to retain outstanding teachers and researchers in Hungary and keep them from changing careers. The duration of awardable scholarships varies by categories between 5 and 12 months. The winning applicants benefit from a net grant, depending on the category, of not less than HUF 100,000 and not more than HUF 200,000. In addition, the universities hosting them receive a research and operational aid corresponding to 40 per cent of scholarship won by their own applicants. Since January 2020, 85 per cent of the employees of Corvinus University of Budapest received a differentiated salary increase, depending on individual performance, of 5 to 35 per cent.

36. Support dual degree programmes

A new, dual degree MBA programme was launched as a result of the cooperation between the Széchenyi István University of Győr and the University of Rhode Island in September 2020. The joint MBA programme of the Corvinus University of Budapest and Fudan University continues, marking the first time that Fudan University launched an MBA outside China. Fudan University, ranked among the world's top universities, will also establish a campus in Budapest, which will be the first campus abroad of a Chinese state-run university. Modelled on the Fudan-Corvinus Double Degree MBA programme, by 2021 additional Hungarian universities (Budapest University of Technology and Economics, Semmelweis University of Medical Science and the Eötvös Loránd University) are expected to be included in Double Degree programmes, fitting into their own profile. Within the double degree programme, students of the International Business Economics bachelors' course of the Budapest Business School can choose from four universities where they would like to conduct parallel studies.

Recommendation Priority 38. Launch specific postgraduate courses to reverse student emigration 1

In 2020, the number of doctoral candidates supported by the state will increase from 1,300 to 2,000. Pannon University's Faculty of Academics launched a research and innovation manager/specialised economist postgraduate course from March 2020 in Veszprém with the Ministry for Innovation National Research Development and Innovation Office's professional support. In September 2020, a Data and Systems Engineering course for the development of Industry 4.0 solutions was also launched at the Pannon University. The University of Debrecen is launching a 3-semester environmental educator course focusing on environmental awareness and shaping attitudes.

9.2.3. Increasing the ratio of tertiary education graduates

39. Widen the enrolment base of tertiary education



The Vocational Training 4.0 strategy proposes that in the future those graduating from technical schools should enter targeted tertiary education courses more easily. From 2020, admission to higher education is conditional on taking an advanced level school-leaving examination at least in one subject. The Ministry for Innovation and Technology reduced the minimum score necessary for admission to government-funded education in several key academic programmes. A language exam certificate is still not mandatory from 2020 for admission to higher education. A free admission preparation programme, entitled "Head for university 2020!" was launched to prepare students with the secondary school-leaving certificate, who have already left the public education system and wish to apply for admission to higher education. At the initiative of the National Youth Parliament of Hungary, from 2020 the range of subjects in which early final examination can be taken has been broadened, which may support students in preparing more efficiently for admission to higher education.

41. Expand merit-based and needs-based scholarship schemes



From 1 February 2020, the scholarship part of student grants rose by 40 per cent (to HUF 166,600/year), which affects almost one quarter of the students. The amount of the basic grant, serving as financial assistance for socially disadvantaged students entering higher education to start their studies also increased significantly.

42. Make tuition fees in tertiary education dependent on academic progress



In the new operating model of the Corvinus University of Budapest, the Corvinus scholarship covering the students' tuition fee depends on their academic performance. Students are ranked based on their performance and students achieving the best results will receive grants from the operator foundation. The scholarship is conditional upon an average grade of 3.8 weighed with credits, while the number of credits achieved in two semesters must be at least 46.

9.2.5. Spreading financial skills

48. Deepen financial literacy

2

According to the amended National Core Curriculum, the education of basic financial skills will form part of civics education, mathematics, geography, technology and design subjects.

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10 Research and development and innovation

By November 2020, weighted by priority, the status of implementation of the recommendations included in the chapter Research and development and innovation rose by 10 percentage points from 14 to 24 per cent, compared to the Competitiveness Mirror presented in autumn 2019. Following the publication of the Competitiveness Programme, implementation has started in 50 per cent of the chapter's recommendation. Some progress has already been made in half of the eight recommendations since their publication. The status of their implementation is equally distributed between the initial and partly implemented phases. Compared to autumn 2019, progress also resulting in a change of status has been achieved in the case of two recommendations.

From 2021, an additional HUF 22 billion funding is available for the operation and development of the Eötvös Loránd Research Network on a permanent basis, more than 40 per cent of which may be used by heads of research institutions for wage increases – of 30 per cent on average – for about five thousand employees of the network employed in research and support functions: this will strengthen the financing of the research and development network and may also support the wage review of researchers. In order to offset the negative economic effects of the coronavirus pandemic, the government launched a wage support programme for research and development employees, for which enterprises could apply until 31 August 2020. In the programme, the budget assumed 40 per cent of the lost wage of highly qualified employees in the research, development and innovation sector for three months to retain these employees. Through the end of October 2020, more than 20,000 employees at over 1,000 enterprises benefited from this support. The total cost of the support exceeded HUF 17 billion. It also supports the increase in research expenditures that the SME strategy published in November 2019 contains a number of measures to reduce red tape, which fosters the reinforcement of research and development. The SME strategy includes a draft measure aimed at assessing the reduction of patent maintenance fees and the intention to strengthen the financial and professional support for the registration of patents.

Recommendation Priority 10.1. Providing the necessary human resources for research

2. Raise the number of assistant staff in research and development through further wage increases

P 2

Pursuant to Government Decision 1430/2020 (VII.23.), starting from 2021 an additional HUF 22 billion funding is available for the operation and development of the Eötvös Loránd Research Network (ELKH) on a permanent basis, which will more than double the annual budget of the research network. HUF 9 billion of the HUF 22 billion surplus fund annually may be used for wage increases. The same Government Decision raised the 2020 budget of ELKH by HUF 11 billion, of which HUF 3.6 billion may be used for wage increases. The heads of the research institutions may use the surplus fund for increasing wages – by 30 per cent on average – of about five thousand employees of ELKH performing research and support tasks, with effect from July 2020.

10.2. Increasing research expenditure

4. Encourage enterprises to raise their R&D expenditures via enhancements to the business environment (reduction of red tape, more benefits for R&D)

1

The SME strategy published in 2019 promises the reduction of several administrative burdens in the coming years. This is ensured by four flagship measures, which indicates the key importance of the area for the government. The strategy anticipates further reduction of the small business tax (KIVA). Also as part of the SME strategy, the Ministry of Finance is working on making the tax authority (NTCA) capable of preparing the draft tax return also for individual entrepreneurs, and thus the entrepreneurs will only need to supplement the draft proposed by the authority. In addition to the specific measures listed before, the strategic document anticipates regular consultation and reduction of the lag in the Doing Business indicators (in the areas of starting a business, dealing with construction permits and electricity connection, protecting minority investors and resolving insolvency). In addition, the strategy anticipates development of the SME business environment and the e-government instruments. Pursuant to the Government's decision, from the second half of 2021 the tax authority will prepare the draft VAT return for all enterprises.

