



RECOMMENDATION PACKAGE

2022-2023

COOPERATION FOR A MORE COMPETITIVE AND SUSTAINABLE HUNGARY



Cooperation for a Sustainable and Competitive Hungary Recommendation Package 2022-2023

*Recommendations put forward for the further development of the economy by members of the
AmCham community*

INTRODUCTION

AmCham is a member-funded, politically independent not-for-profit community advocating Hungarian and international business interests. It has been striving to contribute to improving Hungary's competitiveness since its establishment in 1989. Its goal is to maintain dialogue and cooperation between the corporate and business sector and the government based on common interests. We consider our Recommendation Package "**Cooperation for a Sustainable and Competitive Hungary**" of 73 points, presented below, to be a decisive component of maintaining and pursuing this dialogue.

In the framework of its advocacy efforts, AmCham has been preparing Recommendation Packages annually since 2016; the Packages summarize the recommendations received from member companies for improving the business and economic ecosystem. The government's assistance, actions and supportive cooperation are essential for the implementation of the recommendations. AmCham, representing the business interests of over 320 member companies, intends to remain a strategic partner for the Government of Hungary in enhancing competitiveness. Our recommendations, requests and suggestions aim to continue and, hopefully, strengthen this collaboration.

In line with AmCham's Policy Agenda 2021-2025, the Recommendation Package 2022-2023 puts emphasis on the main directions of our advocacy, in keeping with the following structure:

- **general business and investment environment**
 - economic policy trends
 - competitive taxation environment
 - legal and regulatory environment
- **human capital**
 - competitive labor force and employment
 - education and the labor market
 - health care
- **smart growth**
 - sustainability
 - innovation and research and development
 - digitization

In recent years, the AmCham Recommendation Package has been submitted to Government representatives early in the year (February-March). Covid-19 rearranged the ways of economic

and social operation in a fundamental way, so that the annual Packages were followed by the elaboration of numerous new recommendations in the course of both 2020 and 2021, which were regularly submitted to the top management consultations chaired by Minister for Innovation and Technology Mr. László Palkovics.

This year, with regard to the elections, we decided to submit the recommendations to the representatives of the newly formed government, proposing to establish relations and to renew the dialogue along the common goals and tasks.

The past few years have yielded some forward-looking results and measures that we could rely on and were in harmony with our recommendations as well. We believe that maintaining and further improving a competitive economic environment is a goal that is common for both AmCham members and the Government.

The true test of the existing and emerging strategic objectives concerning competitiveness is how they are translated into practice, the adoption and implementation of the specific measures corresponding to those strategies, while taking into account the time factor. All this presents a substantial challenge to the operators in Hungarian economy and society.

Maintaining a constructive collaboration with Government representatives is essential for AmCham. We would like to continue to rely on regular and structured dialogue for discussing our recommendations with Government representatives. We consider it imperative to be invited to the preparatory work of government decisions affecting our members, and to make sure that the business experience, know-how and professional opinions of economic stakeholders are taken into account in the course of elaborating new government measures.

We wish to emphasize that the *Recommendation Package is neither scientific nor exhaustive* in the sense that it does not cover all the factors that influence competitiveness; rather, it is *solely a consolidated collection of recommendations received from AmCham member companies*, organized in a structure indicated above.

We trust that government decision-makers will be open to reviewing our recommendations, which we are ready to discuss with them. We also offer our assistance in elaborating the details, with the participation of members of our community.

Budapest, June 7, 2022

Table of Contents

I. GENERAL BUSINESS AND INVESTMENT ENVIRONMENT	5
ECONOMIC POLICY DIRECTIONS.....	5
<i>Energy prices.....</i>	<i>6</i>
<i>Supply chains.....</i>	<i>6</i>
<i>Higher added value in domestic production</i>	<i>7</i>
<i>Financing for SMEs and startups</i>	<i>7</i>
COMPETITIVE TAXATION ENVIRONMENT.....	8
<i>Strategic directions</i>	<i>8</i>
<i>Taxation techniques and data provision.....</i>	<i>10</i>
LEGAL AND REGULATORY ENVIRONMENT.....	11
<i>Legislation.....</i>	<i>11</i>
<i>Rationalization and digitization of administrative processes</i>	<i>14</i>
<i>Efficient public administration</i>	<i>16</i>
II. HUMAN CAPITAL.....	18
COMPETITIVE LABOR FORCE AND EMPLOYMENT	18
<i>Labor market regulation and employment.....</i>	<i>18</i>
<i>Employment of third country nationals in Hungary.....</i>	<i>23</i>
EDUCATION AND THE LABOR MARKET	26
<i>Career orientation, preparation for working life</i>	<i>29</i>
<i>Dual education, corporate relations</i>	<i>30</i>
HEALTH CARE	31
III. SMART GROWTH	34
SUSTAINABILITY	34
<i>Energy safety, diversification of energy resources.....</i>	<i>35</i>
<i>Sustainable mobility.....</i>	<i>40</i>
<i>Sustainable financing</i>	<i>41</i>
<i>Sustainable operation</i>	<i>42</i>
INNOVATION	44
<i>RD&I subsidies.....</i>	<i>44</i>
<i>University collaboration</i>	<i>46</i>
DIGITIZATION.....	47
<i>Digital skills and development</i>	<i>47</i>

I. GENERAL BUSINESS AND INVESTMENT ENVIRONMENT

ECONOMIC POLICY DIRECTIONS

- 1. The most important request from AmCham member companies formulated in regard to the Government's economic policy is that the Government should pursue an economic policy that is investment-friendly, encourages innovation and long-term sustainability, and is based on dialogue. The enforcement of these criteria should be observable in the decisions adopted by the Government.**

In response to the question on what messages or requests they would table for the economic and financial government concerning economic policy on behalf of the business sector, managers of our member companies unanimously highlighted that the government should pursue

- an investment-friendly economic policy
- encouraging innovation and
- long-term sustainability,
- which is based on dialogue.

The harmonization, traceability and predictability of these aspects should be a fundamental pillar of economic policy. The clear formulation of economic policy and providing accurate and timely feedback are important factors for economic stakeholders that influence their competitiveness.

Each of these factors will be covered more specifically, as each of the four aspects is important in itself, and requires serious strategic commitment and adequate and commensurate government decisions.

- 2. The Government should take efficient measures to keep the recently emerged inflationary progressions under control and to ensure the stability of the HUF, in order to prevent the price-wage spiral from becoming unhinged.**

For the business sector, one of the most important aspects in planning the business and making decisions is predictability. The boost in inflation is one of the most topical and concerning factors of uncertainty today.

On the other hand, our member companies believe that the use of 'statutory' prices in connection with slowing down inflation is necessary only to a limited extent, as it results in a real deceleration of inflation only momentarily. Real competition and complete transparency are required. The government's excessive role in income distribution distorts economic development, brings down competitiveness, and undermines the trust of economic operators.

The shortage of labor and the wages-prices spiral evolving under its pressure also induce more adverse economic processes. In acceptance and recognition of the necessity of salary increases, we consider it important to highlight that we are able to agree and identify with the increases if they are substantiated by real performance and more efficient working.

We ask the government to take measures to curb inflation in a way substantiated by economic reasons, applying harmonized budget and monetary policies.

- 3. We recommend and request that the conditions for the financial resources required for keeping businesses operational should not be diminished, and the government decisions that influence those resources should incentivize the economy.**

There has been a considerable outflow of money recently, which had the consequence of increased budget deficit and public debt. The management of the financing burdens stemming from this should not choke the growth opportunities of business and the chances for increasing competitiveness. It is important for lending and subsidy conditions to enable pursuing and developing marketable and efficient economic activities, while tax burdens should not reduce competitiveness opportunities for companies.

- 4. We recommend and request that the fora available for consultation with business representatives be operated on an open and substantial basis, leaving ample time for preparations before decisions are made. The Government's economic representatives are requested to ensure that decisions are adopted in a more transparent and predictable manner.**

Efficient cooperation is a factor in competitiveness. There is serious demand for open and substantial dialogue between the government and the stakeholders, giving ample time for formulating, confronting and taking into account the different opinions. What is needed is the efficient operation of the existing fora that are reasonable to use under the given circumstances, and not necessarily new platforms. (Our requests and recommendations related to the draft legislation are put forward in section 13.)

Energy prices

- 5. We recommend and support the implementation of a government strategy for energy policy that reduces dependencies, and consistently relies on energy-saving solutions and renewable resources. We believe it is important to highlight that, while we accept the justification for temporary compensations and subsidies, their distorting effects should not threaten competitiveness in the long run.**

We recommend that when exerting government influence on energy prices, the purpose of such interventions should be clear, their reason socially accepted, and they should facilitate and promote long-term adaptation. The majority of compensations distorts market operation and fast adaptation to the actual conditions. Short-term government intervention may be justified and necessary to sustain the population as well as to maintain corporate operation, with the burdens of the transition and adaptation being distributed.

Supply chains

- 6. We recommend the development of a government subsidy mechanism that ensures greater security and independence of production, supports the expansion and development of Hungarian supply chains in fundamental sectors, without inducing measures that shut the economy in and bring down efficiency.**

It is not possible to switch to a system of Hungary supplying itself in a comprehensive way or to an excessive extent, because it will lead to economic decline and deterioration of competitiveness. However, where justified by reasons of security of supply, national security or

other strategic aspects, we recommend devising a government support mechanism that enhances the positive effects of returning production to within the country. We wish to highlight the specific demand frequently voiced and emphasized by our membership that support should be given to return semiconductor chip production to Hungary and its significant development should be promoted.

Higher added value in domestic production

7. We recommend and support a shift towards production with higher added value, investments that promote this shift, and all measures aimed at ensuring that the labor force of the quantity and qualifications required for this shift is available within the country.

All companies agree that the first and foremost, fundamental obstacle to a perceptible shift towards higher added-value domestic production is the lack of appropriately trained and available labor force. As formulated by one of our members: 'Qualified labor is hard to find in the Hungarian market. In order to grow, we need an increasing number of qualified labor, professionals with higher qualifications. Any help from the government in connection with the supply and training of professionals will be useful.'

Within the domain of economic policy, the areas should be investigated where foreign capital is still worthwhile to attract without imposing a negative impact on the competitiveness of companies having already invested into Hungary by draining labor force. The lack of well-trained labor has a great impact on raising wages, which threatens the willingness of large corporations to continue their investments.

Our recommendations related to labor and education are set out in a separate chapter *II. HUMAN CAPITAL*.

Learning about the short- and long-term strategic goals, directions, priorities and individual components of the government's investment policy is important for the business sector, as regards job-creating investments for both white-collar and blue-collar jobs. Therefore, we would welcome the establishment of a platform where the government's investment strategy could be shared with investors already present in Hungary.

Financing for SMEs and startups

8. We recommend the recognition of new "quasi-equity" financing solutions - convertible notes and SAFE notes - in order to facilitate financing for small and medium-sized enterprises and startups.

