101475/EU XXVII. GP
Eingelangt am 23/05/22

Council of the
European Union

Brussels, 23 May 2022
(OR. en)

9417/22

ECOFIN 482
UEM 117
SOC 297
EMPL 192
COMPET 379
ENV 484
EDUC 174
RECH 282
ENER 210
JAI 723
GENDER 54
ANTIDISCRIM 38
JEUN 70
SAN 300

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	23 May 2022
To:	General Secretariat of the Council
No. Cion doc.:	COM(2022) 614 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Hungary and delivering a Council opinion on the 2022 Convergence Programme of Hungary

Delegations will find attached document COM(2022) 614 final.

Encl.: COM(2022) 614 final

www.parlament.gv.at

Brussels, 23.5.2022
COM(2022) 614 final

Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Hungary and delivering a Council opinion on the 2022 Convergence Programme of Hungary

{SWD(2022) 614 final} - {SWD(2022) 640 final}

EN EN

Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Hungary and delivering a Council opinion on the 2022 Convergence Programme of Hungary

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual

[1] OJ L 209, 2.8.1997, p. 1.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

www.parlament.gv.at

Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it did not identify Hungary as one of the Member States for which an in-depth review[3] would be needed. On the same date, the Commission also adopted the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered[4] for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare. Exceptional support is made available to Hungary under the Cohesion's Action for Refugees in Europe (CARE) initiative and through the additional pre-financing under the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) programme to urgently address reception and integration needs for those fleeing Ukraine.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[5]. In its Communication of 3 March 2021[6], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook

---

[3] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011, p. 25.

[4] Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1

[5] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[6] Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

www.parlament.gv.at

in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Convergence Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth[7]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[8] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[9]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

---

7 The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

8 Not financed by grants from the Recovery and Resilience Facility and other EU funds.

9 Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

www.parlament.gv.at

(9) On 29 April 2022, Hungary submitted its 2022 National Reform Programme and its 2022 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed together.

(10) The Commission published the 2022 country report for Hungary[10] on 23 May 2022. It assessed Hungary’s progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021. It also assessed Hungary's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN’s Sustainable Development Goals.

(11) On 29 April 2022, Hungary submitted its 2022 Convergence Programme, in line with the deadline established in Article 4 of Regulation (EC) No 1466/97.

(12) On 23 May 2022, the Commission issued a report under Article 126(3) TFEU. This report discussed the budgetary situation of Hungary, as its general government deficit in 2021 exceeded the 3% of GDP Treaty reference value, while its general government debt exceeded the 60% of GDP Treaty reference value and did not respect the debt reduction benchmark. The report concluded that the deficit and debt criteria were not fulfilled. In line with the Communication of 2 March 2022, the Commission considered, within its assessment of all relevant factors, that compliance with the debt reduction benchmark would imply a too demanding frontloaded fiscal effort that risks to jeopardise growth. Therefore, in the view of the Commission, compliance with the debt reduction benchmark is not warranted under the current exceptional economic conditions. As announced, the Commission did not propose to open new excessive deficit procedures in spring 2022 and it will re-assess the possible opening of excessive deficit procedures in autumn 2022.

(13) On 20 July 2020, the Council recommended Hungary to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Hungary to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Hungary’s general government deficit fell from 7.8% of GDP in 2020 to 6.8% in 2021. The fiscal policy response by Hungary supported the economic recovery in 2021, while temporary emergency support measures declined from 4.0% of GDP in 2020 to 0.8% in 2021. The measures taken by Hungary in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of a reduction of employers’ social security contributions, an abolition of the training levy, an exemption of employees under the age of 25 from personal income tax, a reintroduction of 13th monthly pension, and an increase in doctors’ wages. Based on data validated by Eurostat, general government debt stood at 76.8 % of GDP in 2021.