7. Reduce patent maintenance fees



The SME strategy published in November 2019 includes a planned measure to review the reduction of the maintenance of industrial property rights (patent, trademark, design patent) and to ease access to financial support schemes that facilitate obtaining patents. Based on the strategy, in the future SMEs may have access to the Thematic Research service rendered by the Hungarian Intellectual Property Office, which may improve the chances and opportunities of small and medium-sized enterprises to obtain patents.

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11 Efficient governance

Implementation of 74 per cent of the recommendations included in the chapter Efficient governance has commenced, and thus the status of implementation, weighted by priority, rose from 30 per cent registered in October 2019 to 44 per cent. By mid-October 2019, implementation of 14 of the 23 recommendations aimed at increasing the efficiency of governance had commenced, which rose to 17 by the time of this publication.

The government measures announced between November 2019 and 2020 affected eleven of the 23 recommendations, of which eight resulted in a change in the implementation status of the recommendation. For two of the eight status changes, the recommendation acquired the status of "Started", five changed to "Partly implemented" and one – the mandatory acceptance of electronic payment methods – changed to "Fully implemented". The large part of the announced measures are related to developing the digitalisation of public administration. After the full implementation of online invoicing, in 2021 the provision of draft VAT returns may be realised, which may reduce administrative burdens for half a million enterprises. One factor supporting recovery from the crisis caused by the coronavirus pandemic is that in September 2020 the Economy Protection Operative Corps announced several measures aimed at easing tax administration: payment of tax debt by instalments will be more easily available, the HIPA declaration will be simplified and the availability of the KIVA small business tax will be broadened. Another important achievement is that electronic administration is ensured at all local governments and in the future e-identity cards will also undergo major improvement.

11.1. Smaller bureaucracy

3. Promote wage bill management and performance measurement instead of headcount management

The Government submitted the Act on the legal status of NTCA staff in October 2020, the purpose of which is to conclude the organisational integration that has been ongoing for several years by establishing a fully independent service relation for the staff of NTCA. The new Act severs NTCA employees from the public sector, retains the career path nature of the effective advancement system, while facilitating performance-based wage setting by easing certain elements of the rigid system. Upon revising the remuneration scheme, in addition to the decrease in the role of wage supplements, the possibility of increasing or decreasing the remuneration by maximum 30 per cent based on performance assessment is a material change.

11.2. Digital public administration

5. Adopt the Estonian model to ensure that all matters dealt with in government one-stop shops may also be processed online



3

As a result of the development of the EU project in progress since 2015, in January 2020 the possibility of e-administration at local governments through the e-municipality portal was fully implemented. As a result, households and enterprises have access to a portal through which they can manage their affairs electronically nationwide in a state-of-the-art manner. The next milestone of the project came in the first quarter of 2020, when – in addition to transaction initiation and transaction tracking – the online payment system also started. The Artificial Intelligence Strategy, published under the guidance of the Ministry for Innovation and Technology in September 2020, also facilitates growth in the ratio of online transactions and the automation of existing processes. The Act adopted in November 2020 supports the digitalisation of public administration procedures. Key IT systems to be enhanced in the future include the registers of personal data, residential addresses, traffic data and official documents.

6. Interlink the databases of administrative organisations

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The draft bill adopted in November 2020 is aimed at the revision and reform of key background systems of public administration. Accordingly, the data links between the register of compulsory motor third-party liability insurance and the vehicle register will be also revised. As a result of the automatic IT data link, upon the first registration of the motor vehicle it is not necessary to prove the existence of MTPL on paper, as the authority has access to the necessary information via electronic data link.

7. Enhance mobile applications for simpler processing



According to the government's plans, in the next two years e-identity cards will undergo major enhancement. The amendments are also aimed at ensuring that in the future mobile phones can be also used as card readers. Through a mobile application, the electronic signature function of e-identity cards can operate without a separate device, thereby simplifying online public administration. The enhancement of the corporate mobile applications is an anticipated measure in the working paper entitled "Strategy for strengthening Hungarian micro, small and medium-sized enterprises", published by the Ministry for Innovation and Technology in November 2019, as a result of which new templates and samples will also become available to corporations. This may accelerate the development of mobile applications in public administration.

8. Increase the share of auto-populated information in electronic forms and datasheets



By the beginning of 2020, all local governments are able to provide households and enterprises with the possibility of electronic administration, which represents a major milestone in the digitalisation of public administration. In the e-municipality portal, following identification through the Central Authentication Agent, the duration of administration significantly decreases as a larger part of the data are filled in automatically by the system.

Recommendation Priority 11.3. Customer-friendly tax authority 10. Develop the tax authority and increase its efficiency 3

Fostering the implementation of cloud-based accounting systems connected to NTCA systems is an anticipated measure in the working paper entitled "Strategy for strengthening Hungarian micro, small and medium-sized enterprises", published by the Ministry for Innovation and Technology in November 2019. Through this both payroll accounting and bookkeeping can be performed automatically. Based on the plans of the Ministry of Finance presented in September 2020, the digital transformation of tax administration, i.e. the development of e-NTCA, will be implemented between 2020 and 2024. The growth in the efficiency of the tax authority is well illustrated by the fact that according to the estimates of the European Commission, between 2010 and 2019 the degree of unpaid VAT decreased to the third largest degree within the EU in Hungary (from 21.7 per cent to 6.6 per cent). Moreover, the 6.6 per cent rate of unpaid VAT that was registered in Hungary in 2019 was substantially lower than the EU average of 10.9 per cent and the Visegrád region average of 12.4 per cent.

11. Implement the scheme for corporate tax and value added tax returns produced by the Tax Administration



The extension of the online reporting of invoice data that has been observed in recent years will become full from 2021. From that time on, the tax authority will see all invoices, including also those issued to private individuals. According to the plans of the Ministry of Finance, the most important step in 2021 will be the preparation of draft VAT returns. Pursuant to the decision of the Economy Protection Operational Corps adopted in September, from the second half of 2021 the tax authority will prepare the draft VAT return for all enterprises. As a result of the adopted regulation, half a million enterprises will be relieved of the administrative burden of filling tax returns.

Develop a taxpayer-friendly, transparent website, provide online processing for a wider range of matters



According to the plans of the Ministry of Finance, presented in September 2020, in the coming years a digital changeover will be gradually implemented in tax administration. The enhancement and development of NTCA's digital interfaces form part of this.

