GOVERNMENT OF HUNGARY

Report

on the Council recommendations under the Significant Deviation Procedure

October 2018

Content

1. Introduction

On 23 May 2018, the European Commission recommended the launch of the Significant Deviation Procedure (SDP) for Hungary based on the fact that according to the Commission's calculations, in 2017 the structural balance significantly diverged from the medium-term objective (MTO) and the nominal increase of net primary government expenditures significantly exceeded its reference value. At the Ecofin meeting held on 22 June the Council adopted the specific policy recommendations made in the procedure. According to the Council recommendation, measures putting Hungary on an appropriate adjustment path towards the MTO need to be taken. In this scope, any windfall gains need to be used for deficit reduction and the budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner

Based on the recommendation, Hungary was requested to report to the Council by 15 October 2018 on action taken in response to the recommendation.

According to the legal provisions relating to the SDP (Article 121(4) of the TFEU and Article 10(2) of Council Regulation (EC) 1466/97), Hungary submits the following report, within the foregoing deadline, to the Council and the Commission in response to the Council recommendation.

2. Macroeconomic developments

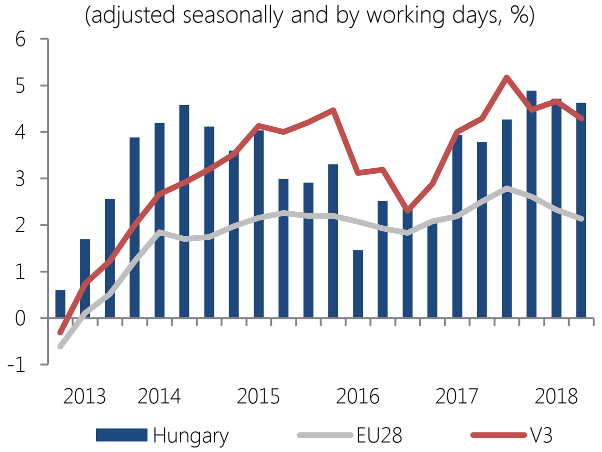
1.1 GDP growth

Since 2013, Hungary's GDP has been increasing in a stable and dynamic way. This year – mainly due to the tax and wage agreement concluded at the Permanent Consultation Forum of the Private Sector and the Government –, the growth of Hungarian economy became even stronger: GDP increased by 4.7%, and adjusted by the working days by 4.8% in the first half of 2018. In international comparison, the Hungarian economy continued to catch up with the EU average: recently, Hungary demonstrated twice as fast growth as the EU, also exceeding the average of the Visegrad Countries (*Figure 1*).

The growth path continues to be stable and sustainable. This is proven, on the one hand, by the growth taking place in a wide range of sectors, and on the other hand, by the favourable financing positions, as a result of which the debts are continuously decreasing. The structure of growth is becoming increasingly capital-intensive: in addition to employment, the growth of the economy is increasingly supported by the growth of capital stock, also ensuring the improvement of productivity.

Figure 1: GDP growth in the EU

(adjusted seasonally and by working days, %)

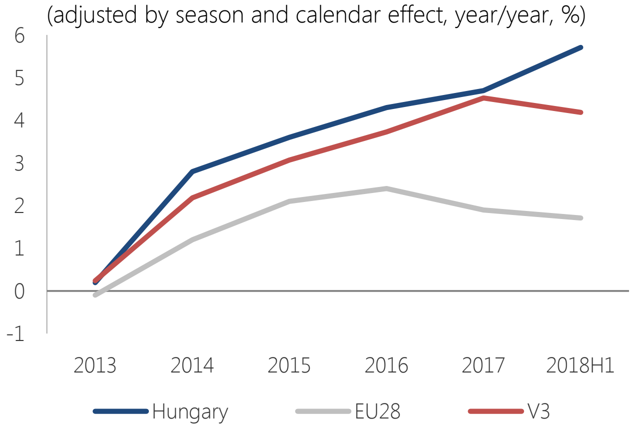


Source: Eurostat

With regard to utilisation, consumption increased by 5.6% in the first half of the year, which constitutes the largest boom since 2003, and due to which the aggregated increase of consumption in Hungary recorded in the past few years exceeds the performance of both the EU and the other Visegrad Countries (*Figure 2*). The increase of consumption is supported by the dynamic increase of revenue available per household, which, in turn, is a result of the continuing growth of employment and outstanding wage dynamics resulting from the wage and tax agreement concluded at the end of 2016, as well as of the reduced inflation rate. In addition, the increase of purchasing power of households is also supported by the gradual increase of the tax benefits of two-child families and the reduction of the VAT charged on certain basic foods, internet and certain restaurant services. The strong confidence of the consumers is also indicated by the fact that an increasing portion of the increase of domestic consumption expenditure is related to the purchase of durable and semi-durable products.