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Convergence Programme is favourable. The government projects real GDP to grow by 4.3% in 2022 and 4.1% in 2023. By comparison, the Commission’s 2022 spring

[10] SWD(2022) 614 final.

www.parlament.gv.at

forecast projects a lower real GDP growth of 3.6% in 2022 and 2.6% in 2023, mainly due to the assumption about more persistent macroeconomic impact of the Russia's war of aggression in Ukraine. The Commission's forecast projects a weaker growth of private consumption, especially in 2023, and a slower investment growth both in 2022 and 2023. In its 2022 Convergence Programme, the Government expects that the headline deficit will decrease to 4.9% of GDP in 2022 and to 3.5% in 2023. The decrease in 2022 mainly reflects continued dynamic growth in nominal GDP. According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 76.1% in 2022, and to decline to 73.8% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 6.0% of GDP and 4.9% respectively. This is higher than the deficit projected in the 2022 Convergence Programme, mainly due to the projected less favourable macroeconomic outlook, especially in 2023, and higher growth of expenditure, which incorporates capital injections to utility companies amounting to 1.1% of GDP in 2022 and a further 0.7% in 2023. The Commission 2022 spring forecast projects a higher general government debt-to-GDP ratio, of 76.4% in 2022 and 76.1% in 2023. The difference is due to higher primary balance and less favourable nominal GDP dynamics.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 3.2%. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Hungary's potential growth.

(15) In 2022, the government phased out the measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 0.8% of GDP in 2021 to 0.0% in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 1.2% of GDP in 2022 and 0.7% of GDP in 2023.[11] These measures consist of compensations to utility companies by the government with capital transfers for expected losses resulting from regulated energy prices, a temporary cut in excise duties on fuels and compensations for small petrol stations. All measures other than the permanent price caps on retail gas and electricity prices have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures could be continued. Some of these measures are not targeted in nature, notably the general price caps on retail prices of energy and the cut in excise duties. The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.2% of GDP in 2022 and 0.3% in 2023.[12]

[11] The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

[12] The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

www.parlament.gv.at

(16) On 18 June 2021, the Council recommended that in 2022 Hungary[13] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally-financed investment. It also recommended Hungary to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

(17) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Hungary's 2022 Convergence Programme, the fiscal stance is projected to be broadly neutral at -0.1% of GDP, while the Council recommended a supportive fiscal stance.[14] Hungary plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to decrease by 1.0 percentage point of GDP compared to 2021 due to expected slowdown in the EU funds absorption[15]. Nationally-financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.2 percentage points in 2022.[16] Therefore, Hungary plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 0.4 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.1% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.2% of GDP). Several discretionary measures also contribute to the growth in nationally-financed primary current expenditure (net of new revenue measures), such as the reintroduction of the 13th monthly pension, wage benefits for law enforcement and military officers, a reduction of employers' social security contributions and training levy.

(18) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at 1.9% of GDP on a no-policy change assumption.[17] Hungary is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.3 percentage points of GDP in 2023. Nationally financed investment is projected to provide an expansionary contribution to the fiscal

[13] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Hungary, OJ C 304, 29.7.2021, p. 78.

[14] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

[15] These are Commission projections. The Commission has not yet assessed the Recovery and Resilience Plan for Hungary.

[16] Other nationally-financed capital expenditure is projected to provide an expansionary contribution of 0.4 percentage points of GDP, which is largely driven by the fiscal impact of the recapitalisations to utility companies.

[17] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

www.parlament.gv.at

stance of 0.4 percentage points in 2023.[18] At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 1.9 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.1% of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP).

(19) In the 2022 Convergence Programme, the general government deficit is expected to gradually decline to 2.5% of GDP in 2024 and to 1.5% by 2025. Therefore, the general government deficit is planned to go below 3% of GDP by 2024. According to the Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 70.4% in 2024, and a decline to 66.9% in 2025. Based on the Commission's analysis, debt sustainability risks appear medium over the medium term.

(20) The impact of population ageing and the increase of public debt during the COVID-19 crisis are set to intensify the long-term fiscal sustainability challenges in Hungary. The pension expenditure is projected to rise substantially, from around 8% in 2019 to above 12% of GDP in 2070. The fiscal sustainability indicators point to medium sustainability risks in the medium term and high risks in the long term. Recent policy measures exacerbate the sustainability challenge by increasing government's long-term pension liabilities. The 13th month pension reintroduced in 2021 and 2022 is expected to increase the expenditure on pensions. Changes to tax and pension systems in the last decade are projected to increase expenditure on the pensions of high-wage retirees and amplify inequalities among pensioners. Those measures include the removal of the ceiling on pensionable income and pensions and the introduction of the flat personal income tax that boosts pensionable income of high earners. The minimum pension has remained nominally unchanged since 2008, which affects the situation of those with interrupted employment history and low average earnings during their career.