15. Reduce administrative burdens



Extending the digital automation of taxation, the purpose of which is to eliminate parallel data supply and through that to reduce reporting requirements, is one of the anticipated measures in the working paper entitled "Strategy for strengthening Hungarian micro, small and medium-sized enterprises", published by the Ministry for Innovation and Technology in November 2019. In September 2020, the Ministry of Finance established a construction task force commissioned with the enlargement of construction capacities and the acceleration of investments. One of the objectives of the task force is to accelerate and simply administrative procedures for construction companies in the area of licensing, environmental impact assessment and utilities administration. Modelled on Poland and Germany, in the future the scheme of construction, technical regulation and standards may become more efficient. Pursuant to the decision of the Economy Protection Operational Corps (EPOC) adopted in September 2020, the administrative burdens of enterprise will decrease in several areas. According to the adopted Act, the limits for automatically paying tax debt by instalment will double, increasing to HUF 1 million and HUF 3 million for private individuals and enterprises, respectively. The submission of local business tax returns will be also simplified. In the future, it will be sufficient to submit the return only to one local government. More enterprises may benefit from the small business tax (KIVA). According to the plans, the KIVA income limit will increase from HUF 1 billion to HUF 3 billion, while the exit limit will rise from HUF 3 billion to HUF 6 billion. Pursuant to the decision of the Economy Protection Operational Corps adopted at its October 2020 meeting, public research and development and innovation project and investment will be exempted from the complicated administrative rules, thereby making developments faster and cheaper. All of this will be supplemented in 2021 with the proposal of draft VAT returns, which is expected to greatly reduce enterprises' tax administration burdens.

Recommendation Priority 11.4. Reduce the extent of tax evasion 17. Continue the roll-out of online cash registers

The development of the online cash register system – which has become mandatory in various sectors of the economy gradually, starting from 2013 – was one of the most efficient measures aimed at the reduction of the shadow economy. The extension of online invoicing in 2018 and its full implementation expected in 2021 may be regarded as a measure pointing in the same direction. This latter measure entails that from the beginning of 2021 the tax authority will have a view of all invoices, irrespective of the use of online cash registers.

19. Make it mandatory for specific merchant groups to accept electronic payment methods

P 2

Pursuant to the amendment adopted in summer 2020, from the beginning of 2021 all merchants using online cash registers will be obliged to provide their customers with the option of electronic payment and ensure continuous availability. The changeover is facilitated by the fact that the Government extended its POS terminal installation programme until mid-2021, which contributes to the terminal maintenance costs with a non-refundable state subsidy of HUF 80,000.

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12 Modern infrastructure and efficient energy use

Implementation of 92 per cent of the recommendations has been at least started, and thus the status of the chapter's implementation, weighted by priority, rose from 24 per cent in October 2019 to 39 per cent. Some progress has been made in each of the recommendations related to the improvement of transport infrastructure and to the green economy. Implementation of more than 85 per cent of the recommendations supporting a telecommunications and electric network that meets the needs of the Fourth Industrial Revolution has been already started. Several points and the direction of the energy and climate policy strategies presented in January 2020 also support the MNB's recommendations aimed at increasing energy independence, energy efficiency and energy security as well as the development of a green economy. The MNB's strategic avenues are appearing in specific policy measures on a continuous basis. The measures of the Climate and Nature Protection Action Plan, announced by the Prime Minister on 16 February 2020, serve to strengthen the green economy and help support the implementation of five central bank recommendations.

The construction of the Budapest-Belgrade railway line has started, and the electrification of several railway lines and the preparatory works are expected to take place between 2021 and 2027. The public procurement tender announced by the railway company for 115 new engines, the modernisation of 209 carriages over the next four years and the funding of the development of intelligent transport system ensure faster and more modern transport. Between 2021 and 2025, the Government supports the single wagon segment of rail freight transport with more than HUF 10 billion, and progress has been also made in promoting motorway feeder roads that bypass settlements. The Government is facilitating the development of smart cities meeting the needs of the Fourth Industrial Revolution with a pilot project in Monor and by fostering the development of intelligent passenger information systems. The spread of smart cities is also supported by the sales of 5G frequencies for HUF 128 billion to the largest infocommunication companies. The Artificial Intelligence Strategy presented in September 2020 contains progressive recommendations with regard to the development of civil and military information security software industry.

According to the energy and climate policy strategies published in January 2020, the Government intends to support energy efficiency, among other things by fine-tuning the energy efficiency corporate income tax allowance, the installation of one million smart meters by 2030 and the improvement of energy storage. Supporting the penetration of electric vehicles and the green economy, settlements may use HUF 36 billion for the procurement of 1,300 environmentally-friendly buses by 2030. Hungarian industrial capacity is also involved in the manufacture of electric buses. Furthermore, between January and October 2020, the Government provided economic agents and households with subsidies in the amount of HUF 6.9 billion for the procurement of electric vehicles. According to the Climate and Nature Protection Action Plan, glass and plastic bottles and metal cans will become returnable, and the Government will foster renewable energy production by SMEs with HUF 32 billion, which is in line with the central bank's recommendations. The Action Plan includes a six-fold increase in solar energy capacities by 2030 and expectations with regard to the environmentally-friendly operation of multinational corporations, which correspond to the objectives of the MNB's Competitiveness Programme in 330 points. This year, the Government supports the liquidation of illegal landfills with HUF 13 billion, within the framework of the programme entitled "Let us Clean our Country". The introduction of green bonds is also a progressive measure, which provides funding for climate-friendly public investments. Between January and October 2020, the Government issued green bonds in the amount of almost EUR 1.7 billion. Relying on EU funds, Hungary undertook to make the economy carbon-neutral by 2050. Realisation of this target is also assisted by the measures in the Action Plan.

12.1. Faster railway traffic

1. Provide electric railway access to every town with at least 30,000 inhabitants and to the Northern Balaton region

Pursuant to the Government's decision, between 2021 and 2027 the electrification of the Budapest-Lajosmizse railway line and the preparatory works for the electrification of the Szombathely – Kőszeg and Zalaszentiván – Nagykanizsa railway lines may be completed. The West Hungary Masterplan may examine the possibility of the electrification of the Győr-Pápa-Celldömölk, Székesfehérvár-Pusztaszabolcs and Komárom-Székesfehérvár railway lines, treating the region as a contiguous unit.

2. Ensure travel speeds of at least 160 km/h on all principal railway lines

3

2

In April 2020 and September 2020, the Nemzeti Infrastruktúra Fejlesztő Zrt. (National Infrastructure Development Company) concluded a contract for the detailed feasibility study of the Budapest-Warsaw high-speed railway line and the Budapest-Cluj high-speed railway line. Furthermore, with the contracts related to the construction of the Budapest-Belgrade railway line entering into force, development of the Hungarian section of the Budapest-Belgrade line has commenced.