Figure 2: Household expenditure

(adjusted by season and calendar effect, year/year, %)

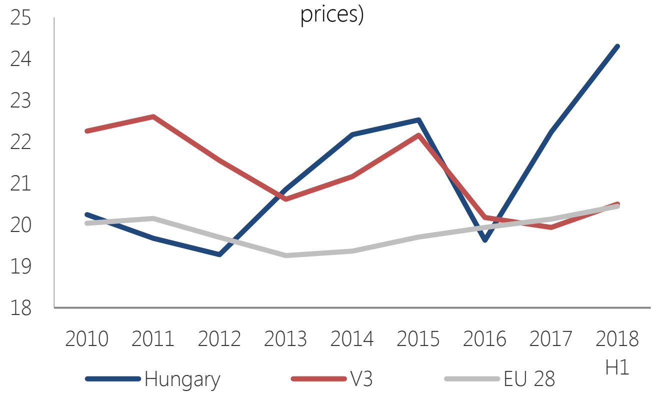


Source: Eurostat, MoF calculation

Dynamic 18% investment growth of last year also continued in the first half of 2018: as a result of the increase exceeding 16%, investments amounting to more than HUF 4,400 billion were implemented in Hungary. Thanks to this, investment rate of Hungary significantly exceeds both the average of Visegrad Countries and the EU (*Figure 3*). The increase of investments can be considered balanced from several aspects: on the one hand, the performance of all three sectors contributed to the outstanding expansion, while on the other hand, a two-digit dynamic was also registered with respect to the increase of both construction and machine-type developments directly strengthening production capacities. The expansion that affects nearly every sector of the national economy strengthens favourable economic outlooks not only for this year but also in the medium term, as, once capacities have been installed, the developments will give new boost to economic growth through the commencement of production.

Figure 3: Development of investment rate in the EU

(% of GDP; for 2018 seasonally adjusted data on current prices)



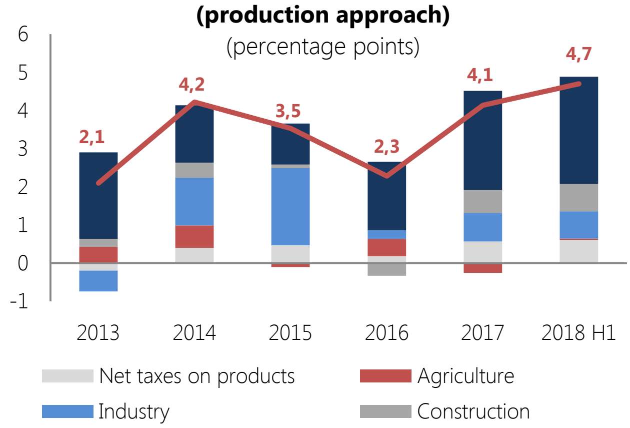
Source: Eurostat, MoF calculation

The developments of private sector played a key role in this vigorous take-off, as these capacity extensions are also substantially supported by the corporate income tax rate cut to 9% from 2017 resulting in the lowest rate in the EU. Besides that it substantially mitigates capital costs, looking ahead, also strengthens the investment activity of companies as well as Hungary's ability to attract capital. Also, the investment activity of households has further increased as a result of the stable low interest rate environment, the permanent improvement of employment and income situation of households and the government subsidies provided under the Family Housing Subsidy Programme. This is supported by the fact that in the past year, dwelling construction grew by 44%, followed by a further 30% increase in the first half of 2018. Additionally, the growth of public development related to the 2014-2020 EU funds or realised from budgetary resources also had a significant effect on the increase, given that by the end of September 2018, HUF 5,200 billion was already paid from the new EU financial frameworks available to Hungary. As a significant part of the transfers allocated so far were advance payments, the projects implemented using EU funds will continue to strengthen investment performance in the next period.