In the case of the SME sector and startups, quick and flexible financing solutions are extremely important. Unfortunately, corporate and private venture capital investors do not have the legal grounds in Hungary to make use of two corporate bond types, used extensively in the Central and Eastern Europe region within the EU, namely the SAFE (Simple Agreement for Future Equity) note and the convertible note (a loan liability to be converted into capital). We believe that recognizing these financial instruments will greatly increase and dynamize investor activities in the SME and startup sectors:

- The schemes will enable SMEs and startups to carry out capital increases quickly and efficiently without having to engage in detailed business consultations with their investor

partners on the issue. The SAFE note and the convertible note prevent the need for the parties to agree on the value of the company financed, and having to decide on corporate management and structural issues that are not reasonable to address in the early stages. Instead, they may offer security for the investors to receive an investment discount in exchange for the amount that they practically invested in advance, when additional capital increases are made or settlement takes place.

- As the SAFE note and the convertible note make it easier for SMEs and startups to have quick access to capital, they can be a good complement and multiplier for government and EU subsidies available, which have a longer lead time.
- Recognizing the new notes would have a favorable impact on the investor side as well, as they would dynamize the targeted ecosystem, which in itself may increase Hungary's ability to attract capital.

COMPETITIVE TAXATION ENVIRONMENT

Strategic directions

9. We recommend making the taxation system more efficient by further reducing the number of tax types.

Currently, there are 51 different types of taxes/contributions/special taxes in Hungary, whereas 91% of the revenue comes from the following seven tax types according to the balance sheet of the state budget for 2021 published by the Hungarian State Treasury:

Source of budget revenue	Amount (HUF million)	Ratio
Social security contribution and social contribution tax	5,497,364.1	32%
VAT	5,397,233.4	31%
Personal income tax	2,888,586.1	17%
Excise tax	1,243,381.3	7%
Corporate tax	557,987.4	3%
Duties	224,035.5	1%
Total	15,808,587.8	91%
Total revenue	17,350,640.2	100%

Based on the above, we recommend elaborating a taxation strategy under which the number of tax types will be reduced to around 30, by systematically phasing out the tax types that make only a small contribution to state budget revenue, which, however, put considerable administrative burdens on both the government and taxpayers.

Our recommendation for the old and the new special taxes imposed on certain sectors is also that they should preferably be phased out as soon as possible.

It can be said in general that special taxes on specific sectors adversely influence the economy and Hungary's competitiveness, as they put onerous burdens on telecommunications, financial, energy, pharmaceutical and retail companies. Also, these taxes make up only a small ratio of contribution to the revenue of the state budget (namely, the annual revenue out of the tax types referred to is cca. HUF 770 billion, making up only 5 per cent of total revenue), while the contribution of these sectors to GDP and to Hungary's competitiveness in general is way over 5 per cent.

While acknowledging the temporary introduction of new special taxes due to the political-economic-financial difficulties that have emerged, we recommend a gradual phasing out of special taxes imposed on certain sectors based on the above, within a time frame to be agreed between the government and market operators.

In our opinion, the solution to the economic difficulties facing Hungary in the light of global events does not consist in overcomplicating the tax system. In case additional sources of revenue are needed, we recommend increasing the rates of the existing tax types and controlling business processes more efficiently, thereby whitening the economy, rather than introducing new tax types.

10. We recommend transforming the local industry tax in a way that allows for deductions for depreciation and payroll costs. We also recommend making NAV responsible for carrying out all administrative tasks related to this tax type, including the appropriate distribution of the tax base.

The local industry tax is a particular component of the Hungarian taxation system, the direct (income-based) or indirect (consumption-based) nature of which is debated, considering that depreciation costs and wages costs cannot be deducted from the tax base. In addition, the Government may find it difficult to interpret this tax type on an international level, as there is an issue with including it in the effective tax rate (ETR) of the global minimum tax.

In order to make local industry tax investor-friendly and, therefore competitive, we recommend allowing depreciation costs and wages costs to be deductible from the tax base.

Currently, administrative tasks related to local industry tax put an unnecessarily large burden on businesses. The appropriate distribution of the tax base and keeping track of the tax account balances - particularly for larger businesses - require considerable resources also in cases where the amount of the tax payable for each community is low.

We recommend putting the responsibility for the tasks related to the collection of local industry tax and the distribution of funds between communities with the Hungarian Tax and Customs Authority, so that each business is burdened only with the task of determining and paying the amount of tax to be paid.

11. We recommend further consultations on the next steps in tax digitization, and we support the implementation of e-VAT returns and SAF-T.

In recent years, the Government of Hungary has made efforts to develop a more transparent and efficient tax system by implementing a number of digital instruments and processes. The online data provision and EKAER obligations successfully reduced tax evasion, and put compliant businesses in a better market position.

Based on the above, we ask the Government to conduct further consultations on the next steps in tax digitization, and to consider the implementation of new digital tools (such as e-VAT returns and SAF-T).

12. We recommend a number of modifications in certain areas of taxation.

Our members raised a number of recommendations for regulating certain fields of taxation, so we wish to present those considered to be the most important.

a) We recommend introducing a possibility for paying taxes in foreign currency.

The Accounting Act allows Hungarian businesses to keep their books and records in a currency other than Hungarian forints (HUF). If a company makes use of this opportunity, it is obliged to convert its tax liabilities to and pay those tax liabilities HUF later on.

In our opinion, allowing tax accounts in addition to financial accounts to be kept in any - or at least in certain, such as EUR, USD, GBP - convertible currencies will be an excellent means for increasing Hungary's competitiveness.

b) We recommend incentivizing the conclusion of health and pension insurance by introducing tax benefits.

Health and pension insurance financed by private individuals and/or employers result in a reduction of the state budget's future expenditure, as they cover/supplement the state's health and pension expenses.

We recommend introducing new tax benefits in these areas, thereby motivating taxpayers to think about self-care for the long term.

c) We recommend continuous consultation concerning the introduction of the global minimum tax.

Indubitably, one of the most significant developments in the field of international taxation is the consensus on the introduction of the global minimum tax, reached at OECD level. According to the latest news, the rules for global minimum tax are to take effect in the entire territory of the EU from January 1, 2024. We request arranging for regular consultations on the transposition of the rules to Hungary, particularly concerning timing and the required legislative steps, as well as to clarify any uncertainties.

Taxation techniques and data provision

13. We recommend making tax administration rules more efficient and reducing the administration related to taxation by introducing some modifications of a technical nature.

We collected several recommendations for simplifying the day-to-day tasks of taxpayers - related to tax administration rules -, which would facilitate the completion of the administrative tasks associated with taxation.

- i. We recommend replacing the provision of data to the Hungarian Central Statistical Office (KSH) for statistical purposes with online data provision.

- ii. We recommend making VAT refunds electronic, as NAV already holds all the data required for this.
- iii. We recommend development of the M form in the VAT return. For instance, when the name of a company changes during a self-revision, the change needs to be made manually on each page; if a single line is corrected in the M form, the line is not deleted automatically when the data is deleted.
- iv. We recommend updating the information on the most frequent errors of the NAV online invoice data provision with the description of the typical errors and their possible solutions.
- v. We recommend eliminating the obligation to book tangible assets of small value on an individual basis. Currently, each and every tangible asset of small value that serves the business for more than one year must be booked separately, which puts a significant administrative burden on businesses. We recommend making it compulsory to book assets on an individual basis only in excess of a certain limit (e.g. over a value of HUF 200,000).
- vi. We recommend that the authorization for querying the tax account be possible to specify by tax type; making it possible to query the authorization to declare local industry tax; and that the submission of individual authorizations be possible to manage within NAV's system.
- vii. We recommend simplifying the administration of tax-exempt benefits in kind and gifts of small value.
- viii. We recommend extending the obligation of online reporting to buyers, so that data provision on could be deemed to be an authentic supplier invoice on the recipient's side.

LEGAL AND REGULATORY ENVIRONMENT

Legislation

14. We recommend and request that legislation affecting business be subjected to professional reconciliation and discussions before approval.

We consider the legal and regulatory environment that ensures sustaining a fair competitive situation to be a substantial aspect. Therefore, in conjunction with the contents of section 4 we consider it important to emphasize that the legislator should involve the representatives and market operators of the industries concerned to a greater extent in the preparatory phase of codification processes, to promote the adoption of legislation that is aligned to the actual market situation.

The demand for collaboration in drafting legislation was put forward with special emphasis for individual areas:

- a) In the fields of Hungarian and EU regulation concerning digital regulations, we believe it is important to ensure the possibility of consulting on the draft Hungarian legislation associated with EU regulations on time and to the merit of the rules, including the modernization of regulations for cybersecurity. In addition, we believe it is important to provide assistance to market operators in developing their compliance practices in the newly regulated areas.**

Regulatory changes concerning digital markets raise a number of questions for interpreting the legislation that is already in effect. It is particularly reasonable to review regulatory problems and to conduct a review of certain Hungarian rules (such as rules on advertising).

In addition to the twin regulations (Digital Markets Act and Digital Services Act), regulations to determine the future of digital markets are about to be adopted (such as the Artificial Intelligence Act and the Data Act), and we wish to have an opportunity for the business sector's opinions to be taken into account and discussed in substance in the process of elaborating and commenting on these acts.

We also wish to express and discuss our opinions during the review of regulations on cyber security and essential system components, and during the elaboration of drafting new regulations. Our additional recommendations concerning cyber security are set out in section *III. SMART GROWTH*.

- b) We recommend ensuring a broader range of consultation possibilities concerning domestic and implementational legislation obligations on labor law matters.**

Labor legislation is an especially important area for all companies regardless of industry. Therefore, learning about the experience related to the practical application of legislation and hearing recommendations from those who apply the law needs to be important for the legislators as well.

Our recommendations related to individual labor law rules are explained under the heading *COMPETITIVE LABOR FORCE AND EMPLOYMENT* in section *II HUMAN CAPITAL*.

- c) We recommend putting the creation of an act of claim management on the table: currently, there is no comprehensive Hungarian act dedicated to addressing claim management.**

As regards the creation of an act on claim management: currently, there is no comprehensive Hungarian act dedicated to addressing claims management. Claim managers and the activities pursued by them are regulated by several separate acts, such as Act CCXXXVII of 2013 on credit institutions and financial enterprises. In addition, the National Bank of Hungary issued a recommendation for receivables management activities concerning consumers (Recommendation MNB 2/2019 (II. 13.)) that market operators are suggested to follow, but an MNB recommendation does not have the 'enforceability force' of a law. It is absolutely necessary to adopt an independent act on claim management for properly regulating the domestic market. On the one hand, this will contribute to the prudential, transparent and also consumer-friendly operation of the claim and receivables management sector, will help market operators that conduct their business fairly, will secure the interests of debtors in law, enhance confidence in the sector and, ultimately, will have a positive influence on the economy. These goals are also pursued by the European Parliament and the European Council in the directives adopted by them concerning credit servicers and credit purchasers (claim / receivables managers) (Directive

2021/2167), which provide appropriate grounds for elaborating the Hungarian law. Member States have to transpose the directive into their national laws by 29 December 2023.

It is recommended to rationalize the fees and charges arising within the foreclosure system to promote competitiveness. Furthermore, it is reasonable to enable the persons requesting foreclosure to propose automatic blocks by using data bases that can be interconnected, and to ensure the issuing of prompt collection orders for banks against a reduced fee.

d) We recommend a review of the framework for permissions granted to foreign investment - monitored in the interest of national security - in companies of strategic importance.