3. Replace or modernise railway engines and passenger wagons

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By the end of 2020, 19 double-decker Stadler KISS trains will be put into service on the railway lines in the suburbs. In addition, by the end of 2022 another 21 trains of this type are expected to be delivered, for which the relevant contracts have already been concluded. Deployment of the 70 IC+ carriages suitable for domestic transport, which are being manufactured by the Hungarian railway company and will be completed by spring 2021, has also commenced. MÁV announced a public procurement tender for the purchase of 115 new engines to reduce the age of the locomotives that are 40 years old on average. Upon a successful tender the first new locomotives may be put in service in 2022 at the earliest, as stated by MÁV. Furthermore, MÁV-Start Zrt. concluded a contract with Dunakeszi Járműjavító for the next four years in the amount of HUF 31 billion, which also includes the modernisation of 209 Hungarian carriages. In addition, Dunakeszi Járműjavító is participating in the manufacture of 680 carriages for Egypt in a Russian-Hungarian cooperation, for the implementation of which it is expected to support the creation of an extensive railway supply chain.

4. Establish an intermodal hub in every county seat and develop railroad freight terminals

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In summer 2020, the preparatory phase of an intermodal hub connected to freight transport development was launched in Bicske. Furthermore, according to the Government's decision, from summer 2021 actors in the rail freight transport sector may apply for targeted financial contribution for the rendering of single wagon services. The Government allocated the total amount of HUF 10.1 billion as non-refundable aid for financing the operation of single wagon service between 2021 and 2025.

12.2. Excellent road network

6. Promote the construction of motorway feeder roads bypassing localities

1 2

The construction of motorway feeder roads bypassing town centres and supporting the connection to highways is under preparation in Eger, Szolnok, Páty, Paks, Szekszárd and Szombathely.

7. Enable the use of self-driving cars on highways

1

Based on announcement by the CEO of Magyar Közút Nonprofit Zrt, more than HUF 5 billion is being applied in six projects for the development of intelligent transport systems between 2018 and 2022.

A telecommunications and electric network that meets the needs of the Fourth Industrial 12.3. Revolution

Develop 5G technology by opening higher frequency ranges and providing state subsidies 8. for the development of smaller cell sizes

3

The National Media and Infocommunications Authority (NMHH) conducted the auction of 5G frequencies on 26 March 2020, with the participation of Magyar Telekom Nyrt, Telenor Magyarország Zrt and Vodafone Magyarország Zrt. In the sales of the frequency usage rights pertaining to fifth-generation (5G) mobile technology and wireless broadband services in the 700 MHz, 2100 MHz and 3600 MHz frequency bands, telecommunication companies purchased frequencies for the total amount of HUF 128 billion. The usage rights of the acquired frequencies expire in 2035 and may be extended for further five years. According to the announcement of the President of NMHH, service providers will also be encouraged to install 5G in places that are not only important for them, from a market point of view, but also for society, such as e.g. the area of hospitals, universities and major transport routes.

9. Subsidise the spread of fibre optic cables



The European Investment Bank is supporting the infrastructural tasks - including fibre optic cabling - of Magyar Telekom, necessary for the development of broadband internet with EUR 150 million between 2019 and 2022 pursuant to an agreement signed in December 2019. The total cost of the project is EUR 371 million. According to the plans, the newly built internet network will support download speed of 1 Gigabit per second. The National Digitalisation Strategy submitted for peer consultation in June 2020 expects the implementation of the GINOP-3.4.1-15 project (Development of New Generation Access Networks and Backhaul Networks) to cover the entire territory of Hungary with an optical backhaul network by 2030.

Increase the share of underground power cables



In order to protect the bird population, the replacement of overhead power lines with underground power cables has started in national parks and nature reserves. With the amendment of the Nature Conservation Act, new power lines may only be installed in a bird-friendly manner.

Provide subsidies for increasing the number of higher-amperage connections in households 12.

Increasing the number of higher-amperage connections is not currently subsidised by any targeted government programme, but Kaposvár, Dunaújváros, Szombathely, Tatabánya, Veszprém and Zalaegerszeg are working together to implement smart metre investments, and these communities are also coordinating their energy modernisation efforts. The European Investment Bank covers 75 per cent of the total cost of a EUR 160 million project to automate the electricity distribution system in Southeast Hungary and equip it with smart meters.

The National Energy Strategy, published in January 2020, sets the goal of preparing the electricity network for the cost-efficient management of rising or changing capacities. The strategy includes increasing the capacity of the existing network elements, defining the available capacity of the network elements more precisely, and transforming the relevant network connection conditions and obligations for end-users with small-size household power plants (defining technical requirements for customers). The strategy also includes the mandatory involvement of electricity producers with a connection capacity of more than 0.4 MW in voltage regulation, and the development of an end-user electricity price system that encourages consumers to use network capacity more evenly (multi-zone, capacity and energy-based tariffs, annual basic network charges), and the need to amend the regulation of electricity grid companies.

13. Upgrade the capital and all county seats into smart cities

2

The upgrade to smart cities is served for example by installing smart metres to public utilities in certain Hungarian cities, the construction of intermodal hubs and the development of intelligent passenger information systems. However, most Hungarian county seats do not have a comprehensive strategy describing the detailed goals, the measures and the process of implementation. In June 2020, the management of Debrecen presented a comprehensive smart city strategy. Szeged and Tatabánya also have smart city concepts. In addition, projects and initiatives for smart city development are in progress in most of the county seats. The government has prepared a pilot project for the practical implementation of smart city developments, which is conducted in Monor, Pest County. In the second phase of the smart city project, Monor received funding in the amount of HUF 1.5 billion and the government plans to launch smart city pilot projects with the objective to test the self-sufficiency of the respective city or district, consuming locally produced electricity. In addition to the pilot project, the new National Energy Strategy includes the launch of a smart meter project in the electricity and gas sector. The project would involve the installation of one million smart meters. The installation of smart meters would be done in a phase-out system, upon replacing obsolete traditional meters. The cost of installation would not be charged to consumers. This project would be supplemented by obliging service providers to make flexible service tariff package offer to consumers with smart meters. In addition, the strategy also includes the widespread use of cost-sharing and smart metering for district heating consumption. As part of transport greening, the Energy Strategy also urges the development of intelligent passenger information systems and the elaboration of local smart networks standards.