With regard to the external trade of Hungary, we can establish that the volume of export in goods increased dynamically – by 6.6% in the first half of the year – simultaneously with the favourable performance of industry. Meanwhile, the import of goods grew by 8.7%, which was also increased by the effect of domestic demand on import. According to the external trade statistics, there is a significant increase in both directions in terms of the two key main groups of goods: for processed products, import increased by 9.4% and export by 6.5%, while for machinery and transport equipment, both import and export increased by 4.7% in the first half of the year. In the case of services, import increased by 0.3%, while export by 5.9%. In both cases the most significant contributor to growth was the strong momentum of tourism and transportation services. As a result of the foregoing, the contribution of net export to GDP temporarily turns slightly negative. Based on the first half's data of the year Hungary's external trade balance is 7.2% of GDP. Although, it decreased to a higher extent as compared to last year, the amount remains high in international comparison.

Figure 4: GDP growth contributions (production approach)

(percentage points)



Source: KSH (Central Statistics Office), *MoF calculation*

With regard to production-side processes, we can establish that with the significant growth of internal demand, the performance of sectors classified as market services continued to improve: in the first half of 2018, they generated more than half of the increase (*Figure 4*). The primary source of this is the growth-promoting effect of the wage and tax agreement, as a result of which surplus revenue is generated at the economic agents through wage increases and the reduction of social contribution tax rate and corporate income tax rate. In the first half of 2018, almost every service sector showed growth. The most significant growth took place in trade and tourism activities (8.5%), art and entertainment (7.6%) and information and communication (7.4%). The rate of growth of industrial production grew by 3.1%, which includes a 3.6% growth for manufacturing, the most significant element of industrial production. The volume of construction output also showed significant growth (22.4%), to which the growth of use of housing aids and EU funds also contributed substantially. Agricultural production increased by 1.5% as compared to the first half of the previous year.

1.2 Labour market

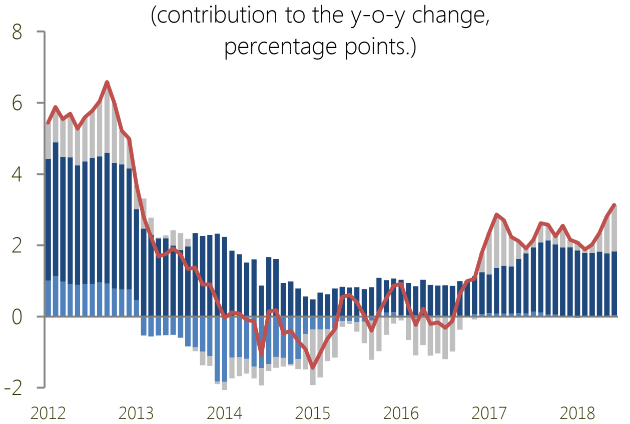
The labour market reforms implemented since 2010 were successfully promoting the growth of employment and labour market participation. The favourable tendencies also continued this year: after the 1.4% growth registered in the first half of the year, the number of employed people reached 4,475 thousand by the end of the period which is mainly a result of the 2.8% increase (+112 thousand persons) of employment of the domestic primary labour market.

Thanks to the permanently high labour demand of the corporate sector, more and more people public employees managed to find a job, and as a result, in the first half of the year their number decreased by 35,000 as compared to last year based on the institutional statistics of the HCSO. The labour force increased by a further 0.7% (31,000 persons) in the first half of the year. Simultaneously with the increase of employment in the private sector, the unemployment rate decreased to 3.6% by the end of June. The favourable effects of the hike of the minimum wage and the guaranteed wage minimum under the wage and tax agreement proposed by the Government and, at the same time, of the remarkable reduction of employers' social security contribution is reflected by the significant increase of wages. In the private sector, gross average earnings increased by 10.7%, while net real earnings by 8.2% during the first half of 2018, partly thank to the moderate inflation.

1.3 Inflation

Inflation has risen all across Europe since 2017 due to the low base of oil prices, which effect was also felt by Hungary. As a result, consumer prices increased on average by 2.4% in the past year. At the same time, the increase of the global market price of certain foods – in particular dairy products and pork – was also a significant factor. Since the start of the year, new indirect tax reductions have fed into consumer prices, while the price pressures resulting from the increase of domestic demand continue to show a moderate effect. Overall, the monetary conditions also support achievement of the inflation target set in the medium term. As a result of these factors an inflation of 2.4% was registered in the first half of 2018, the same as last year (*Figure 5*).

Figure 5: Main factors affecting inflation
(contribution to the y-o-y change, percentage points.)