The starting point for our recommendation consists of the contents and interim amendments of Act LVIII of 2020 on the transitional rules related to the termination of the state of danger and on the epidemiological preparedness (Transitional Act I) and Government Decree 289/2020 (VI. 17.) defining the activities required for the economic protection of companies having their seat in Hungary (Government Decree). Given that additional regulations for a state of danger may be expected, we request that the legislator take into account the following conceptual proposals in the case of adopting such regulations:

- i. Currently, transactions that have no relevance for the purposes of national economy also need to be reported, so we recommend raising the limit to EUR 5 million. According to Section 277(2) of Transitional Act I, a transaction must be reported if the aggregate value of the investment reaches or exceeds HUF 350 million. This is a very low limit, due to which, and due to the volatile exchange rate, the amount determined in HUF provides a 'moving target', as transactions are often planned in EUR.
- ii. We recommend that restructuring within a company group that involves Hungarian companies directly, where the beneficial owner for the purposes of the Money Laundering Act remains unchanged should be made an exception to this rule. Based on Transitional Act I and its amendments, currently, transactions that are the consequences of a restructuring exercise within a given company group, where the direct ownership background changes but the ultimate owner remains the same must also be reported.
- iii. We recommend narrowing the scope of activities under the Government Decree, and make transactions only in the industries that have significance for the national economy subject to a reporting obligations. The list of activities in the Government Decree leaves a framework that is too broad, covering some 84 per cent of the entire Hungarian economy according to some calculations.
- iv. The Transitional Act needlessly restricts the free movement of capital within the EU, so we recommend making transactions with no exposure for Hungarian owners exceptions to the rules. For instance, if a French company acquires a company registered in Hungary 100% of which is in German ownership, this cannot be considered to be an acquisition affecting the interests of the Hungarian state, as the given company had no Hungarian ownership in the first place.
- v. It is not reasonable for the Transitional Act I to impose a reporting obligation on financing banks if they establish a lien on strategic assets when financing a strategic company or strategic assets. This essentially makes it impossible for those seeking company and/or project financing to access foreign opportunities due to the unpredictability of the transaction.

- vi. We recommend creating the possibility for preliminary consultations. Transitional Act I currently does not allow for a negative finding in an accelerated procedure, nor preliminary official consultations. Yet, this would be necessary to enable the timing for closing to be more accurate.

Rationalization and digitization of administrative processes

15. We recommend harmonizing the regulations applicable to document management with those applicable to electronic signatures. Clarification and uniform use of the digital solutions for written documentation will greatly facilitate corporate administration.

The interpretation of written documentation as used in the Civil Code is not clear, companies have difficulties in deciding which of the document management, electronic signature software/services comply with the requirement of written documentation and which do not. Thus, the companies are unable to use e-signature and digitization solutions that are used uniformly at regional level, and have to use a separate service for this purpose for Hungary.

Our recommendations related to written documentation and digitization for HR processes are explained in further detail in section 21 of chapter *II HUMAN CAPITAL*.

Based on Decree of the Ministry of Innovation and Technology 1/2018 on digital archiving, companies find it difficult to clearly interpret compliance with the digital archiving rules for documents subject to a retention obligation, which deters them from digitizing their documents and statements.

16. We recommend simplifying the operating conditions for associations and foundations.

Similarly to companies, associations and foundations need to strive to adopt the best practices of internationally accepted responsible governance. Representatives of the business sector are often personally involved in the operation of these organizations as managers, members or donors, and a lot of their time is taken up by the cumbersome routine-type administrative processes such as getting a change in presidency or board membership registered by a court. In addition, the operation of associations and foundations overall needs to be harmonized more with the practices of the business and the government sectors. Greater harmonization would indubitably increase the confidence capital and social utility of these organizations, which will ultimately have a positive impact on the country's competitiveness in general.

a) It is recommended to introduce administrative and procedural regulations for associations and foundations that correspond to those applicable to the business sector.

One of the greatest difficulties for associations and foundations lies in the complicated and insecure regulatory environment. It may take as much as one year to register an association or foundation or to have changes taking place in them registered, even if no problem arises during the procedure. Simple administrative and procedural rules such as those that currently help the quick development of the business sector should be introduced also for such NGOs. The current situation forces associations and foundations, struggling with a shortage of capacities, to expend a high amount of resources on these processes, hindering the efficient management of these organizations and impeding them from complying with legislation.

According to Hungarian legislation, the majority of changes concerning the operation and management of organizations need to be registered by the court in advance. Such changes include the establishment of foundations and associations, amendments to the deed of foundation, changes in the composition of the presidency or the board, and the appointment of a new officer. Consequently, daily operation (such as signing contracts, indicating the registered office on invoices, bank account opening and management) is surrounded by legal uncertainties due to the elongated procedure for registration. The delays hindering day-to-day functioning are opposed to the best practice of responsible governance, and make managers of these organizations - who often come from the business sector - annoyed or demotivated.

We recommend that courts be obliged to adjudicate the applications for registration submitted by associations and foundations strictly within 15 workdays. In order to achieve this, consideration could be given to the implementation of a system in which the applications submitted are automatically registered if the court fails to make a decision on the merit of the case for a defined period of time. Public interest will still be protected this way, as the prosecution organization could still contest automatically registered applications at any time.

b) We recommend further development of the forms currently used by courts.

Judiciary practice concerning associations and foundations has grown so complicated and non-transparent that even experienced legal professionals are unable to guarantee a quick registration of changes, and often even disagree on the interpretation of the law.

In order to ensure the fast and smooth registration of associations and foundations, as well as of changes occurring in them, uniform forms should be introduced (e.g. for the structure of the management body or changes in officers) by law. This way, associations and foundations will need fewer external experts than currently, saving considerable administration cost and time.

c) The regulatory environment needs to be predictable.

Legislation on associations and foundations need to be reviewed to avoid situations in which the conflict between contradictory interpretations of the law is to be adjudicated at the discretion of the proceeding judge. One of the reasons for the uncertain judiciary practice is the lack of sufficient harmonization between the new Civil Code and the legislation adopted before it; in particular, conflicts exist with the NGO Act (Act CLXXV of 2011). Unpredictability often leads to the frustration of changes made in good faith that are justified by strategic reasons (such as concerning the organization's objectives or membership). In this situations, a lot of time and energy is wasted by both the associations and foundations, and the proceeding court. We believe that the jurisdictions of the prosecution organization and the Hungarian Tax and Customs Authority in themselves are capable of protecting public interest against any abuse. Clear legal relations will also boost trust in the sector.

Due to all this, we recommend a comprehensive review of the legislation concerning associations and foundations, and, to the extent possible, its consolidation into a single source of law, preferably as part of the Civil Code.

d) We recommend re-introducing the tax benefits applicable to donations by private individuals in the case of associations and foundations.

The tax reliefs granted to private individuals making donations to foundations and associations should be re-introduced, and the corporate tax reliefs should be extended. According to our

recommendation, private individuals should be allowed to deduct 100% of the amount of their donation from their tax base. This tax base reduction regime is established practice in several Member States of the European Union and in the United States. In order to prevent tax evasion, the extent of deductions should not be allowed to exceed 30 per cent of the consolidated tax base. We recommend that legislators should consider fine-tuning the existing taxation regime and the introduction of new solutions in order to encourage donations to foundations and associations of this kind. Given that under such a regime, only companies and private individuals who declare an appropriate amount of income will really see the benefit of deducting such items to reduce their tax base, this method may indirectly contribute to whitening the economy.

Although the Ministry of Finance saw no possibility for changing the applicable taxation rules in the 2021 budget cycle, we call for considering this possibility in the coming years, in order to realize the expected positive social impacts.

e) Companies providing services required for associations and foundations should be encouraged to provide pro bono services to associations and foundations on a voluntary basis by providing tax benefits.

The management standard of associations and foundations, and their legal compliance could be improved considerably if they could avail themselves of the assistance of professional service providers on a pro bono basis. Therefore, it is reasonable to encourage companies providing legal, accounting and audit services to bind themselves to provide pro bono services under contract, by granting them tax benefits. The rate of such tax benefits is to have a pre-defined maximum. Associations and foundations could increase their internal efficiency and social utility if they could get this kind of help.

f) Independent audits should be made mandatory for all larger associations and foundations, by introducing special threshold values.

The limit of annual income in respect of the mandatory auditing of associations and foundations should be determined in a way so that it applies to more organizations than currently. In close relationship with our recommendation for pro bono services, our goal here is also to increase the transparency of this sector, with particular regard to the use of membership fees and donations. We recommend that all income received during the year be included when determining the obligation of auditing (including donations and income from non-business type activities). This recommendation serves to supplement the current system, which requires foundations and associations to publish their annual reports online.

Efficient public administration

17. We recommend further user-friendly development of the existing electronic communication systems in the field of administrative services. We recommend the development and implementation of more advanced document and authorization management for Céghapu and Ügyfélkapu.

We welcome the simplifications that have already been made in the field of public administration. It is absolutely necessary to continue with the uniformization and digitization of public administration services in order to maintain competitiveness.

We recommend the introduction of more advanced document and authorization management for Cégkapu/Ügyfélkapu.

- i. In order to ensure complete transparency of messages, documents to be delivered by the Authorities should also be sent to the Cégkapu of the Company involved in the case, and not only to the Cégkapu of the organization representing the Company (or to the personal storage space of the private individual employee of the representative organization). In the case of documents thus delivered simultaneously to multiple storage spaces, the status of delivery should be updated automatically at each Cégkapu and Ügyfélkapu storage space.
- ii. The document types should be labelled within the Tax Authority's systems according to the type of representation authorizations that exist: an external service provider company should not be able to receive documents for which it has no valid authorization, in order to protect personal data on the one hand and tax secrets on the other. This can help to avoid administrative and legal problems and extra work stemming from an error in addressing or from documents sent to recipients not authorized to represent the given party.
- iii. In the case of an ex post modification to a label, such as in case of extending conditions, the contents of the given folder (label) will not be modified retroactively, the change will only apply to future documents. It is recommended to update the contents of the folders created retroactively if a given condition is modified.
- iv. The log of the given document should be available for each document delivered, in order to be able to make the history of the document verifiable (date of delivery, recipient's name).
- v. Technically anybody can delete a document, this right cannot be restricted. We recommend giving an opportunity for the Cégkapu agent to technically set who may and who may not delete documents out of the case managers.
- vi. We recommend that, in the case of submitting e-Papír, both the NISZ e-mail of notification of receipt and the name of the *confirmation of receipt* of electronic document pdf file should contain the identification number of the electronic document (EPAPIR-yyyyymmdd-xxxxx). In case of sending multiple e-Papír documents, tracing the documents with the current settings may cause difficulties (for instance, confirmations of all the different documents were delivered to Cégkapu with the name 1.pdf).