14. Develop Hungary's information security software industry



The Artificial Intelligence Strategy presented in September 2020 included a measure for the development of production-related data protection and data management. The deadline set for the development of information security recommendations and standards is March 2021. In addition, the strategy includes the development of artificial intelligence capabilities for military national security purposes, with the aim of supporting the protection of military cyberspace based on artificial intelligence. The deadline set for elaborating the detailed project plan is March 2021. The National Digitalisation Strategy submitted for peer consultation in June 2020 also identifies the need for cyber defence capacities and competence development as well as the strengthening of the information security institutional system and awareness as part of its toolkit.

12.4. Efficient energy use

15. Grant tax benefits to improve corporate energy efficiency



Based on one of the points in the Climate Protection Action plan announced on 16 February 2020, multinational corporations are expected to use environmentally-friendly technologies, which will be strictly monitored by the Government. This decision is likely to improve corporate energy efficiency.

The National Energy Strategy presented in January 2020 includes a proposal to fine-tune the corporate energy efficiency corporate income tax allowance system by aligning the EU and domestic rules in order to be able to implement projects with higher investment needs and greater energy saving potential. In addition, the strategy contains the launch of a programme supporting the corporate sector's renewable energy production for own purposes and energy-efficiency investments. One positive aspect is that the tax allowance rate introduced for energy efficiency investments is 35-55 per cent in the eligible settlements of the Central Hungary region, while it is 45-65 per cent outside the Central Hungary region (compared to the previous 30-50 per cent). Furthermore, the MNB will shortly introduce new preferential capital requirement in the banking sector to support green corporate lending.

Within the framework of the tender, announced in June 2020 with a total amount of HUF 5 billion to support the purchase of electric cars purchase, apart from private individuals, companies and passenger carriers could also apply for state aid for the purchase of electric cars, which may contribute to the rejuvenation of corporate vehicle fleets.

17. Improve household energy efficiency through more intensive subsidisation of renovations

The National Energy Strategy presented in January 2020 includes the introduction of an energy efficiency obligation scheme to encourage consumers to save energy. The Government submitted the relevant bill to the National Assembly in November 2020. In addition to the introduction of the obligation scheme, the strategy would also support energy users with limited investment opportunities via energy efficiency service companies (ESCO contracts). In addition, the legal environment for the construction of near-zero energy buildings and the regulation on the certification of the energy performance of buildings would be clarified. Including the building energy performance certificate of properties in advertisements would be mandatory. As a result of the implementation of the Green District Heating programme, the strategy intends to transform district heating services into a more energy-efficient (low-temperature), customercentric, smart cost-sharing, efficient public service that cooperates with other wired access networks and plays a key role in electricity regulation. The penetration of smart meters in households – without putting extra financial burden on households – may also improve energy efficiency. The new energy efficiency tender, which is expected to be available from the summer of 2021, offering non-refundable aid to households may be also used for the electrification of heating systems.

The MNB also encourages energy efficient lending by applying a preferential capital requirement and it assesses the possibility of introducing products to the capital market which may ultimately result in green lending on the assets side of banks. One of these instruments is the emergence of green mortgage bonds, which could support the introduction of green mortgage loans, thereby supporting the energy renewal of housing stock. In line with the objectives outlined in the Green Programme of the central bank published in February 2019, the Monetary Council decided that the MNB would enhance its mortgage bond purchase programme and in the future it would purchase green mortgage bonds. Regarding the conditions of the green rating required for participation in the programme and the details of the purchase of green mortgage bonds, the MNB started consultations with the relevant market participants in order to issue green mortgage bonds as soon as possible, giving preference to financing for energy efficiency.

Continuously assess opportunities for further reductions in regulated energy prices

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The new National Energy Strategy includes the intention to examine the conceptual transformation of the price controls of electricity, natural gas and district heating. According to the strategy, the metering of energy consumption by smart meters may facilitate the introduction of flexible tariffs and cost-sharing in the case of district heating. The construction of the Hungarian-Slovak, Hungarian-Slovenian and a new Hungarian-Romanian cross-border power lines appears as a project in the National Energy Strategy published in January 2020, all of which are already under construction. Hungary has reserved 1 billion cubic meters of gas capacity per year from the liquefied natural gas terminal located at Krk in Croatia between 2021 and 2027 and has entered into an annual purchase agreement with Shell for 250 million cubic meters of gas for a period of six years. Further projects specified in the Energy Strategy includes the two-way capacity increase of the Hungarian-Romanian gas pipelines and the implementation of the Hungarian-Slovak-Austrian and Hungarian-Slovenian-Italian gas delivery corridors. In addition to their positive impact on prices, the anticipated developments listed above would also foster geographic diversification of Hungary's energy imports.

19. Add high-capacity power storage facilities to the power grid

3

The National Energy Strategy presented in January 2020 includes a programme focusing on encouraging energy storage and strengthening the opportunities and obligations of weather-dependent energy producers to support system balance. In addition, the strategy also includes providing partial support for the supplementation of power plants, which were eliminated from the previous price subsidy scheme for the mandatory acceptance of renewable energy sources, with energy storage capacity and including the "renewable regulating power plants" thus created in the regulation of the system, and giving consideration to the possibility of favouring larger solar power plants that optimise their operation by building energy storage facilities also in the tenders under the renewable support scheme (METÁR). Furthermore, energy policy ideas include more effective regulatory support for the penetration of energy storage technologies and the establishment of a research and development centre to test the interconnection of energy storage technologies. In addition, the Government also supports the implementation of pilot projects aimed at energy innovation. The line ministry received several promising applications under the tender announced for the development of innovative energy solutions with a total amount of HUF 16 billion. Improvement in energy storage solutions may be also supported by the National Battery Strategy, which is currently under development.

Recommendation Priority 12.5. Green economy

20. Allocate HUF 50 billion in subsidies for wind and solar power plants

3

According to the Climate Protection Action Plan, announced on 16 February 2020, between 2020 and 2030 the capacities of solar power plants will be increased six-fold (based on the data of the Ministry for Innovation and Technology it will increase from 1,000 MW to 6,000 MW). The commissioning of three thousand megawatts of solar power generation capacity by 2022 and at least six thousand megawatts by 2030 will be encouraged, especially for individual consumers (small household-sized power plants installed on the roof) and for large-scale power generation by power plants. In July 2020, the Hungarian Energy and Public Utility Regulatory Authority announced the second "METÁR" tender, to support the generation of electricity from renewable energy sources, with a total amount of HUF 800 million, and until the end of 2022 another four tenders are expected to be announced, each supporting the annual generation of 300-500 GWh of renewable energy. Meanwhile, larger capacity domestic solar parks are also under construction on a continuous basis, supported both by EU and state grants.

The National Energy Strategy published in January 2020 seeks to encourage the installation of solar systems to partially satisfy own electricity consumption.