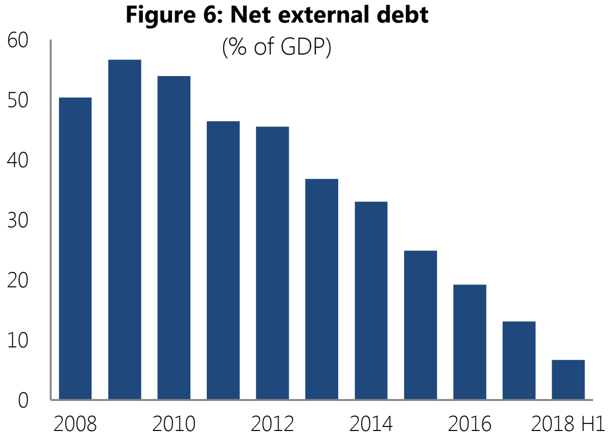


Source: KSH (Central Statistics Office), MoF calculation

1.4 External balance

In 2017, the current account balance amounted to 3.2% of GDP, while net lending vis-à-vis the rest of the world amounted to 4.2% of the GDP. The favourable trends continued in the first half of 2018, and despite the reduction of the external trade surplus as a result of internal demand, the external balance processes were similar to those of the previous year, which means that Hungary continues to be in an outstanding position in regional comparison. In addition, it is particularly favourable that in the past years, high financing capacity was coupled with the continuous reduction of external debt. Accordingly, net debt decreased from the 56.6% registered at the end of 2010 to 6.7% (*figure 6*), which is the second lowest in the region after the Czech Republic.

Figure 6: Net external debt
(% of GDP)



Source: MNB , MoF calculation

3. Budgetary developments

In 2018, the governmental target remains the original deficit target, i.e. 2.4%, which, according to our current expectations, does not require any deficit-increasing or deficit-decreasing measures. We plan to realise the medium-term deficit target without sudden, large-scale interventions into the economic processes, relying on the effects of the high-rate growth of economy supporting the budgetary balance. As a matter of fact, as a result of setting the economy on a path of long-term growth, the budgetary deficit will decrease from 2018, and will decrease to 0.5% of the GDP by 2022 based on the Convergence Programme of 2018.

In addition, large-scale deficit-decreasing measures having a concentrated effect at the end of the year could have explicitly negative effects on the confidence of the businesses and the population.

2.1 Up-dated and detailed budgetary forecasts for 2018

So far this year, tax revenue has increased in excess of the plans. Compared to the budgetary estimates, as regards income taxes, we can expect an increase of revenue from personal income tax and corporate income tax of 0.1 percentage point of the GDP each. Production taxes, value added tax revenues may also exceed the planned levels by 0.1 percentage point.

If we examine the data in detail, we can see that in the first half of 2018, accrual-based VAT revenue increased by more than 13%, which increase was connected to most sectors, primarily to domestic sales, within that in particular to trade, the manufacturing industry, certain services and increased fuel prices, based on the tax returns. The latest measures for whitening the economy are also expected to have a positive effect on VAT revenue (the success of earlier measures is supported by the fact that in 2012, the VAT gap was 22% of the theoretical VAT liability, and by 2016 it decreased to 13%). Due to the increased turnover, excise tax revenue increased in relation to all three product groups, and the increase was highest in the case of tobacco products. In the first half of 2018, revenues from taxes and contributions on work increased significantly due to the higher-than-expected wage dynamics and more favourable employment data. In addition, based on the data of the corporate income tax returns submitted since 2017, the economy boosting and whitening effect of the tax rate reduction will already be evident in the 2018 revenues. The factual data show a reduction that is 30% lower than the static loss preliminary estimated to take place due to the tax rate reduction.

Due to the favourable macroeconomic tendencies, the revenue from other taxes related to consumption (financial transaction duty, insurance tax, telecommunication services tax, registration tax) also increased as compared to the previous year, including those making up the revenue of the Health Insurance Fund (public health product tax, accident tax).

On the expenditure side, the biggest difference is caused by the lower absorption and as a result of lower domestic co-financing of EU funds. Both the operating (GDP 0.4%) and investment expenses (0.8%) funded from EU funds are behind the plans. With this, domestic operating expenditure is 0.5 percentage point lower than expected. In contrast, domestic investment expenditure (both in the central and the municipal subsystem) exceeds the planned level by 1.5 percentage point of the GDP. Further, we can see a significant divergence with respect to wages, which may exceed the planned level by 0.3 percentage point. In summary, we can say that the deficit target can be met, albeit with substantial divergences both on the income and the expenditure side.