(21) Hungary submitted the cohesion policy programming documents[19] - Partnership agreement on 30 December 2021 and the Economic Development and Innovation Programme Plus on 26 January 2022 [add more OPs if submitted until the publication of the Spring Package]. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Hungary shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the cohesion policy programmes also depends on the removal of

[18] Other nationally-financed capital expenditure is projected to provide a contractionary contribution of 0.6 percentage points of GDP, which is largely driven by the phase out of the renovation subsidies for families and lower estimated recapitalisations to utility companies than in 2022.

[19] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. PE/47/2021/INIT. OJ L 231, 30.6.2021, p. 159.

www.parlament.gv.at

bottlenecks to investment to support the green and digital transition and balanced territorial development.

(22) Hungary's labour market is overall in a good shape, however, challenges remain in relation to the low employment rate of women and of disadvantaged groups. Mothers with young children tend to stay away from work for a long time, partly due to the scarcity of childcare places for children under the age of three. The number of childcare places is gradually increasing thanks to dedicated programmes, but these institutions also face staff shortages. There is significant room to increase the employment rate of certain disadvantaged groups, such as the low-skilled, long term unemployed, persons with disabilities and Roma. These groups could be better mobilised by equipping them with skills and actively helping them to find jobs. Assistance during the job search is limited, and only half of the registered unemployed receive financial benefits. The duration of the unemployment benefit is among the shortest in the EU. Joblessness is concentrated in the less developed regions and in rural areas.

(23) The risk of poverty has decreased markedly, but many people are still unable to afford basic necessities. Material and social deprivation rates remain among the highest in the EU, especially for children. Poverty and social exclusion are concentrated in specific groups and territories. Poverty rates are three to four times higher for the Roma, related to their more limited access to the labour market and public services. The social safety net has weakened for families without stable employment over the last decade and poverty gap widened recently. The tax system disproportionately burdens the lower-paid workers. Low-income families are also less likely to benefit from the income tax allowance per child. Their major sources of income, such as the public works wage, the minimum income and the family allowance did not keep up with the cost of living. Regulated prices for residential energy have remained unchanged, thus partly shielding households from recent commodity price increases. However, this does not help poor rural households using solid fuels for heating. Rising house prices pose further challenge to low-income families, which have difficulty accessing public housing support schemes. Meanwhile, social housing has become scarce and often run-down.

(24) Education outcomes in Hungary are below the EU average. By the age of 15, basic skills are significantly below the EU and regional averages and have decreased over the last decade. Contrary to European trends, early school leaving increased in the last decade to 12.0% in 2021, above the EU average of 9.7%. Early school leaving is higher in the least developed districts, and six times higher among the Roma than the non-Roma. The share of 25-34 year old people with a tertiary diploma rose since 2010, but remains among the lowest in the EU. Participation in adult learning is just over half of the EU average. Digital skills are lacking, especially among poorer people. In the lowest two income quartiles, only 13% and 18% of Hungarians have at least basic digital skills, which are among the lowest percentage in the EU. Disadvantaged students have low chances of entering the higher educational tracks. Inequality in education narrows the possibility for social mobility. The low effectiveness and equity in the school system are likely to be linked to the low level of curricular autonomy, the lack of socioeconomic diversity within schools and low teacher salaries. The shortage of teachers is increasingly a problem. While aggregate indicators, such as the teacher-pupil ratio, do not signal acute shortages, more detailed analysis shows that shortages exist for specific subjects such as mathematics, science and foreign languages. Teacher shortages are also linked to the fragmentation of the school system, as half of all

www.parlament.gv.at

primary and lower secondary schools have fewer than 150 pupils. Schools with a high proportion of disadvantaged pupils tend to suffer particularly from the lack of qualified teachers. More than half of the graduates from teacher education end up in other careers due to the high workload and low pay of teachers, especially at the beginning of their career. Moreover, the centralised management of schools leaves school heads with limited autonomy and tools to improve teaching quality.

(25) Health outcomes lag behind most other Member States, reflecting both unhealthy lifestyles and the limited effectiveness of healthcare provision. The prevalence of smoking, alcohol use disorder and obesity is one of the highest in the Union. Hungarians are among the most likely in the Union to suffer premature death due to bad air quality. The number of avoidable deaths is one of the highest in the Union, partly due to inadequate screening and primary care management. There are significant socioeconomic disparities in access to quality care, due to a sizeable shortage of healthcare staff, in particular general practitioners and nurses. The hospital network is fragmented and has a high number of hospital beds. Hungarian patients spend the longest time in hospitals across the EU, because the take-up of day surgery procedures has remained low in EU comparison. Recent reforms have encouraged general practitioners to cooperate, which would improve the service provision. Significant measures were taken to eradicate gratuity payments and address shortages of doctors.