The number of household solar panels with an average capacity of 4 kW would be increased from 31,000 to at least 200,000 by 2035, and the total solar energy-based installed capacity would increase severalfold by 2030. The Government plans to finance the installation of solar panels primarily from the funds of the 2021-2027 EU programming period. As announced by the Minister, family house owners may receive non-refundable grants for the installation of a solar system from July 2021 as part of a new tender that is being developed. The strategy also contemplates the spread of geothermal power plants for electricity generation. The state intends to facilitate this by establishing a Geothermal Research Venture Capital Fund with an allocation of HUF 2.4 billion.

21. Allocate HUF 25 billion in subsidies for SMEs' environmental protection investments



As part of the Climate Action Plan announced by the Prime Minister on 16 February 2020, the government will support the local renewable energy production of small and medium-sized enterprises with HUF 32 billion over 2 years. The measure will allow SMEs to spend more on greening their operations, which will also lead to technological modernisation and reduce companies' ecological footprint. This objective is supported by the GINOP-1.2.11-20 Hungarian Multi Programme IV – "Green National Champion" tender, announced with a total allocation of HUF 7.3 billion.

22. Modernise and equip water utilities with smart meters

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According to the Water Utilities Services Act of 2011, a Rolling Development Plan (GFT) must be prepared for a horizon of 15 years for each water utility system, consisting of a renovation and replacement plan and an investment plan. The implementation of the plans projects additional overhauls, although the use of smart meters is not specified in the plans as a criterion. The annually revised and overhauled plans imply increasing funds for reconstruction. In the opinion of the chairman of the Hungarian Water Utility Association, an amount between HUF 1,000-3,000 billion would be needed at the national level to meet the renovation and replacement needs of the sector.

In 2019, water utility companies could apply for a non-refundable aid of HUF 1.5 billion from the Ministry for Innovation and Technology's tender budget entitled "Support from the State Reconstruction Fund for Water Utilities", subject to own resources of 30 per cent. The aim of the tender is to ensure the sustainable operation of water utilities and to improve the technical condition of the related systems. In addition, the Ministry for Innovation and Technology also announced a tender in the area of energy with a total amount of HUF 5 billion, subject to 50 per cent own resources, targeted at water utilities. This tender related to the purchase of energy-saving devices and equipment, the application of technologies and renewable energy investments in the infrastructure operating the water utility systems.

23. Enhance the sewerage infrastructure in localities with fewer than 2,000 inhabitants, and increase the number of wastewater treatment plants

1

According to Decision 1596/2020 (IX.21) published in the Hungarian Official Journal, the Government has allocated HUF 10.3 billion from the Economy Protection Fund for the support of regional water utility companies. Recently, several new wastewater treatment plants were built in the settlements of the Northern Hungary region and a wastewater treatment plant in Kaposvár was built for HUF 6.7 billion. According to the announcement by the Ministry for Innovation and Technology, an investment programme will soon be launched to develop sewage systems in settlements with fewer than 2,000 inhabitants.

24. Increase the share of recycled waste and introduce the deposit and return system

P 2

As part of the Climate Protection Action Plan announced on 16 February 2020, the full liquidation of illegal landfills commenced within the framework of the "Let us Clean our Country" programme, as a result of which the disposal of the generated waste will take place within an almost fully regulated framework. According to the plan, the process will be implemented between 2020 and 2022 in four phases. In the second half of 2020, the Government allocated HUF 13 billion for the programme. The Programme also includes the development and implementation of the Waste Radar application, which allows the whistleblower to take a photo of the landfill and check the composition and volume of the waste. The application system identifies the site based on GPS coordinates and the authority begins clearing the area. In addition, there are plans to build landfills where waste can be legally disposed of. Another important element of the elimination of illegal waste disposal is the planned introduction of strict sanctions (administrative procedure, fines, in the most severe case imprisonment) for the illegal disposal of waste. As a result of making glass and plastic bottles, and metal cans returnable, the ratio of communal waste recycling and use may significantly increase. According to the Government's plans, in eight years the recycling ratio of plastic bottles will increase to 90 per cent. The action plan also includes a ban on the distribution of single-use plastics from 2021, the legal background for which is provided by Act XCI of 2020, adopted in the summer of 2020. In parallel with this, the Government supports the green development of the plastics industry with HUF 10 billion in 2020. According to the plans of the Ministry for Innovation and Technology, a new return scheme may start at the end of 2021 or early 2022, where initially it will be possible to return glass and metal packaging, and later also other materials, e.g. the packaging of cosmetics goods. In order to ensure recycling, municipal waste points for recycling will be established and the number of household waste recycling centres will be also increased. Furthermore, the draft National Clean Development Strategy published in January 2020 emphasises the need to capture and utilise landfill gas generated in landfills and wastewater treatment plants. The National Energy Strategy highlights the need to spread an environment-conscious approach.

25. Strengthen support for electric vehicles



According to one of the points in the Climate Action Plan announced on February 16, 2020, the Government supports the emergence and use of lower-priced electric cars. As part of the action plan, the Government announced a tender supporting the purchase of electric vehicles with a total amount of HUF 5,882 million, facilitating the procurement of more than 2,000 electric vehicles. State aid of HUF 2.5 million per car was available up to a purchase price of HUF 11 million. From October 2020, the government issued a tender for the purchase of electrically assisted pedal cycles with a total amount of HUF 1 billion. In addition, according to the action plan, it will be possible to charge electric cars in all newly built condominiums and office buildings in order to build the appropriate services. The network of electric charging stations is also constantly expanding, with nearly 600 new charging stations being established by the end of the year with the help of state subsidies.

Furthermore, the action plan confirmed one of the points in the National Energy Strategy that from 2022 only electric buses can be put in service in urban transport with more than 25,000 inhabitants. Within the framework of the Green Bus Programme already adopted by the Government, a total of HUF 36 billion will be provided in local transport between 2020 and 2029 to support the purchase of 1,290 Euro 6 diesel, CNG and electric buses, with the proviso that from 1 January 2022 only electric bus can be obtained with state aids. This goal is supported by the conclusion of a loan agreement with a volume of nearly HUF 50 billion between the European Investment Bank and Volánbusz Zrt, relying on which Volán plans to buy 3,200 new buses, 450 of which will use alternative fuel, thereby renewing half of its vehicle fleet. In September 2020, the demonstration phase of the Green Bus programme started. The objective is also supported by the fact that the consortium of Ikarus Járműtechnika Kft. and the Óbuda University started to develop a family of electric-powered, self-driving bus chassis. They were awarded a non-refundable EU grant of HUF 841 million for the HUF 1.5 billion project.