[1] Study and Reports on the VAT Gap in the EU-28 Member States: 2018 Final Report
https://ec.europa.eu/taxation_customs/sites/taxation/files/2018_vat_gap_report_en.pdf

Direction of tax policy

One accomplishment of the past years is that after the crisis, the budget was stabilised in a manner so that the degree of tax concentration remained at the pre-crisis level. However, the index increased to some extent in the past few years, but this was not the result of tax increases, rather than the individual effects and the measures introduced to whiten the economy. Due to the economic growth and the positive effects of the economy-whitening measures the continuous reduction of tax burdens was possible.

Despite the earlier tax reductions, the tax wedge on labour income (net of benefits) in Hungary is still high in international comparison based on OECD statistics, which has a negative effect on the competitiveness of Hungary. For this reason, the agreement concluded between the Government and the representative bodies of employers and employees in 2016 was aimed at a further significant reduction of the tax wedge. Accordingly – and also taking into consideration the budgetary elbow room –, the social contribution tax rate was reduced by 5 percentage point in 2017 and by a further 2.5 percentage point in 2018, while the minimum wage and the guaranteed wage minimum increased significantly. Thanks to the measures set out in the agreement, wages have increased significantly, while a smaller surplus has also been generated in employment and budgetary revenues. According to the agreement, the tax burdens of employers will decrease on a further four times from 2019 if the increase of real wages reaches 6% per year. After the full implementation of the agreement, the tax wedge will be reduced to the current level of average tax burden of the closest regional competitors, which means a more than 7 percentage point improvement compared to the pre-2016 level. Simultaneously with the measures above, employer taxes for small business taxpayers had been also reduced in 2017 and 2018.

From 2019, a new, individual social contribution tax law will be introduced, and the allowances for this tax will also be renewed. The new entrants allowance - adapted to the changed labour market situation - focuses on getting new workers to the labour market and simplifies administration of the employers. The new allowance is available for those who had been out of work for at least 6 months in the past 9 months, and it provides full exemption from tax up to the amount of the minimum wage for the employer for two years. The new regulation also covers the scale of incomes with health contribution obligations, therefore this type of tax will cease.

The corporate income tax rate was reduced to 9% as of 2017 (the previous rate was 10% on the first HUF 500 million of the tax base and 19% above this threshold). Through the intensification of investments, the effect of the measure can also surface in the improvement of productivity and consequently the wage level, which will generate additional revenues to the budget.

In order to strengthen the growth-friendliness of the tax system, significant changes have been put into effect with regard to the special taxes available to SMEs, which have a key role in employment. In addition to the tax rate reduction, the rules of small business tax have been simplified and made more favourable since 2017, which could contribute to the more rapid growth of those concerned by it on the long term. In order to promote the competitiveness of the smallest enterprises and to whiten the economy, the revenue threshold for the lump sum tax of small enterprises ("KATA") was increased from HUF 6 million to HUF 12 million in 2017. Concurrently, in order to reduce administrative burdens, the value threshold of exemption from VAT was increased from HUF 6 million to HUF 8 million. As a result of the beneficial measures, revenue from this tax has increased significantly since December 2016, and the number of enterprises using KATA has increased by more than 113 thousand – according to the data 288,831 taxpayers choose KATA in August 2018.

The tax policy of Hungary continues to focus on reducing taxes on labour and the tax and administrative burdens of enterprises, increasing the efficiency of tax collection and simplifying the tax system.

2.2 Measures reducing expenditure in 2018 and 2019

In 2018 one of the Government's main targets is to accelerate advance payments for EU funds in order to speed up the absorption., because both the delegates of Hungary and the EU Directorate responsible for regional matters have previously identified as a problem that most of the absorption of EU funds tend to delay to the end of the 7-year period. The government spends a significant part of the EU and domestic development funds on developing the economy. In particular, most of the support flows to the private sector and will be spent on infrastructure development. The utilisation of the funds of the 2014-2020 EU budget cycle is expected to peak in 2019 and 2020. It is important to emphasise that this only complements, but does not replace private investment.

In 2019, those budgetary expenses that are unfavourable in the aspects of economic growth will be reduced further in proportion to the GDP. Due to the lower yield environment seen in recent years and the continuing decrease of debt, interest expenditure will decrease by a further 0.1% next year. A portion of the social expenses may decrease also due to economic prosperity, as with the exception of pensions, these are not indexed, and therefore their proportion to the GDP decreases significantly in times of strong economic growth. The proportion of pension expenditure to GDP is expected to decrease as a result of the significant economic growth, even with the indexation for inflation and the premium to be paid if the growth exceeds 3.5%. The GDP-proportionate share of transfers to households will decrease by 0.5 percentage point. The promotion of employment is in alignment not only with the measures taken for the adjustment of salaries but also with the goal of reducing expenses that discourage employment. The rationalisation of the public employment programme – resulting in reduction of the expenses – also stems from this consideration.