II. HUMAN CAPITAL

COMPETITIVE LABOR FORCE AND EMPLOYMENT

Labor market regulation and employment

- 18. We recommend further assessments of the experience gained concerning working from home, and the inclusion of such experience in law wherever reasonable. We believe it is important to adopt Hungarian regulations for international remote work, that is, remote work done by employees working abroad for Hungarian employers.**

The amendment to the Labor Code adopted in connection with remote work, starting from and essentially in line with the rules of the state of danger, settled the situation of work done outside the employer's registered office as part of remote work. Recognizing that the current regulations ensure more room for companies to manoeuvre, many companies still feel that the rules related to working from home are deficient in respect of both the employer and the employee, and have not followed up completely the expectations forced by the pandemic. Further clarification and disambiguation is required particularly for ad hoc work from home. Therefore, we recommend setting up a discussion forum where such issues can be put on the agenda and discussed, and monitoring the evolution of the application of law may also be useful in developing the rules for the longer term.

The issue of international remote work is raised in connection with work from home. There are no Hungarian rules for remote work done abroad. It is important to create/simplify the possibility for remote work to be done outside Hungary by people employed by a Hungarian employer in a lawful and sustainable manner, for both the employer and the employees.

- 19. We recommend a review and amendment to Government Decree 9/2010 (II. 26.) on travel cost refunds related to going to work.**

As indicated by our member companies, the regulations on travel cost refunds related to going to work have been functioning in an essentially unchanged framework for a long time, without keeping up with the changes in real life. Therefore, we believe it is reasonable and timely to perform a review and amendment to Government Decree 9/2010 (II. 26.) on travel cost refunds related to going to work according to the criteria recommended above.

- a) We recommend the extension of the group of employees restricted by the Decree, and allowing the employer to make available this working arrangement to all employees at the employer's discretion.**

Due to the increase in fuel prices and the drop in employee willingness for mobility, we believe it is necessary to extend the cost refund for going to work to other cases as well in addition to the employee groups currently identified in the decree, and to make it available even for all employees based on the employer's decision.

- b) Cost refunds and settlements related to the use of electric vehicles are not regulated. A regulated option for refunding the charging costs incurred - similarly to accounting for fuel - is necessary in this respect as well.**

Encouragement of the use of electric vehicles is reasonable in terms of sustainability as well as for environmental protection reasons, which provides justification for regulating the cost refund related to the use of electric vehicles.

- c) The legislation on the cases in which expenses may be refunded lawfully to foreign employees working in Hungary needs to be supplemented. The current rules fail to provide clear guidance on this.**

Regulation of the justified cost refund for travel home has become necessary due to the shortage of labor and the increasing rate of employing foreign employees. The law offers no guidance on this, so we recommend supplementing the decree with the rules to be applied in these cases.

20. We recommend amending the regulations of the Labor Code related to study contracts, which put the employer in an expressly adverse position, to make them more flexible. (Section 229 of the LC)

Based on Section 229(2)b) of Act I of 2012 on the Labor Code ("LC"), "no study contract may be concluded if the employees was obliged to complete the studies by the employer".

Many of our members suggested that the rule in the LC cited above puts the employer in an extremely unfair situation if the prerequisite for filling the given position is that the employer has to train the employee first. During the period of training, the employee is already in employment and receives wages, and the cost of training is added on top of that to the employer.

The unfair situation mentioned above arises due to the fact that in the course of the training, employees receive highly up-to-date knowledge that is partly not specific to the employer, making them considerably more valuable resources in the labor market.

Consequently, employees frequently find employment in the same economic sector but with employers offering higher wages, typically in other countries. Therefore, employers do not have any efficient legal means for ensuring that they can utilize the skills acquired by the employees trained by them for at least a defined period. This is so even though the training courses in question represent significant costs for the employer, reaching up to several tens of thousands of euros in our experience, for courses that take months or even longer. This situation, which is explicitly detrimental for the employer, could be remedied by amending the applicable rules of the LC. In this respect, we recommend making the prohibition set out in Section 229(2)b) of the LC dependent on the cost of the given training or restricting it to certain training courses. The regulation needs to ensure that the study contract is not applied for a purpose other than its designed purpose.

21. We recommend harmonizing other legislation with the provisions of the Labor Code on written documentation. Focusing on certain areas of HR, we recommend enabling paperless document management on a broader basis, thereby reducing administrative burdens as well.

The Labor Code regulates written documentation, and enables written communication between the employer and the employee on an electronic basis in a broad range of matters. (Section 22 of the LC) However, comprehensive electronic communication is not reached because there are certain standards related to employment that expressly call for using paper-based documentation. Among others, according to Section 37(1) of Government Decree 217/1997 (XII. 1.) on the implementation of Act LXXXIII of 1997 on mandatory health insurance care, when establishing a legal relationship entailing an insurance obligation, it is mandatory to use the form "Certificate of insurance relationship and health insurance care". The social insurance booklet is, therefore, a paper-based form that cannot be substituted by electronic media, although that would be reasonable. In our opinion, this legislation and similar rules should be reviewed, and employers should be given the right to have all statements concerning employment made in electronic form.

Also, the M30 employer's certificate form to be issued each year, which - according to NAV guidance - is either issued by the employer in hardcopy or in an electronic document bearing a certified electronic signature or stamp or an electronic signature or stamp with enhanced security from the signatory based on a qualified certificate, and a time stamp if required by law, should be reviewed. The signatory's certification of an electronic document using document authentication services using authentication defined in the Government Decree also constitutes a fully conclusive private document.

In addition to phasing out the hardcopy social security booklet, it would also be reasonable to phase out the social security pouch ("Individual register form of monetary and accident care provided under health insurance"). Writing out the pouches manually takes up considerable working hours, whereas the data are available in payroll software. It is absolutely sufficient to print and sign the payment slip and the data registration form.

With regard to digitization, there is reason to review administrative burdens and supporting electronic solutions in several other areas. Additional paperless recommendations:

- i. Employers currently issue exit documents (employer's certificate under Section 80(2) of the LC) in hardcopy. If an employee has Ügyfélkapu registration, they can "sign" documents sent in e-mail with AVDH authentication and can return it to the employer. Employers find it a problem that the system does not enable mass AVDH signatures in case of a larger redundancy.
- ii. Section 21/B of Act LXXVII of 2013 on adult education provides for the establishment and operation of the MER (labor market forecasting system). Government Decree 118/2001 (VI. 30.) on the inscription onto the register and the conditions for the pursuit of labor force hiring and private employment placement activities, amended with effect from 9 December 2021, imposes administrative burdens primarily on temporary work agencies. The extended data provision obligation calls for several pieces of information the generation of which puts extra costs on companies, while certain data cannot be provided accurately and the purpose of data collection is unknown. To ease the administrative burdens, we recommend removing the obligation to record the text of the ad in the report from requirements.

22. We recommend defining requirements to govern flexible working hours, based on which the extent to which the various conditions are compatible with flexible working hours can be clearly determined. (Section 96(2) of the LC)

In case of defined conditions, the Labor Code allows the employer to limit its right to give instructions on the scheduling of working hours and delegate the right of scheduling working hours to the employee, i.e. to employ the employee in a flexible work arrangement.

Several interpretations of the law on implementing a flexible work arrangement have been conceived, including on the employer's freedom to manoeuvre on having a minimum degree of right to instruct on work schedule based on the second sentence of Section 96(2) of the LC:

"Where the employee is permitted to perform certain functions of the job at a specific time or period in light of their unique characteristics, this shall have no bearing on his flexible working arrangement."

Clarifications and guiding criteria will be welcome on the extent to which the following circumstances are compatible with a flexible work arrangement, whether applied separately or in combination:

- the employer specifies Saturdays and Sundays as so-called work-free days when employees may not perform work;
- the employer specifies that work on days eligible for work shall be done between 06:00 a.m. and 08:00 p.m.;
- certain job tasks require the employee to be available or to perform work at defined times, but in long-term average, such periods would not exceed 20% of working hours.

23. We recommend allowing settlement based on the number of hours worked to be used for the purposes of related legal concepts in the case of an uneven distribution of working hours. In the course of reviewing the regulations, the obligations stemming from the EU directive should not be disregarded, but amending this rule will eliminate several problems in respect of payroll and settlement of working hours. (Section 127 of the LC)

As a consequence of the uneven scheduling of working hours, the working hours according to schedule - having regard to the provisions of Section 127(2) of the LC - are recorded in hours in an increasing rate of cases. Registration in hours results in stating and accounting for essentially all concepts related to working hours in hours. Having said that, the supplementary rules of the Labor Code associated with vacations (sick leave (Section 126), extraordinary leave (Sections 127-128), rounding (Section 121(2)) are based on workdays, and there is no express regulation enabling working hour-based accounting for such associated items in the case of an uneven schedule of working hours. We recommend introducing such a rule, which will resolve several problems in payroll and accounting for working hours.

24. We recommend legal clarification for the rule on authorizing daily and weekly rest periods.

The working hours schedules of the majority of employers (including the government sector) are based on long-established practice that the daily rest period can be granted together with the weekly rest period. However, decision 12/2020 (VI. 22.) of the Constitutional Court declared that this practice is unconstitutional and cannot be sustained in the future. This means that the daily rest periods (11 hours) and the weekly rest periods (2 days) should be scheduled one after the other, which is not feasible. As a result of the decision, for instance, an office employee should

finish working no later than by 1:00 a.m. on Friday in order to be able to come back to work before 11:00 a.m. the next Monday. If they finish working after 1:00 a.m. on Friday, they may not commence work before 11:00 a.m. Monday. The decision causes even more problems for blue-collar workers who typically have more fixed working hours, especially if they put in overtime on their weekly rest day. Therefore, taking the daily and weekly rest periods together in calculation upsets and frustrates the generally applied work schedule.

We have been engaged in consultations with the Ministry of Innovation and Technology on an amendment to the law to guarantee that the well-established old system will survive. To date, no legal solution has been found that would be reassuring, so we consider settling this situation by law to be necessary.

25. We recommend an amendment to the Labor Code to the effect that all or a part of wages may be determined and paid in currencies other than the HUF. Presently, this is possible only in a very narrow scope and in exceptional cases. Section 157 of the LC)

According to the provisions of Section 157 of the LC, wages shall be determined and paid in HUF. Though there are exceptions to this rule, but they affect a very narrow range. We recommend an amendment to the rule cited, to the effect that all or a part of wages may be determined and paid in currencies other than the HUF. All the underlying taxation and civil law rules are in place for determining and paying remuneration in other currencies, the labor law principles prohibit abusive practices, and this kind of settlement is widely used in civil law relationships. We recommend making the existing regulations on the currency for determining wages more flexible in reasonable cases.

26. We recommend reviewing the valid health and safety at work provisions. In this regard, we recommend reviewing and amending Degree of the Ministry of Health Care 5/1999 (XI.3.) on the minimum health and safety requirements of working in front of screens as well.

We have requested reconsideration of certain safety and health at work requirements for the employment of labor in the past years as well, but no substantial changes have taken place. It is important to align the contents and health care requirements of the occupational health services to today's changed needs. The degrees of hazard have changed with technological progress, but the administration requirements of weekly and monthly reports for e.g. chemical agents are unreasonable and take up excessive resources.