The draft National Clean Development Strategy mentions helping the spread of carpooling and car sharing with electric cars as a course of action to reduce emissions from transport. However, the specific form of the aid has not yet been elaborated.

Recommendation Priority 26. Improve the agricultural irrigation infrastructure 2

Since 2016, farmers have been able to apply for the Irrigation Development Tender of the Rural Development Programme, under which approximately HUF 49.5 billion is available to support, among other things, water retention, sustainable management of water resources and the spread of economical irrigation technologies. Under the tender, by the end of June 2020, 440 winners had made commitments in the amount of HUF 22.6 billion. In addition, in the tender entitled Development of the Agricultural Water Management Sector announced by the Ministry of Agriculture, farmers can apply for the maximum non-refundable aid amount of HUF 1 billion until 4 June 2021. The aim of the tender is to improve the conditions of agricultural irrigation, to increase the irrigated areas and to improve the necessary conditions. According to the announcement of the Ministry of Agriculture, irrigation and infrastructure development will be implemented in Homokhátság within the framework of a series of investments totalling almost HUF 4.4 billion on 1,500 hectares. Here, in an environmentally-friendly manner, the excess water of Tisza will be used for irrigation, instead of artesian water. The objective of the Ministry of Agriculture is to double the irrigated areas by 2024, and to increase it to at least 400,000 hectares by 2030.

The draft National Clean Development Strategy published by the Ministry for Innovation and Technology, the First Climate Action Plan and the report on the effects of climate change on the Carpathian Basin all treat the improvement of water management efficiency and agricultural irrigation as priority policy development directions. The First Climate Change Action Plan envisages the construction of the monitoring station network of the Operational Drought and Water Shortage Management System and the commissioning of the system by the end of 2020. The construction and commissioning of the network is ongoing. The SME strategy announced in November 2019 proposes measures for the establishment of an irrigation management body within the National Land Centre, which provides professional support to SMEs engaged in agricultural activities. The Irrigation Development Department of the National Land Centre, established in the summer of 2019, may serve this purpose. In addition, the government would reduce administrative barriers for irrigating production companies and create an incentive system for them based on the strategy.

Not started	Started	Partly implemented	Fully implemented
Changed to Started ⁴	h Changed to Partly impl	emented 🏫 🛮 Changed to	Fully implemented 🅎

Summary table of the implementation of the 330 competitiveness recommendations

Title of recommendation	Implementation
1. New financial model	
Develop a 'reverse' suretyship procedure	
2. Ease exclusion ('KO') 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 per cent)	
5. Redesign bank processes related to higher risk taking	
6. Make concerted marketing efforts to promote institutional guarantees	
7. Extend the tax benefits for 'business angels' to enterprises that have been running for more than 3 years	
8. Facilitate co-investment opportunities through government assistance	
9. Mitigate interest rate risks for customers	
10. Strengthen financial literacy	
11. Continue to promote Certified Consumer-Friendly products	
12. Reduce lead times for loan refinancing	
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, user-friendly bank account switching	
17. Increase the comparability of bank account plans	
18. Develop and promote bank accounts to improve the banking relations of retirees and socially disadvantaged persons	
19. Adopt standardised bank account statements	
20. Establish a standardised loan application interface for small businesses	
21. Optimise branch networks	
22. Improve the coverage of POS terminals and other electronic payment solutions	
23. Provide a tax benefit on the financial transaction levy to encourage the upgrade or replacement of obsolete IT systems, and 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	

Title of recommendation	Implementation
29. Enable credit institutions to submit electronic queries for the income statements held by the National Tax and Customs Administration	
30. Reduce the notarial fees associated with housing 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 granted 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 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 specialised 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 changing insurers	
53. Enhance the system of the Annual Cost Rate (ACR) and extend it to the pension funds sector	
54. Develop the digital links between the insurance and banking sectors	
55. Increase CASCO in motor own damage penetration	
56. Develop the system of guarantees in the insurance and the health and pension funds sectors	
2. Activation of household savings	
1. Increase maturity of bonds and redesign the product structure of retail government securities	
2. Encourage the transition from cash savings 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	

Title of recommendation	Implementation
6. Grant tax exemption on stock dividends	
7. Provide incentives for employee stock ownership programme	
8. Establish welfare funds through a combination of pension and health savings	
9. Extend dividend tax exemptions to pension savings accounts	
3. SME strategy	
 Reduce the investment limit from HUF 500 million to HUF 100 million for the development tax benefit available to SMEs 	
2. Enable the immediate deductibility of investments in the corporate 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 advisory 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. Organise and support relevant startup conferences and meetups	
18. Grant a corporate 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 websites 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 firms' ICT developments	
26. Prefer knowledge-intensive industrial services in EU funds' disbursement	
4. Foreign trade	
Strengthen export of services (besides export of goods)	
2. Exploit the benefits offered by China's Belt and Road Initiative	
3. Support the entry into fast-growing new markets with stable institutions	

Title of recommendation	Implementation
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 sectors that are knowledge-intensive or well embedded domestically	
8. Provide incentives for strongly subsidised enterprises to use Hungarian suppliers	
9. Give priority to supporting productive investments on the services side when programming for the next EU programming period	
5. Labour market	
1. Public employee wages to be paid by the state after private sector employment for a certain period when 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 on the amount of earnings for persons employed below the retirement age or while receiving pension	
4. Provide additional incentives for atypical forms of employment to encourage capacity building and organisational development	
5. Expand the category of elementary occupations 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 reducing the shadow economy	
Provide an incentive for the employment of pre-retirees by granting a tax exemption on employers' voluntary 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	
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 health care system supported by the state	
16. Support Hungarian companies' recruitment abroad through the 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 in 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	

Title of recommendation	Implementation
23. Reimbursement of the fees of successfully passed examinations for the most renowned 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 by 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 specialisations 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	
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 (EIB)	
7. Family-friendly programme	
1. Raise the ceilings applicable to the infant care allowance and the childcare allowance	
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 higher-education students	
6. Ensure the constant review of the elements of the family support system and the analysis of their efficiency	
7. Promote parenting (by awareness raising, advertising of family support elements, and support for preparatory trainings)	
8. Provide for the prevention and treatment of diseases that inhibit parenting	
9. Run an information campaign on insulin resistance and provide free insulin resistance screening for women of reproductive age	
10. Provide more active support for artificial insemination	
11. Provide a wider range of subsidised examinations during pregnancy	