(26) Deficient independent control mechanisms and tight interconnections between politics and certain businesses are conducive to corruption. When serious allegations arise, there is systematic lack of determined action to investigate and prosecute corruption cases involving high-level officials or their immediate circle. Accountability for decisions to close investigations remains a matter of concern as there are no effective remedies against decisions of the prosecution service not to prosecute alleged criminal activity. The shrinking possibilities of civic oversight in the context of restrictions to media freedom, a hostile environment for civil society organisations and recurrent challenges in the application of the transparency and access to public information rules further weaken the anti-corruption framework. In December 2021, the government postponed the implementation of most measures in its anti-corruption strategy for the years 2020-22.[20]

(27) The independence, efficiency and quality of the justice system are crucial to attracting business and enabling economic growth. Concerns regarding judicial independence persist. The National Judicial Council continues to face difficulties in counter-balancing the powers of the President of the National Office for the Judiciary. The rules on electing the President of the Supreme Court create risks of political influence over the top court of the country. The lack of transparency of the case allocation scheme does not allow parties to verify whether any undue discretion has been applied. Questions have been raised regarding the role of the Constitutional Court, composed of members elected by Parliament without the involvement of the judiciary, in reviewing judgments of the ordinary courts.

(28) Hungary scores low among the Member States in social dialogue, stakeholder engagement in developing primary law, consultation with social partners, civil society,

[20] The Commission sent a notification letter to Hungary on 27 April pursuant to Article 6(1) of Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council, of 16 December 2020, on a general regime of conditionality for the protection of the Union budget.

www.parlament.gv.at

and the use of evidence-based instruments. National rules on the obligatory public consultation of draft legal acts and their impact assessments have been systematically disregarded. The number of laws subject to consultation has significantly declined in recent years.

(29) Measures have been taken to further improve the tax system but some challenges remain. The tax burden on labour has decreased but remains high for low-income earners. Sector-specific taxes and a large number of small taxes complicate the tax system and raise compliance costs, in particular for smaller firms.

(30) Regulatory barriers and State involvement in product markets hinder the selection of efficient enterprises and limit competition. Ad hoc exemptions of business transactions from competition scrutiny hinder the functioning of the market and hamper investment. The unpredictability of the legal framework is a further problem, especially in the retail sector, which in recent years has faced frequent changes in regulations. Regulations and taxes might prevent businesses from growing, especially in retail and utilities. Regulation of professions also remains restrictive. Slow and costly insolvency procedures might hinder the restructuring of failing businesses. The procurement market remains vulnerable to anticompetitive practices. The proportion of contracts awarded in procedures where there was just one bidder remains among the highest in the EU. The authorities improved the supervision of the regularity of public procurement in response to the findings of the Commission's successive audits in the field of EU funds management, which identified serious, systemic deficiencies and irregularities, in particular related to the use of framework agreements. Whether all of the previously identified deficiencies have been fully addressed remains to be seen in practice. Recently, new risks emerged with the apparent exclusion of public interest trusts from public procurement rules. In February 2021, the government set itself an ambitious target of reducing the percentage of public procurement procedures with only a single bid to less than 15%, although without a fixed timeline.

(31) The transition to a climate neutral economy is still at an early stage. Half of Hungary's territory is significantly exposed to climate change risks including drought and floods. This creates the need for sustainable climate adaptation solutions, notably through nature-based water retention, including by restoring natural hydrology, adapting agricultural practices, and carefully monitoring ground- and surface water abstractions for irrigation. Air and water quality remain a concern. The main sources of air pollution are residential solid fuel combustion, agriculture and transport emissions. A large share of the drinking water supply network is in poor shape and regulatory environment creates barriers to investment. The circular economy is still in an initial phase, recycling of municipal waste is underdeveloped and economic instruments are insufficient to address environmental challenges. Waste management was reorganised by the government in several steps. The changes limited competition in the sector, with the side effect of declining efficiency and recycling rates. Sectors that are likely to decline or transform due to the green transition provide jobs for nearly 4% of all workers, who could particularly need up- and reskilling. Labour shortages in the energy sector could hinder the transition to climate neutrality.