The government has increased in several steps and continues to increase earnings in the public sector via selective wage increases. The increase of earnings however, is lower than the nominal GDP increase. In part because of this and in part because of the reduction of the social contribution tax, their share is expected to decrease by 0.6%. The career-based increase rates announced earlier were pronounced at the time of commencement of these programmes, and subsequently they typically materialise in increases of about 5%. A significant wage increase is expected with regard to one status group only – public officers –, and concurrently with this, a rationalisation programme will commence with a significant downsizing effect.

The measures taken towards economical management are also evidenced by the decrease of domestic operating costs and capital transfers in proportion to the GDP.

Investment expenditure will increase due to the utilisation of EU funds, while investments from domestic funds are expected to remain at the same level in proportion to the GDP. In our opinion, these expenses contribute to the increase of economic potential and the reduction of social expenditure, and therefore it would be ill-advised to suppress them in order to improve the balance.

As a result of the wage adjustment process also set out in the VKF agreement, the wages in the national economy may increase more rapidly than the GDP, which could compensate for the effect of the further 2 percentage point inter-annual reduction of social contribution tax.

In summary, the economic and budgetary policy that is based on a clear economic philosophy and has proven to be successful in recent years will continue in 2019, with further decrease of the budgetary deficit. The budgetary risks are in essence eliminated by the fact that the largest tax reduction measure – the reduction of the social contribution tax – is conditional, i.e. the next tax decrease can only take place if the real wage increase expected on the fiscal path is realised.

2.3 Measures increasing tax revenue in 2018 and 2019

In order to get closer to the EU tax minimum on cigarettes, the rate of the excise tax charged on cigarettes and fine cut smoking tobacco gradually increases from September 2018, in three steps (September 2018, January and July 2019).

From 1 January 2019, the public health product tax will be affected by several changes:

- tax rates will increase on average by 20% for all products subject to tax,
- fruit spirits and herbal beverages will be subject to tax,
- the conditions of the benefit available with respect to health preservation programmes will be made stricter,
- the tax bracket thresholds associated with the tax rates for alcoholic beverages will be modified.

In order to combat international tax evasion by business associations, the ATAD requires Member States to implement measures protecting their tax base. In 2018, Hungary amended the rules concerning controlled foreign companies in accordance with the Directive, and will implement the rules for limitations to the deductibility of interest, effective from 1 January 2019. According to the new provisions, the interest expenditure of companies will only be deductible from the tax base up to a specific level, and any amount in excess of that will be subject to tax and increase the budgetary revenue.

The tax payment practice of individuals and companies – and consequently the budgetary revenues – could be indirectly improved by the extension of the regulations on information exchange with respect to taxes and the more effective use of the available data by the tax authority. In 2017, Hungary implemented the rules pertaining to Country-by-Country Reporting, as a result of this measure from 2019 the tax authority will possess such information regarding the operation of company groups that will make it possible to combat aggressive tax planning practices more effectively.

In order to increase the effectiveness of tax collection, mandatory online invoicing was implemented, effective as of 1 July 2018, making the data of invoices between taxpayers with at least HUF 100,000 VAT content accessible in real time to the tax authority.

Tax administration burdens are further decreased by the fact that as of 1 January 2018, the draft of the excise tax returns are prepared by NTCA (National Tax and Customs Administration) for almost 29 thousand companies concerned, releasing companies from preparing 200 thousand tax returns per year.

4. Structural reforms

Priority objectives of the Government include further increase of competitiveness and human capital. To this end, the Government has already implemented and going to implement a number of corrective measures this year and next year as well. For this reason, in the next period, in addition to many other important areas, the Government will pay special attention to the ICT preparedness of Hungarian SMEs and strengthening their participation in the digital economy; reducing bureaucracy in public administration; early childhood education and development and combating segregation.

3.1 Measures improving competitiveness

In order to create an institutionalised professional forum for dialogue on competitiveness and initiatives aimed at improving competitiveness, the Government resolved to establish the National Competitiveness Council in 2016. This consultative body consisting of renowned members of the economic and scientific life gives opinion on initiatives relevant to the competitiveness of Hungarian economy and prepares recommendations for government interventions aiming at improving economic competitiveness. The National Competitiveness Council – led by the Minister for National Economy (currently the Finance Minister) – started its operation in March 2017. During its spring session, it discussed matters that could substantially improve competitiveness in the short term by developing the business environment, while in the autumn session, it discussed long-term questions such as assessment of the economic effects of the wage agreement, the provision of appropriately skilled workforce and the reintegration of the inactive workforce to the labour market, as well as the possibilities of developing digital government services.