Title of recommendation	Implementation
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 track the dynamic wage growth (e.g. family tax base allowance)	
16. Reform 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 infant nursery care is available for all Hungarian children between 2 and 3 years of age	
20. Increase nursery school capacities in order to enable admissions to mini groups from the age of 2.5 years	
21. Support the use of private nurseries through public contributions to charges	
22. Make family-friendly improvements to the public education system	
23. Support the re-entry of women into the labour market following childbirth	
24. Create a family-friendly workplace environment and provide incentives for day care 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 family housing benefit scheme (CSOK) as an incentive for birth of second children	
30. Adjust the figures specified in the CSOK rules so that the scheme may effectively track developments in the property 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. Utilise vacant public housing	
35. Increase the duty allowance on first home purchases	
36. Arrange for the continuous review of the value threshold of the duty allowance on new home purchases	
37. Increase the construction workforce	
38. Scheduled market entry of public investments	
39. Ease administrative barriers to home construction	
40. Acknowledge the number of children raised in assessing the initial amount of pension	
41. Consider the family tax allowance for pension calculation	
42. Membership in supplementary pension funds by subjective right	
43. Support employers' contributions to supplementary pension funds	

Title of recommendation	Implementation
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	
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 care 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 at 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 care personnel and staff	
24. Elaborate the conditions for a system of supplementary private health insurance	
25. Guaranteed membership in the health funds and provision of targeted incentives for in and out payments	
26. Extend support to prevention and service invoices	
27. Provide tax benefits on corporate health care 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	

Title of recommendation	Implementation
31. Strengthen professional and financial control	
32. Ensure standardised measurement and publication of the performance of health care institutions and patient satisfaction	
33. Increase the reporting obligations of private health providers	
34. Introduce a management assessment system in public institutions	
35. Increase the capacity for active same-day care	
36. Reallocate and reduce pharmaceutical expenditures on a professional basis	
37. Treat the pharmaceuticals trade as a strategic industry	
38. Developing telemedicine	
39. Increase reliance on innovative technologies to simplify care management	
9. Knowledge-based society	
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 standardised 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 curriculum 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 a 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 public 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	

Title of recommendation	Implementation
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 per cent 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 to reverse student emigration	
39. Widen the enrolment base of tertiary education	
40. Increase the capacity of dormitories	
41. Expand merit-based and needs-based scholarship schemes	
42. Make tuition fees in tertiary education dependent on academic progress	
43. Redesign the course structure in 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 school leaving examination	
47. Reduce the drop-out rate in university courses	
48. Deepen financial literacy	
49. Provide further training for financial professionals	
10. Research and development and innovation	
1. Extend the tax allowance for PhD graduates to researchers holding university degrees	
2. Raise the number of assistant staff in research and development through further wage increases	
3. Provide state coverage of 50 per cent of the costs of doctorate courses for employees over 30 years of age	
4. Encourage enterprises to raise their R&D expenditures via 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	

Title of recommendation	Implementation
8. Favourable accounting treatment of patent revenues	
11. Efficient governance	
Audit, rationalise and remove parallelisms in the system of public institutions	
2. Raise average wages in public administration and reduce bureaucracy	
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 organisations	
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 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 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. Reducing illicit activity in 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 use	
1. Provide electric railway access to every town with at least 30,000 inhabitants and to the Northern Balaton region	
2. Ensure travel speeds of at least 160 km/h on all principal railway lines	
3. Replace or modernise railway engines and passenger wagons	
4. Establish an intermodal hub in every county seat and develop railroad freight terminals	
5. Upgrade the motorways M1 and M7 to three lanes	
6. Promote the construction of motorway feeder roads bypassing localities	
7. Enable the use of self-driving cars on highways	

Title of recommendation	Implementation
8. Develop 5G technology by opening higher frequency ranges and providing state subsidies for the development of smaller cell sizes	
9. Subsidise 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 subsidisation 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 25 billion in subsidies for SMEs' environmental protection investments	
22. Modernise 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	

Legend

Not started	Started	Partly implemented	Fully implemented
Changed to Started	h Changed to Partly impl	emented 🏫 🏻 Changed to	Fully implemented 🎓

Albert Szent-Györgyi

(Budapest, 16 September 1893 – Woods Hole, Massachusetts, 22 October 1986)

Albert Szent-Györgyi, Nobel Prize winner Hungarian physician, biochemist.

Between 1904 and 1911 he attended the Presbyterian Secondary Grammar School in Lónyay Street, then continued his studies at the Medical Faculty of the Budapest University. He participated in World War I as a medical officer on the Eastern Front. Risking his life, he helped to rescue the wounded, for which he received the Silver Medal for Valour. After World War I he continued his studies in Bratislava, Prague, Berlin, Leiden and Groningen in the fields of biology, physiology, pharmacology, bacteriology and then physics and chemistry.

During his studies, he identified a new material in the adrenal of animals; later he succeeded in extracting the same material from cabbage and orange. The material with the molecular formula C6H8O6 was named hexuron acid. In 1927 he defended his doctoral thesis written about discovering the hexuron acid at Cambridge University, and became a doctor of chemical sciences.

On 1 October 1928 he was appointed to professor of Szeged University, where he started his research and teaching activities as a professor of the medical chemical institute in 1931. As of 1931, he dealt with the research of vitamin C, whose exact composition was still unknown. However, Szent-Györgyi proved that the hexuron acid found in the adrenal and vitamin C is the same material. Following that, he succeeded in producing significant quantity of vitamin C from green pepper. His further researches covered, inter alia, biological oxidation, the examination of certain parts of the citrate cycle, which was not completely known at that time, and the exploration of the protein chemical background of mechanical muscular movement.

In 1937 he received the Nobel Prize in Physiology or Medicine for his research related to vitamin C, 'for his discoveries in connection with the biological combustion processes, with special reference to vitamin C and the catalysis of fumaric acid'. He offered the medal he received with the Nobel Prize to those who suffered from the Finnish war that broke out at that time. Later this medal was bought by Wilhelm Hilbert, a company director in Helsinki, who, in 1940, presented it to the Hungarian National Museum, where it is still preserved. In 1938 he became a member of the Hungarian Academy of Sciences.

In 1947 he left the country, and settled in Woods Hole, near Boston, where first he was the director of the Marine Biological Laboratory, then a professor of Dartmouth College. He devoted the last two decades of his life to cancer research. His important observation was the realisation of the role of free radicals in the development of cancer and the realisation of the radical catching role of vitamins (such as vitamin C). In 1972 he founded the National Cancer Research Foundation. In the 1960s he started to deal with politics as well. He wrote numerous articles in which he criticised the nuclear arms race, and in 1970 he also protested against the Vietnam War. In1978 he was a member of the delegation that brought the crown jewels back to Hungary.

Albert Szent-Györgyi remained mentally and physically fit in his old age as well. He died in his home due to renal insufficiency on 22 October 1986. He was buried in the garden of his house on the shore of the Atlantic Ocean.

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