We continue to recommend reviewing and amending the Government Decree on the minimum health and safety requirements of working in front of screens as well. It is impossible to carry out the at least 10-minute breaks per hour and the maximum of six working hours to be spent working on screens per day, and due to technological progress, the minimum detrimental effect of the screens used today does not justify making this restriction the employer's responsibility.

27. In the field of regulations concerning employee advocacy, we have the following recommendations to make:

a) We recommend a clarification to the currently effective wording for independent sites.

The concept of an independent site does not conform to today's modern business structure. In many cases, certain powers of participation due to the works council are not vested with the sites

and their managers. Decisions are made by “central management bodies”. We recommend clarifying the wording that is currently in force.

b) We recommend a requirement for urgent court procedures in litigation aimed at providing a legal statement by a trade union body if the trade union’s consent is refused.

Practical experience shows that if trade union consent is refused, courts adjudicate lawsuits for the provision of statements in a time schedule similar to general labor litigation, which may take several years in certain cases. However, in such cases, a contingent legal situation arises between the employer and the employee in connection with termination of employment. What this leads to in practice is that an employer may be forced to pay wages to the employee without actual work being done, due to the elongation of the lawsuit for providing the legal statement in question, which may take even years. It is reasonable to eliminate the contingent legal situation between the parties as soon as possible, so it is absolutely necessary to require expedited procedures in litigation aimed at providing a legal statement by a trade union body.

28. We recommend modernizing the data provision services of the Hungarian Public Employment Service (NFSZ) and ensuring access to substantial information concerning employment. Data provision by the NFSZ is currently slow, with no updated information and industry data available on its website.

NFSZ data provision provides only old data for certain industry data, and the website contains studies that are over 10 years old. In its current setup, it does not fulfill its actual task of assisting the labor market’s efficient operation.

Employment of third country nationals in Hungary

29. We recommend an expansion of the employment options for employing non-EU (third country) nationals and making the permit procedure more efficient.

- a) **The entry of foreign labor should reasonably not be regulated under the effect of the state of emergency regulations, as it is not a consequence of the state of emergency.**
- b) **More changes in legislation could promote more flexible and faster employment opportunities (see the additional items below).**
- c) **We ask the Government to assist the integration of people arriving to Hungary with efficient measures. Employers play a significant role in this as well, and devising a supportive Government program will help to provide employment faster and more efficiently.**

Having the appropriate number and quality of labor force available plays an important part in making decisions on job-creating investments that have a high cost requirement. One way of easing the current difficulties that arise in many companies when it comes to recruiting is the employment of third country nationals in Hungary. That is why we consider it important to have as much support and facilitation as possible at Government and regulatory level. The following recommendations concern this topic.

30. We recommend increasing the current limit of 20 per cent of the labor law head count of business companies in majority foreign ownership for the simplified employment of third country nationals.

Section 9(3) of Government Decree 445/2013 (XI. 28.) laying down the rules for employing third country nationals in Hungary determines the limit for employing third country nationals in a simplified procedure, without investigating the labor market situation, at 20 per cent of the labor law head count for business companies in majority foreign ownership. However, in the light of the current situation in the labor market, this administrative restriction slows down the employment of properly skilled labor in time without reason, so we would like to propose raising the 20 per cent limit.

31. We recommend adopting regulation that enable companies suffering from labor shortage to employ third country nationals immediately or as soon as possible, thereby remedying the glitches in operation due to temporary labor shortages.

The reason for this recommendation is that, due to the current rules on immigration, the temporary shortage of labor cannot be remedied using third country nationals because such persons may not commence work until they obtain a consolidated permit in Hungary (i.e. for about 70 days). Our recommendation consists of four parts:

- i. Employers will be eligible for simplified employment in the cases defined in our recommendation (could be subject to size, tax deficit may be a reason for ineligibility, employer may be held responsible for employment, etc.). The process of simplified employment will be launched based on a notification submitted by the employer to the Office of Immigration and Refugees. In the notification, the employer shall provide information to the Office of Immigration and Refugees that allows for identifying and reaching both the third country national and the employer. Furthermore, the employer will assume responsibility for ensuring accommodation and health care to the third country national until the residence permit is issued.
- ii. As the second item, we recommend that the third country national should not need to apply for a visa before entering Hungary if the employer makes the above notification.
- iii. As the third item, we recommend allowing the third country national to enter long-term employment with the employer notifying the intention of immediate employment before they obtain the permit to be issued on the basis of the consolidated permit procedure. To ensure employment as quickly as possible, we recommend that the employer be allowed to conclude an actual employment contract - at least for the period until the date of issuing the consolidated permit - instead of merely a preliminary agreement (a quasi preliminary employment contract) with the third country national.
- iv. Finally, we recommend that it should be possible to start income-earning activities on the date that follows the date of notification, that is, the parties should not wait until the consolidated permit is issued before the third country national can start working.

Our recommendation will enable e.g. Ukrainian or Turkish employees to enter Hungary without obstacles and to start working for a company suffering from labor shortage within a couple of days. Naturally, the employer will be obliged to apply for the standard consolidated permit in this case as well, so that the permit for employing foreign nationals will proceed according to the general rules some 70 days after they enter Hungary.

- 32. We recommend extending the scope of qualified employers under Government Decree 407/2021 (VII.8.). Currently, only temporary work agencies fit this category, but companies have a demand for making use of the possibility of simplified employment of third country nationals.**

This measure or amendment will facilitate and speed up resolutions of corporate labor problems. The decree allows for applying certain concessions and facilitation only to temporary work agencies.

- 33. We recommend adding the following countries to the scope of countries the nationals of which may benefit from preferential employment: Brazil, India, Egypt, Morocco, Turkey.**

The possibility of simplified employment under Section 5 of Government Decree 407/2021 (VII. 8.) specifying the rules for the employment of third country nationals in Hungary during the state of danger, determined in harmony with Section 3(1) of the Government Decree is provided to nationals of the defined third countries, and based on the requests from AmCham members, we recommend extending the regime to the following countries as well: Brazil, India, Egypt, Morocco, Turkey.

- 34. We recommend that employment of third country nationals in the territory of Hungary should encompass a broader range of employment than currently.**

We would like to see a modification to the communication by the Minister of Foreign Economy and Foreign Affairs in issue no. 50 of 2021 of the Official Gazette - listing the occupations for the purposes of Section 15(1)26 of Government Decree 445/2013 (XI. 28.) and Section 5 of Government Decree 407/2021 (VII. 8.) (FEOR), to which the special regime applies during the state of danger - as follows.

Based on feedback from our membership, we have already recommended supplementing the scope of the occupations listed with the following jobs based on the FEOR classification and identification:

FEOR	FEOR description
3611	Financial officer (except for financial institute officer)
2910	Other highly qualified officer
4112	General office administrator
4190	Other administrative occupation in office, unspecified

- 35. We recommend repealing the agreement between Hungary and Ukraine on social security, valid from July 1, 1964, simultaneously with amending Decree of the Ministry of Labor 7/1964 (VIII.30.) in order to regulate the rights of Ukrainian employees working in Hungary to health care.**

Even though employers pay all applicable contributions on Ukrainian employees, the employees are not entitled to sickness benefits, so they remain without benefits after the sick leave expires. On the Hungarian side, modification of Decree of the Ministry of Labor 7/1964 (VIII.30.) could provide a solution.

According to the decree, the Hungarian State provides benefits due in the case of a temporary incapacitation to work in Hungary (sickness benefit) after the date when the employee moves their permanent residence to Hungary. However, Ukrainian employees acquire a permanent residence in Hungary (residence card) only after obtaining the settlement permit, and until then, they just have a notification of accommodation. Therefore, the problem will be resolved by supplementing Decree of the Ministry of Labor 7/1964 (VIII.30.) with wording to state that, solely for the purposes of this decree, the address shown on the notification of accommodation shall be deemed to be a permanent residence in addition to the place of residence shown in the Hungarian register of residential address, provided that the Ukrainian employee is ensured under the Hungarian social security system.

The reassuring solution will be the adoption of a new agreement between Ukraine and Hungary on welfare matters. However, there is no real possibility for such an agreement in the current war situation.

EDUCATION AND THE LABOR MARKET

36. The goals and directions of investment promotion should be aligned to the available qualified labor. In order to do so, we recommend giving sufficient emphasis to the efficient development of education and vocational training, and to enhancing the country's ability to retain its population (qualified labor) and to attract employees from abroad.

The difficulty most frequently voiced by our member companies concerning the labor market is the lack of availability of labor in the quantity and with the qualification required for their business activities, and the lack of supply and talent sources that are indispensable for development. Companies established in Hungary that have substantial production capacities and potential raise the request that it should be possible to obtain skilled labor by newly attracted companies without draining the labor force already in employment, thereby aggravating the existing shortage of labor.

37. The education system should assist the adaptation to the dynamically changing labor market. In the field of education, efficient measures are indispensable not only for increasing but also for sustaining economic competitiveness.

We consider it important to harmonize the extent, structure and contents of education expenses with the objectives focusing on the acquisition of competitive knowledge and the ability to adapt to the new and quickly changing technologies.

a) We call for the adoption of government measures that reflect the recognition and realization of the socio-economic weight and significance of teachers. Salary realignment is an inevitable but insufficient step in this process.

We consider it particularly important to ensure the human requirements for education. Any other effort in the field of education is in vain if there are no motivated teachers who are well-prepared in professional terms.

More substantial resources and ample time should be provided for the professional preparation of teachers. Further training for teachers that is associated with a company's field of vocational

training should take place together with the companies. Granting two or three days to demonstrate the technology is not sufficient, more substantial solutions are needed.

b) We recommend extending the liberties of education and training institutions, allowing them to adjust to the changing environment more flexibly. In particular, universities need to be able to keep up with the changes flexibly and quickly in terms of the curricula of the existing courses and faculties.

According to corporate feedback, the current education structure is inflexible: the contents of education are often obsolete and there are serious obstacles impeding the changes (accreditation, incentives for teachers, curriculum modifications). This is particularly significant for university education, but the changes need to be reflected in all levels of education in a more flexible way.

c) We recommend school modernizations. There is still a very high number of schools that lack the necessary assets, tangible equipment and an appropriate school environment.

More specialist rooms, more up-to-date digital equipment, well-equipped workshops and laboratories, clean school buildings in a good state of maintenance will raise the standard of education and increase motivation for both students and teachers.

38. We recommend implementing additional and more efficient measures in the field of teaching foreign languages. The lack of language skills remains a factor impeding further advancement in competitiveness.

We experience outstanding deficiencies in language education, in addition to which the shortfalls of expression (verbal testing, lack of debate skills and presentation skills) raise many difficulties for employers. The development of communication skills in Hungarian also supports the ability to communicate in foreign languages, so greater emphasis should be put on this in order to enable foreign language acquisition. The methods are ascertained by effectiveness.

We continue to recommend starting foreign language education early, already in the lower grades of elementary school.