In order to promote the productivity of the SME sector, the Hungarian Government and the OECD in close cooperation developed the renewed draft of the SME strategy adopted in 2013, specifically taking into consideration the Hungarian conditions, regulatory environment and corporate characteristics. The material examines the problems and tasks arising at different stages of a company's life cycle; the onset phase, the growth phase and "mature" phase separately. The strategy is particularly aimed at the promotion of competitiveness and productivity of Hungarian SMEs.

It is a Government priority to increase the ICT preparedness of Hungarian SMEs and participation in the digital economy through education, awareness-raising and financing support, as a result of which the performance and competitiveness of the entire economy would improve. To this end, the Government prepared and launched a complex programme package containing the following measures: ICT motivation, awareness and competence development programme for SMEs; supporting complex corporate ICT and mobile development and the spreading of cloud-based online business services; cloud-based (IaaS, PaaS, SaaS) corporate services; supporting the development of ICT solutions and their introduction to the market; enhanced digitalisation of the activity of competitive companies; business ICT and digitalisation capital fund.

After comprehensive professional and social consultation, the Government decided to extend the Digital Welfare Programme and adopt Digital Welfare Programme 2.0 via Government Resolution No. 1456/2017. (VII.19.). The strategy containing 20 new development programmes in addition to the already-existing programmes (Digital Startup Strategy, Digital Export Development Strategy, and Digital Education Strategy) sets out programmes promoting digitalisation in almost all areas of the digital development of Hungarian economy, governmental activities and the Hungarian society. This includes, among others, the development of the Superfast Internet Programme, the 5G Coalition, the Digital Workforce Programme and the Digital Agricultural Strategy, creation of the Digital Health Improvement, the Digital Trade and Accessibility and the venture capital programme of the Digital Welfare Programme, network research (formal and informal networks in the digital ecosystem), as well as the analysis of the social, anatomical and environmental effects of digitalisation. With regard to the measures, the reduction of VAT charged on internet to 5% from 2018 (first in the EU) and the implementation of the Digital Welfare Basic Package should be highlighted.

Within the framework of reducing bureaucracy in public administration and the state overhead reduction programme, the Government implemented a comprehensive simplification in order to make administration procedures simpler, faster and more efficient. The bureaucracy reduction programme was implemented in four phases. As a result of the programme, the time required for administrative procedures and burdens encumbering citizens have decreased significantly. During the rationalisation of the institutional system of public administration, parts of the tasks of central offices has been delegated to regional levels that are closer to the citizens, which resulted in faster and more efficient administration that takes place closer to the registered office of company clients. As a result of the measures, 44 bodies were dissolved in multiple stages, ending on 31 October 2017. In addition, developments related to the transformations complementing organisational effectiveness have also been implemented. The goal of the service provider-focused development of government office processes and services is to extend the comfort-related elements of customer services, spread the practice of developing services based on client needs and providing consistently high-quality services in all parts of the country, thereby making administration easier for local enterprises and entrepreneurs.

3.2 Measures increasing human capital

Hungary treats early childhood education and development as a priority (establishment of new municipal kindergartens, increasing the capacity of institutions performing kindergarten tasks owned by municipalities and maintained by the local municipality or association and the related developments, special development programmes and opportunity-creating programmes). The amount of the subsidy aimed at local adaptation to the increased demand resulting from mandatory child care from the age of 3 set out for municipalities in the budget act was HUF 2.5 billion both in 2016 and 2017. HUF 5 billion has been appropriated in the central budget for 2018 for the Hungarian nursery development programme, and HUF 6 billion for creating nurseries in workplaces. From the EU funds (HUF 110 billion), so far HUF 96.03 billion has been granted which will be used for creating 4,667 new and 10,183 improved places in nurseries, and creating 3,499 new and 57,779 improved places in kindergartens. When granting the subsidy, the improvement of access of disadvantaged or multiply disadvantaged children to care was a priority. The subsidy also aims to help align family and work responsibilities. The Government appropriated one billion Hungarian forints for supporting the development of municipal catering services.