(32) Transport infrastructure is characterised by a dense motorway and electrified rail network. Hungary has experienced a strong increase in emissions in the transport sector, which is rapidly becoming the largest emitting sector. Hungary is among the most congested Member States with increasing number of hours lost per driver in urban areas. The share of zero-emission passenger cars in new registrations and the

www.parlament.gv.at

number of charging points grow steadily. While the corresponding indicators show a leading position among regional peers, it still remains under the EU average.

(33) Research and innovation is a critical driver for long-term growth and competitiveness. Hungary ranks as an emerging innovator. Spending on research and development is increasing and reached 1.61% of GDP in 2020. The shortage of highly skilled workers is a key obstacle to innovation. Tertiary education attainment rates are among the lowest in the EU. The recent exemption of young workers from personal income tax and other structural changes hindering academic freedom decrease the attractiveness of higher education. Digital skills and the use of digital technologies by firms and public services remain below the Union average.

(34) In response to the mandate by the EU Heads of State or Government set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuels import from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.

(35) Hungary's energy sector depends strongly on Russia for fossil fuels. According to 2020 data[21], nearly all imported natural gas comes from Russia (95% compared to the EU average of 44%). The dependency on Russia for oil is also above the EU average (61% compared to 26%), but for coal it is below (22% compared to 54%). The share of natural gas in the energy mix is higher than the EU average (35% compared to 24%), while the shares of oil (30% compared to 33%) and coal (7% compared to 11%) are lower. The 13.9% share of renewable sources in gross final energy consumption is one of the lowest in the EU. Hungary intends to rely more on solar energy while the potential of wind and geothermal energy remains underutilised. The electricity grid requires investments, such as smart metering, prosumers schemes, energy communities and dynamic pricing to accommodate more renewable energy. In addition, permitting procedures for installing plants using renewable energy sources could be simplified. Regional gas interconnections could allow diversification of imports. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. To decrease further dependency, there is a large potential to improve energy efficiency in the residential building sector. The application of stricter environmental standards for new housing was postponed by 18 months until June 2022. The current residential renovation programme does not focus on energy efficiency and excludes in practice the most vulnerable families. The uniformly low level of regulated energy prices, regardless of household income or consumption level, increases income inequalities and does not create incentives for energy saving. Further increase in ambition for reducing greenhouse gas emissions and

[21] Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Hungary, total imports include intra-EU trade. Crude oil does not include refined oil products. It should be noted that, while Hungary's import dependence on Russian gas is high, Hungary exports an important amount of gas to neighbouring countries. As such, its gas dependence for domestic consumption is likely lower than the figures reported, albeit still significant.

www.parlament.gv.at

increasing renewables and energy efficiency will be needed for Hungary to be in line with the 'Fit for 55' objectives.

(36) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Hungary can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate socio-economic impact of the transition in the most affected regions. In addition, Hungary can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.

(37) In light of the Commission's assessment, the Council has examined the 2022 Convergence Programme and its opinion is reflected in recommendation (1) below.

HEREBY RECOMMENDS that Hungary take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Improve the long-term sustainability of the pension system, while preserving adequacy in particular through addressing income inequalities.

2. Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.

3. Continue the labour market integration of the most vulnerable groups, in particular through upskilling, and extend the duration of unemployment benefits. Improve the adequacy of social assistance and ensure access to essential services and adequate housing for all. Improve education outcomes and increase the participation of disadvantaged groups, in particular Roma in quality mainstream education. Improve access to quality preventive and primary care services.

4. Reinforce the anti-corruption framework, including by improving prosecutorial efforts and access to public information, and strengthen judicial independence. Improve the quality and transparency of the decision-making process through effective social dialogue, engagement with other stakeholders and regular impact assessments. Continue simplifying the tax system. Improve regulatory predictability and competition in the services sector in particular in retail and utilities, and apply competition scrutiny systematically in business transactions. Improve competition in public procurement.

5. Promote reform and investment on sustainable water and waste management and the circularity of the economy, the digitalisation of businesses, green and digital skills, and research and innovation.

www.parlament.gv.at

6. Reduce overall reliance on fossil fuels by accelerating the deployment of renewables, in particular by streamlining the permitting procedures and the upgrading of the electricity infrastructure. Diversify imports of fossil fuels in particular by strengthening interconnection with other countries. Reduce the dependency on fossil fuels in buildings and transport by stepping up efforts on energy efficiency measures for all, especially in residential houses and on the electrification of transport.

Done at Brussels,

For the Council
The President

www.parlament.gv.at