39. We recommend putting greater emphasis on more pragmatic, problem-solving and skill-based teaching in education.

- a) Today's young people need to be prepared for logical thinking, project-based attitude and for expressing themselves well, in addition to a confidence in utilizing all segments of digital life.
- b) The education system knows and recognizes individual performance only, whereas it should encourage students to realize the strength that lies in cooperation, so that they can be successful by working together.
- c) We recommend developing an experience-based approach in public education. Education should strengthen acceptance of experimentation or failures, and even their interpretation as a learning opportunity, seeking innovative solutions instead of ready-made answers, ensuring the joy of creation in education.
- d) We believe it to be necessary and recommend developing and teaching about self-awareness.
- e) The sustainability approach should be present in education.

The need for the above abilities and the development of those abilities is voiced nearly every day. Different, credible and broad-based surveys indicate that the professional challenges at the workplace in the present and in the future rely on these skills and abilities. Hungary's economic competitiveness hinges upon the ability of its education system to relay these requirements and to implement and fulfill them in practice.

The sustainability approach should also be present in the process of education. Several of its elements need to be taught, disseminated and awareness of those elements should be enhanced to find out how we can do more and how we can defend our future by eliminating the negative effects of our socio-economic activities.

40. We recommend developing a constantly renewing consensus, in consultation with the appropriate professional fora, on the progressive digital knowledge that must be possible to acquire in the general education system. In addition, greater emphasis shall also be given to digital realignment in education.

Corporate feedback indicates that digital education within public education does not keep up with progress and the new expectations. We recommend substantial consultations on this, after assessing practical needs and experience of the companies as well, to figure out the progressive digital knowledge that needs to be incorporate in the public education system.

Digital realignment is a challenge and task on its own. A serious gap has emerged within the generation taking part in school education. The possibility of realignment needs to be ensured for those living in more difficult situations in order not to lose them for the purpose of the world of qualified work. Children living in poor situations do not have either the education or the equipment to acquire digital skills.

Additional recommendations concerning the digitization knowledge required in the labor market are set out in the items within the *Digital skills and development* section of chapter III SMART GROWTH.

41. We recommend that the rate of graduates finding employment in the relevant field and profession should be a measure of the quality of universities, and this rate should be published.

Finding out the relationship between the diplomas earned and the professional requirements of the positions and vocations found after the course, and the real compatibility of the professional qualification received with the job received will provide substantial lessons on the situation, the education quality and the adequacy of higher education for the labor market.

Career orientation, preparation for working life

42. We recommend that secondary schools and tertiary education institutions should put greater emphasis on preparing for the world of work. Career orientation in schools still remains a formality to be completed, but its approach is not reflected in teaching.

Career selection forms a link between school education and the labor market. School plays a dominant role in broadening the perspectives of pupils, and in taking steps towards equality of opportunities within societies while facilitating social integration. It is an important expectation for the school system that it should open gates, relay realistic information on the current and, even more, on the future trends, expectations and opportunities of the labor market. AmCham wishes to contribute to this using its own devices via its member companies, and strives to share as much personal professional experience with pupils and schools as possible. Prior recommendations have already set out these ideas, yet we still feel there remains a lot to do as regards implementation and effectiveness.

43. We recommend perceptible development of secondary and tertiary STEM education in terms of both quantity and quality.

Labor shortage is prominent mostly in terms of professionals with STEM knowledge. Technical and technological progress, the forward-looking professions of the future require practically unlimited engineering knowledge. In order to ensure that more and more people opt for this are, the young generation should need to be encouraged to obtain a realistic picture of the perspective offered by STEM careers already from a young age, via the school system, by nurturing sufficient motivation, raising interest and providing appropriate information. We consider it important to act against stereotypes, and to open the gates for STEM-oriented education and professions also for girls.

The institutions involved need to be developed in order to make STEM orientation more efficient and effective. Educating STEM professionals is one of the cornerstones of the development and competitiveness of the Hungarian economy. The following measures are considered important in order to promote the above:

- i. We recommend creating and supporting the conditions for educating a higher number of STEM/engineering professionals. Secondary and tertiary STEM education is very scarce and has great shortfalls. The number of students entering STEM education also remains well below the actual and future needs induced by economic and technological progress.
- ii. Extracurricular activities (such as building airplanes, radios, computer programs and robots) should be launched already from kindergarten age, with properly motivated teachers. Young people should be more inspired by adults who rely on STEM knowledge.

- iii. STEM studies should be incentivized by dedicated grants.

Dual education, corporate relations

44. We recommend partly reconsidering the regulations for dual education, particularly in the field of state subsidies. It is important to take into account that companies make a great investment that stretches over a long period of time.

Although much more flexible than the old regime, secondary dual education is still not efficient enough. In order to improve this situation, our member companies recommend the following adjustments:

a) Compliance with the conditions of dual education represents highly different burdens for SMEs and for large corporations, yet regulation fails to take this into account.

Compared to the earlier regime, administration, the preparation of the practical training program and quality assurance represent a significant extra burden for small companies that have been engaged in dual training before. Also, not all small companies are able to pay such high wages to pupils on a monthly basis while pupils withdraw resources from the organization during the training, because experienced staff need to work with them. We recommend enforcing the aspects of small companies as well in the regulations.

b) We recommend that the monthly amount paid for practical studies during the 5-year course should be possible to be made proportionate with the time spent at the workplace.

Currently, the same amount is payable for one day of practical training per week as for 4-5 days of practical training per week. Due to the raised grants, the current corporate subsidy does not even cover the wages paid to pupils over the five years of education. We recommend reconsidering the size of the amount and the distribution of this amount payable in 5-year training.

c) We recommend reconsidering the legal regulations for dual education applicable to the company's own employees. Fulfilling the terms and conditions of employee contracts and vocational training employment contracts at the same time poses a serious challenge for the practical feasibility of (re)training employees under the existing conditions.

Under the current conditions, involving the company's own employees in dual training is a source of internal conflicts for companies, so that they often become interested in avoiding such situations. Harmonizing employment contracts for employment in a way so that they meet the requirements of dual vocational training as well is a serious challenge for corporate lawyers; also, granting additional vacation for vocational training, in 15 contiguous days in the summer, and other wages supplements for vocational training over and above wages are impossible to interpret in the framework of employment. Large corporations prefer to grant some hours off for their employees and are even willing to waive the tax relief for their own employees, which goes to demonstrate that fulfilling the conditions of a vocational training employment contract while observing the employment contract is a very substantial task.

45. We recommend more efficient regulations for the framework of employing university students. Work in addition to studying needs to be reconsidered and given a sensible framework structure.

Currently, many students in bachelor's education work while they attend university, but the goal is to come up with a sensible balance. Student work is favorable for companies as well as for students, but it may not have the goal of demotivating from further studies. It is important for the company to know when it can count on the student's work, but in the longer term, it is not reasonable to prevent the student from participating in education in a substantial way.

46. In the field of vocational training, we recommend clarifying and supplementing a specific piece of legislation - Decree of the Ministry of Innovation and Technology 54/2021 (XI. 5.) on the training and examination of operators of equipment used in the public road transport sector - as detailed in the explanation.

As a consequences of the changes made in 2021 to hauling equipment and forklift operator training, uncertainties have arisen in companies that threatened the normal course of business. That is why we welcomed the publication of Decree of the Ministry of Innovation and Technology 54/2021 (XI. 5.) (on the training and examination of the operators of equipment used in public road transport). However, difficulties have arisen in applying the decree in practice. In this respect, we ask for clarifications and supplements to the decree as follows.

- i. According to the decree, training is required in a number of categories where it has not been required earlier (and furthermore, the number of these categories has increased significantly). The training and the obtaining of the required license requires several months from employees. In addition, the statutory exam is required also for people who have obtained OKJ certificates earlier, which also requires several months. Therefore, we believe it to be necessary to have a grace period, transitional measures for a period on the scale of one year.
- ii. The following should be clear in the case of autonomous vehicles:
 - the document/qualification required for their operation
 - the persons to whom the training and statutory exam obligation applies
 - the person who needs to have an operator's license should be clarified, as there is no personnel staying on these vehicles/equipment (which is equipped and run on the basis of sensors).

HEALTH CARE

47. We recommend consolidating the decision-making processes in the health care government, and commencing a consultation on the merit of the development of a sustainable, value-based health care and the implementation of transparent and predictable regulations, with all operators in the health care ecosystem.

AmCham welcomes the existing government intentions and efforts aimed at creating a value-based health care. At the same time, we believe the reform can be successful only if all actors in the health ecosystem, including operators in the health and related industries, take part in shaping the reform and determining its priorities. Our members include innovative health care, technology, development and service companies that are able to give efficient support to measures leading to a value-based, people-oriented and sustainable health care by making recommendations based on their investments, scientific research and widespread experience. These recommendations have been submitted to decision-makers in our paper entitled *Cooperation for a Sustainable and Value-Based Health Care 2021*.

We believe it is of critical importance that the government decision-making system for health care:

- sets up an institutionalized forum for regular and constructive consultations with all stakeholders involved in the restructuring of health care on substantial matters, with real authorizations;
- to develop a transparent, predictable and stable regulatory environment and professional protocols that take into account the latest scientific achievements and international practices.

48. We recommend that in making its decisions concerning health care, the Government take into account the significant impact of the sector on Hungary’s competitiveness.

The population’s health status is a factor with an impact on all areas of society and the economy, directly influencing productivity and, therefore, Hungary’s competitiveness in general. That is why we believe that rather than interpreting it merely as a ‘cost center’, health care should be regarded as an investment into human resources, which has direct positive yields.

The number of young people entering the labor market does not adequately cover the structural labor shortage, so the missing part needs to be covered out of other age groups of Hungarian society. The intellectual and physical condition of the middle-aged and older age bracket is a critical factor for the purposes of Hungary’s economic performance, so strategic measures are required for efficiently ensuring the preservation of their intellectual and physical health. This is especially important in light of the fact that the Work Ability Index shows “moderate” or “poor” values for 17% of employees over the age of 45, meaning that the threat of losing work ability is particularly high for them.

Increasing public health care spending in proportion to GDP is inevitable in order to improve the population’s health condition. In this respect, Hungary has been below the European Union average up to the end of the last decade. Although Hungary approached the V4 average in 2020, but this can be attributed to the sectoral wage increases and the extraordinary items associated with protection against the COVID pandemic. In order for efforts to develop an active productive society in a good health condition to be successful, Hungary’s public health care spending in proportion to GDP should reach the European average.

The special tax on the pharmaceutical industry, any increase in which may have several unfavorable consequences on the industry, deserves special attention. This sector is an important taxpayer and contribution payer, with every fifth HUF of the pharmaceutical budget currently paid by manufacturers, partly in the form of special taxes. These special taxes cannot be passed on due to the rules applicable to the industry, and the weakening of the HUF against the EUR puts further burdens on companies, as this cannot be managed by the price recognized as the basis for public financing of drugs.

49. We recommend strengthening the occupational health system in a way so that it offers services that result in a real health profit.