With respect to education policy, the Government is committed to the improvement of access to opportunity-creating, high-quality education and ensuring equal treatment. The implementation of these principles is supported by the amendment of the Equal Treatment Act, effective as of 1 July 2017. With the amendment, the Government integrated into the Act further safeguarding requirements preventing segregation for all forms of education organisation. In order to prevent selection, further safeguarding elements have also been integrated into Act CXC of 2011 on National Public Education: as of January 2017, the educational district centre exercises the right of consent regarding the assignment of primary school admission districts by the government office, whereby the Government enforces the principle of subsidiary in a more pronounced manner as compared to the earlier practice. The EU programme covering desegregation measures started with the participation of 300 elementary schools. The situation assessment and desegregation plans for the 300 schools were prepared by December 2017. The professional content of the complex and differentiated institution development framework, applying a new training methodology and supporting the prevention of dropping out from school, will be prepared in 2018. The budget for the measure aimed at developing institutions with a high risk of student drop-out, developing access to inclusive education and at desegregation is HUF 12.9 billion. In addition, a HUF 45.35 billion budget is available for implementing a high-quality, equitable public education system through developing digital competence. Among the other programmes, it is important to highlight the "Útravaló" Scholarship Programme and the "Tanoda" programmes, the Integrative Pedagogy System (kindergarten development programme), the measure aimed at preventing Roma girls from leaving school without graduating and the Arany János programme.

In the field of healthcare, the Government continues to improve basic care, reduce the number of people on waiting list and increase the number of people receiving one-day care. The “gatekeeper” role of general medical practitioners has been strengthened, new practice communities have been established in the framework of public health-focused basic care development, the scope of care has been expanded and infrastructural developments have been implemented. The number of patients on hospital waiting lists is decreasing in Hungary. In 2012, there were 70,000 people registered on the waiting list, while by January 2017, this number dropped to 28,000. The goal of the Government is to increase the number of one-day care cases even further. The proportion of one-day care cases is increasing continuously: in 2010, this proportion was 6%, while in 2017 it was 16%.

The trial run of the electronic healthcare service space commenced in February 2017. The system is built on the principle that any healthcare operator may enter the integrated platform at any time and access the data of a certain patient generated in other institutions. Since November 2017, more than 3,000 pharmacies, 6,000 general medical practitioners, 100 hospitals and 300 independent outpatient institutions have joined the system. Thanks to the new system, it is not necessary any more to repeat examinations already performed in other institutions, and the burdens of patients are also reduced.

In accordance with the Commission recommendation, several measures were implemented or continued in 2017 and 2018 in order to reduce the weight of public works and support transition from public works to the labour market. The programme called “From Public Works to the Business Sphere” provides an incentive to public employees to transit to the primary labour market by providing a placement benefit equal to the monthly amount of the minimum income benefit for the time remaining from public work, and additionally, under the programme the district (and capital district) offices provide labour market information and job placement services to ensure the most optimal outplacements, and it is possible to employ a professional helper at the place of employment with a wage cost support. It is necessary to engage a professional helper to assist the public employee in order to ensure that the highest possible number of persons leaving public employment becomes suitable for long-term work in the labour market. The aim of this professional assistance is to help the professional work and facilitate the development and workplace integration of the former public works employee. On 20 March 2017, the Government adopted a comprehensive measure package in order to reduce the weight of public works. According to that, the average maximum monthly number of people participating in public employment programmes must be gradually reduced to 150 thousand by 2020 from the 224 thousand and 180 thousand registered in 2016 and 2017, respectively, for which purpose the 2018 programmes allow for the public employment of 160 thousand people on average in the year. In order to further strengthen active labour market policies, in 2017 HUF 40 billion was transferred from public works funds to the appropriation of active assets. As a result of the measure, in 2017 the average number of public employees decreased to 179.5 thousand, amounting to a 19.7% decrease. As a result of the change of legislation, public employees using the labour market service are reimbursed for the cost of any travel related to measures initiated by the public employment body, and the job placement function of the National Employment Service (“Nemzeti Foglalkoztatási Szolgálat”) is strengthened. Further changes of legislation help the participants in the public administration system (such as the increase of the duration of participation in the labour market service to 15 days, mandatory participation in training or the application of the provisions of the Labour Code in case of legal succession of the public works employer). The “Road to Labour Market” programme – with a funding of HUF 214 billion – is an important factor in realizing the presented aims. In 2017, HUF 284.795 billion was allocated for the reforming of public works, while the 2018 appropriation was HUF 225 billion. HUF 40 billion has been transferred from the 2017 appropriation to programmes and tenders aiming at exiting public works in order to reduce the number of persons in public works and to implement the active labour market programmes. The “Training for Low Skilled and of Public Workers” programme is a priority project with a funding of HUF 30 billion.