A significant part of active employees meets the physician offering occupational health services more frequently than their own family physician for up to decades. This is particularly true for employees below the age of 40, who are mostly in a better health condition, so they have patient-

physician meetings at regular intervals in the mandatory occupational health are. The value added by these meetings can be increased in two fields:

- i. Prevention: Occupational health care may assume a greater role in preventing and screening for endemic diseases, provided that companies are properly incentivized, and an opportunity is created for financing additional health care programs. Although the current tasks of the physician providing occupational health services include participation in patient care, an exact definition and further expansion of these tasks may help to strengthen the preventive approach.
- ii. Better utilization of data-driven health care opportunities: Although a significant quantity of public health care data is generated in the occupational health data bases of the various service providers, these are only partly connected to the EESZT - typically only to the extent of basic information. A higher degree of intervention could help to ensure the quality of occupational health care and to improve any weak standard of service. In addition, based on the information that can be extracted from larger samples, it will be possible to define better screening criteria (e.g. demographics, region) similar to the corporate health maps already in regular use by certain private service providers, and physicians offering occupational health services could promote better monitoring of certain diseases or comorbidities for the purposes of public health care as well.

50. We recommend that health care services purchased by business entities for their employees be deductible as a cost.

Having a healthy and productive workforce is not only a matter of health strategy but also a dominant element of Hungary's competitiveness. The tax advantage that has existed in the past years made businesses important actors in financing health care programs, providing additional funding for the sector. In addition, a good portion of the programs implemented with company financing had a prevention approach, further reducing the costs arising out of the late detection of diseases, which would have been borne by the public health system nearly entirely. The changes made to the Cafeteria system in 2018 eliminated the incentive effect of this favorable form of taxation. Making these costs eligible for deduction could offer a solution to this situation. The services purchased might be individually priced or provided for a flat rate, and if necessary, there might be a limit on how high spending may be on such costs. In our opinion, the small amount of taxes lost this way will be more than compensated by the favorable impacts of such a measure on society and competitiveness, as well as by the economic advantages arising out of whitening health care.

III. SMART GROWTH

SUSTAINABILITY

- 51. We recommend the development and implementation of a strong Hungarian climate strategy and action plan promoting the objectives of the European Green Deal, and the communication of this strategy and the action plan to as broad a part of society as possible.**

Reduction of carbon dioxide emissions is a universal goal, and Hungary as an EU Member State also has to fulfill this requirement. We support the goals and framework system of the European Green Deal, as they create an opportunity for implementing developments that promote a gradual shift to a sustainable business model with low carbon dioxide emissions. Devising a clear and firm government strategy in support of these objectives is of primary importance, considering the existing strategy. In addition, we recommend adopting an action plan determining objectives for five to ten years. We recommend that this action plan be substantiated by impact analyses, and consulted on with industry stakeholders, leaving ample time for comments. The common goals thus created should be consistently communicated to all of society, and we also recommend constant verification of the objectives being met, in an accountable manner.

As regards the general population, we recommend launching awareness campaigns focusing on sustainability, as the issues that are the most important for sustainability purposes are not clear for consumers, and they do not know what they can do for sustainability as consumers, which is why consumer decisions are often thought to be green but in fact do not serve sustainability.

A quick and gradual green shift is essential, but it can be realized only if the changes in industry and economy required for the transition do not put an onerous burden on society and do not bring down the competitiveness of EU businesses and do not threaten several thousands of jobs.

We welcome the “Fit for 55” proposal package, which aims to reduce greenhouse gas emissions by at least 55% by 2030. However, we believe some of the European Commission’s proposals may put heavy burdens and obligations on industry (and through that, indirectly on society), for instance by forcing them to implement investments that are not yet economical and do not offer recovery before their due time. Such highly capital-intensive and high-risk capital expenditures may threaten an industry’s operation and lead to facility shutdowns, given that in the absence of appropriate regulation and support, European industry cannot be competitive against imports.

Finally, we believe it to be especially important for energy investments to take into account the green objectives set out in the EU’s Green Deal while maintaining energy security.

- 52. We recommend that the government incentivize companies supporting clean energy, sustainable mobility and the circular economy to implement and disseminate additional innovative and green solutions. We believe consideration should be given to the implementation of incentive systems to promote these objectives, in forms such as extra tax benefits, a special subsidy scheme and joint bearing of burdens.**

The cost of clean technologies and of the shift to such technologies impedes the realization of climate goals. Providing incentives to companies and mitigating the cost of the shift could accelerate the attainment of those goals. Our specific recommendations:

- i. energy-generating and storage equipment capable of renewable electricity generation for own use - up to the extent of local use - and the energy management systems should be granted corporate tax relief for a period of several years. Energy storage is growing increasingly important, and will constitute an important element of energy security and independence, whether using a Li-ion or hydrogen solution.
- ii. creation of a simplified licensing procedure for solar panel systems installed by companies for their own energy consumption (facility to reduce own consumption).
- iii. Broader marketability of the certificates related to energy savings, which will allow non-obliged operators to engage in interim trade and therefore to ensure market liquidity.
- iv. Provision of investment subsidies for investments aimed at carbon emission, in proportion with the reduction in carbon emission.
- v. In the framework of the shift to electromobility, the energy saving certificate (EKR certificate) should be possible to apply also to leasing schemes.
- vi. It should be possible to finance planning as well out of the EKR (e.g. out of the fines and compensations collected). Many companies, mostly SMEs, do not embark on implementation due to a shortage of funds. Providing assistance and support for preparing feasibility and return on investment studies will result in more capital expenditure projects being implemented.

Energy safety, diversification of energy resources

53. In addition to energy safety objectives, we recommend giving special attention and support to renewable and green energy solutions such as solar power, the expansion of hydrogen capacities and the decarbonization of gas markets.

It is indispensable for Europe's future to ensure the stability of electricity grids, which requires gas and nuclear energy in the course of the transition. In the absence of additional measures, the various renewable resources currently do not ensure stability at a level that could substitute the power plants running on fossil fuels overnight. New technologies need to be introduced gradually, taking into account financial conditions and features. We wish to highlight that in areas where no substantial market has emerged yet - such as hydrogen as energy source or the final underground storage of carbon dioxide -, the government should support capital expenditure for this purpose.

The establishment and development of a "peer-to-peer" network of energy communities - of primarily small towns and rural areas - focusing on renewable energy (primarily on photovoltaic solar energy (PV), which can be scaled for the entire network) will be an efficient method for aggregating small loads via the digital management of the equipment. The widespread dissemination of microgrids, capable of ensuring maximum localized consumption of renewable energy, schedule observation and the elimination of grid problems, is also important. The ability to operate in isolation also represents decentralized energy security. At the same time, it is important to note that decentralization also represents cyber security risks, because the protection of individual terminal points is typically lower due to the larger number of components. An attack on a terminal point through the common cloud of generators may

concern even the entire grid. A comprehensive strategy and an action plan that can be realistically implemented need to be prepared to manage risks for national security considerations.

Onsite and offsite corporate PPA (power purchasing agreements) may play an important role in promoting the use of renewable energy and creating funding, and raising awareness of these PPAs may also be a good goal for the government. It is important to have as little regulatory and administrative obstacles as possible as they curb the willingness to invest.

a) In implementing the EU framework aimed at decarbonizing gas markets, promoting the use of hydrogen and reducing methane emission, we recommend continuous consultation with the industry and supporting industrial operators during this transition.

We welcome the recommendations helping to recognize gases with low carbon dioxide emission, including hydrogen, by using clear definitions. In addition to renewable hydrogen, hydrogen production with low carbon dioxide emission may also contribute to considerable emission savings, in line with the objective of the Green Deal. We support the provisions that enable mixing up to 5% hydrogen from 2025, and its transport through cross-border pipelines, because we believe mixing will definitely be necessary for the emergence of hydrogen markets. We support the proposal for a preferential entry tariff for renewable and low carbon dioxide emission gases, which will be a necessary incentive for building new hydrogen production capacities. We consider it important to promote the implementation of green hydrogen projects located close to the place of their use in Hungary, which will support hydrogen production even before the nationwide transport infrastructure is built.

The proposal for using green hydrogen at a rate of 50%, to be achieved in industry, will be put forward in the Renewable Energy Directive, but the related legislation will clarify the parameters of green hydrogen by including additional requirements. These additional criteria will make it extremely difficult for industry to reach the 50% target.

The “hydrogen objectives” for industry need to focus on encouraging industry to introduce efficient and feasible options for reducing the CO₂ emission of hydrogen production. The fixed renewable H₂ quota does not serve this purpose, as it requires a dramatic quantity of renewable electricity, and multiplies the electricity requirement of hydrogen-consuming industrial sectors within an unrealistic short time, which may constitute discrimination against certain regions having lower potentials. The measures aimed increasing the availability of renewable resources and access to such resources are absolutely necessary prerequisites for the transformation of industry and the general success of the shift in energy.

We welcome the ambitious goals for the steep increase in the quantity of electricity generated out of renewable resources, and the acceleration of licensing procedures and better cooperation. However, the existence of an efficient and effective energy transportation infrastructure at European Union level is an inevitable prerequisite of the Renewable Energy Directive’s success.

b) We recommend a review of the legislative background for the establishment of solar power plants, with special attention to the registration of areas with arable land status in the land register.

As regards energy generated using renewable resources, we believe it is important to eliminate the shortfalls of regulations concerning solar power plants and the obstacles influencing their implementation. One of the largest problems of solar power plant projects is that these developments are typically implemented in areas with an arable land status, which the investor

can at best acquire no earlier than after building the solar power plant, in possession of a permit for the final use of arable land for some other utilization, and after the change in arable land status is registered in the land register, so that the investor has to carry out construction and implement the project using land that it does not own. In certain cases, the owners of the arable land do not intend to sell that arable land even if the project is implemented, so that in these cases, the possibility of removal from cultivation and the registration of this change is not in place even if the project is implemented, so that the solar power plant operates on foreign land, under a legal scheme not designed for this purpose (lease agreement). Unfortunately, the Hungarian legal landscape contains no clear regulation on whether solar power plants can be registered as independent property deemed to be a special structure in the land register (that is, whether the ownership of the arable land can be separate from the ownership of the solar power plant built on it).

In line with the above, we recommend amending the applicable legislation (including Act CXLI of 1997 on the land register and Decree of the Ministry of Agriculture and Rural Development 109/1999 (XII. 29.) on its implementation) in a way so that solar power plants are deemed to be a type of special structure, which will enable the solar power plant to be registered in the land register as separate property having its own topographic lot number. This will create the opportunity to detach ownership of the arable land from the ownership of the solar power plant as a superstructure. As a result, it will be possible for legal persons to acquire ownership of the solar power plant, developers will be able to secure bank loans for implementing the project more easily, because it will be possible to use the solar power plant as property as collateral under mortgage, etc.

In line with the above, we recommend transforming the legal environment for solar power plants in a way so that it takes into account that such renewable energy projects are usually implemented on arable land, which is subject to significant restrictions on the sale and use of land.

Additional rationalization options need to be explored; for instance, roofs built over outdoor parking lots could provide significant surfaces for generating solar power, but they cannot be implemented currently due to building rules.

54. We recommend to and ask the Government to learn about and take into account industry interests when developing the Hungarian position related to the EU's plans for the carbon border adjustment mechanism (CBAM) and the emissions trading system (ETS). In order to do so, the different opinions should be discussed and positions should be reconciled on a continuous basis.

The European Union's objectives related to climate change are applied to the industry sector via the emission trading system (ETS), and the gradual restrictions on key figures of the system represent increasing costs for industry. On the other hand, global competitors do not incur such costs, and the rate of the quota allocated free of charge, currently in use, is decreasing gradually, and will not provide sufficient compensation in the long run. The increasing carbon costs call for a solution to this problem, so while we consider the introduction of the mechanism to counter carbon intensity (CBAM) to be a direction basically worthy of support, however, it should offer a solution to industry's concerns as well (e.g. export). It is important to investigate whether the "embedded" emission can be calculated for any given sector.

Also, there are solutions (energy tax directive and the emission trading system encompassing transport and buildings = additional carbon tax), which directly boost the energy costs of households (raising of energy tax levels, elimination of reliefs) before a low carbon intensity option is available at a competitive price. It is particularly important that the shift to sustainable technologies should not disproportionately impede economic growth and should not entail mass shutdowns of companies, as that would be felt throughout all of society, and would bring about the danger for the European Union of losing the support of the society that exerted the pressure encouraging the change in the first place.

The free allocation under the ETS will be gradually phased out in the sectors subject to the CBAM regime. This causes substantial anxiety in industries that are located in complex downstream value chains, such as the chemical industry. Maintaining the free allocation for benchmark facilities operating in industry is of fundamental importance.

Furthermore, we believe the CBAM will have an extremely negative impact on export-oriented industries due to the loss of the free allocation. The exported goods need to compete with companies outside the EU that have no carbon dioxide emission cost. In addition, the SMEs located lower in the supply chain will also be negatively affected, as the (downstream) products imported into the EU will not be subject to CBAM (according to the current proposals).

55. We recommend giving special attention to the circular economy model in devising sustainability strategies.

The circular economy model takes into account the total product life cycle in order to increase the lifetime, recycling and reuse possibilities for products. Shifting to this economic model is particularly important in regions poor in resources, where it can open new dimensions in the fields of research and development, economic growth and job creation.

We welcome the circular economy action plan aimed at the economic use of resources, without which it will be impossible to realize the carbon dioxide neutrality goal set out in the European Green Deal. Resource and energy efficiency is a requirement also in industrial processes, but the model of the circular economy moves beyond that, by extending the approach to the total product life cycle in order to increase the lifetime, recycling and reuse possibilities for products. Shifting to this economic model is particularly important in regions poor in resources, where it can open new dimensions in the fields of research and development, economic growth and job creation.

Restricting the range of products that can be deposited in waste landfills. In certain European countries, for instance, certain wastes over a certain calorific value cannot be deposited in landfills.

Mechanical recycling is a well-established recycling technology. However, other innovative technologies will be required in addition to mechanical recycling (e.g. chemical recycling) for attaining the objectives set out in EU legislation (in respect of, for instance, reducing the level of landfills). We also need to respond to market demand for recycled materials (from a product perspective, for instance). Making available the new technologies calls for an enabling legal framework, e.g. for determining recycled content, and the method for calculating it (mass balance approach). We need to harmonize CSS (Chemical Strategy for Sustainability) and the criteria for terminating waste status; this should be given priority as there are materials giving cause for concern that represent a problem for the purposes of setting up a circular economy. We need

incentives and regulatory changes in order to facilitate investment into circular economy technologies.

56. We recommend that the Government should support industry in the course of implementing the objectives set by the Chemical Strategy for Sustainability (CSS), thus, in the course of the move from a risk-based approach to a hazard-based approach, as these modifications are expected to limit the production and use and/or increase the production costs of products.

The Chemical Strategy for Sustainability (CSS) was published in October 2020. One of the major components of this package is the move from a science-based risk management to the general prohibition of materials having certain hazard labels in consumer and professional applications. This is a paradigm change. Another important element is the introduction of new hazard classes according to CLP legislation. These rules bring about considerable changes in the EU's current system for managing chemicals. We need a transitional path offering a realistic plan for implementing the CSS goals. The impacts of the move from a risk-based approach to a hazard-based approach on the everyday lives of consumers and professional users should be assessed, along with what this approach will look like in practice, especially thinking about the different methods of use. This affects several sectors with a direct impact on consumers, such as: beauty products, paints, detergents, paper, etc.

The GRA (General Risk Approach) and the amendments to the LP (Classification, Labelling, Packaging) regulations are expected to restrict the manufacturing and use of products and/or raise their cost of production. In turn, this will have significant and potentially negative effects on the development and competitiveness of the EU-27's chemical substances market, despite strong responses from the sector.

Some 12,000 substances may become subject to the measures proposed in the framework of the CSS. Taking into account the potential business responses, the changes made in the CLP and the GRA may lead to a net reduction of the product portfolio/business line (expressed in turnover), by about 12% in 2040, which is equivalent to EUR 70 billion.

The chemical industry is already subject to several measures within the EU. In the wake of changes to the CSS and other legislation, all of the chemical industry needs to transform and beef up on innovation. In order to perform this transformation, the industry needs financial instruments and a sufficient time frame, with a clear path. In addition, the industry needs to create a market for clean technologies and products to attain the EU's sustainability objectives and initiatives. Chemical industry is the cornerstone for future sustainability inventions and actions, meaning that further support is indispensable for enabling and accelerating the support for this development that can be given by the initiatives and additional measures. Another important aspect is ensuring compliance with the rules on imported products in order to keep EU businesses competitive against products flowing in from outside the EU. We also believe that the REACH (Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals) and the CLP should remain the cornerstones of the EU's chemical substance legislation.

Sustainable mobility

57. We recommend and request the adoption of further Government measures to assist, encourage and support the broader dissemination of vehicles with alternative fuel sources in the framework of electromobility.

a) We recommend extending the reliefs available for vehicles with electric drive, and broadening the scope of beneficiaries.

We recommend implementing new state subsidy programs for encouraging electromobility, publishing EU tenders within the framework set by opportunities, and the elaboration of tax credit opportunities (such as the energy efficiency program under corporate tax, which was phased out), which will facilitate and assist in disseminating electromobility on a broader basis.

The corporate sector could play a key role in the dissemination of electromobility, but support for electric vehicles is currently available only for private individuals, state operators and a few special target groups. We recommend broadening the range of subjects eligible for support.

As indicated already in chapter II, the possibility to account for the cost of charging own or company vehicles with an electric drive at home as travel costs and the elaboration of rules on this may also prove to be an incentive.

Similarly to the above, the recommendations apply to vehicles with other alternative drives in addition to electric cars.

b) We recommend additional government measures for helping and encouraging the development of the infrastructure for vehicles with alternative fuel sources (charging points).

In the field of mobility, the establishment of the network and infrastructure for charging electric vehicles is especially important, as e-mobility will not be disseminated to the extent required for achieving climate goals without that infrastructure. Charging networks need to be developed further to increase the penetration of e-mobility.

As regards regulating the infrastructure for electric vehicles, we believe it is important to highlight and ask that it be coordinated with the dissemination of electric vehicles. In other words, regulations should keep up with practice and the changes in the real situation.

The development of the power infrastructure (e.g. substations) should also be accelerated to be able to satisfy additional demand, and encouragement and support for building hydrogen filling stations are needed to assist the dissemination of hydrogen-fueled vehicles.

58. In order to make urban transport and traffic more humane and more environmentally friendly, we recommend the implementation of as many of the available solutions supported by artificial intelligence as possible.

There is demand and a need for supporting the implementation of AI solutions to optimize urban traffic, particularly in downtown areas. An example for this is the use of smart traffic signals in junctions, which monitor the rate of vehicle traffic.

We recommend measuring average speed instead of momentary speed on highways, which will curb speeding.

59. We recommend increased support for intermodal transport solutions and the supporting infrastructure.

Over the past year, delivery times for air and sea transport have grown considerably longer, which is true for China and India, and for the Far East in general. Looking for alternatives, a number of companies have started to prepare and use railway transport solutions for raw materials deliveries. However, this is not structured and dense enough between the EU/Hungary and the Far East. We recommend developments of railway cargo facilities, and the development of loading points along connected waterways or public roads. There are currently only a few such points in Hungary. Further development of such facilities will have a positive result also in terms of sustainability.

There was a separate request for a Government decision to support the purchase and railway transport of semi-trailers fit for crane operation using EU funding, because this cannot be implemented in the lack of EU funds, using only market resources.

Sustainable financing

60. We recommend that the Government should promote and support the introduction of a government bond with favorable interest conditions as part of the offer of retail government bonds, which serves green sustainability goals.

Bonds serving green goals and having favorable interest conditions will be welcome in the supply of retail government securities offered, and while meeting financing goals, ÁKK could play a positive role in raising sustainability awareness with such a paper. This may strengthen confidence in other projects initiated for sustainability purposes. It is important to emphasize and raise awareness that investments implemented with a view to enforcing the criteria of sustainability can still be profitable investments.

61. We recommend increasing the current HUF 300 billion limit of the Green Home Program launched by MNB.

We consider the Green Home Program, implemented as part of the Growth Credit Program, to be a positive initiative, and recommend further increasing its budget, possibly even with adjusted conditions (limit, interest, loan amount). We consider supporting green retail loans to be extremely important, and therefore, it is recommended to supplement these with retail discounts and promotions while encouraging credit institutions as well.

MNB's green lending program offered to credit institutions will give a perceptible boost to the banking sector for offering expressly green loan products by providing favorable financing.

62. We recommend relaunching the green capital requirement benefit program, provided by MNB to credit institutions, for retail exposures as well, and introducing verifiable regulation for the minimum rate of discount that has to appear in loan conditions as well in the case of these capital requirement benefit programs (both corporate and retail).

We recommend that MNB should relaunch the capital requirement discount program, closed on 26 November 2021, also for retail green loans. Also, in the case of loans eligible for capital requirement discount, we recommend attaching requirements to them, which determine the

minimum interest and fee discounts to be granted to customers, so that loans for green purposes become cheaper and more favorable compared to traditional loans also for the customers. These measures will help credit institutions in their own green lending product development efforts.

63. We support and recommend the provision of additional incentives for green bonds that incorporate sustainability in normal business activities while also promoting the development of capital markets. In this framework, we recommend a more favorable tax treatment of interest income from green bonds, and launching of a Green Bond purchase program by MNB.

Making the interest paid on certain defined green bonds (e.g. mandatory external certification, capital market introduction) tax free (similarly to certain defined government securities) and ensuring more preferential taxation will provide incentives.

A more favorable asset purchase program, similar to MNB's NKP program but applicable only to green bonds, will also have a positive impact. As regards the program conditions, longer sustainability of the program in the current monetary landscape will also be an objective, so that the rate of the discount could be lower than earlier, but would still be in place.

Sustainable operation

64. In order to build a higher rate of zero-emission new buildings faster, we recommend the development of regulations that encourage the emergence of a supporting infrastructure, which is currently rather scarce.

Construction of zero-emission buildings to a greater extent is considerably impeded by the lack of an established and stable underlying infrastructure to rely on. The green and digital alteration of buildings is prevented by the lack of suppliers required for the investment, capable of reliably providing the technologies indispensable for such projects on a continuous basis. The lack of innovative designers, capable of designing such new technologies, is also a hindering factor. Given the current set of conditions, it seems unrealistic to attain the goal of building only zero-emission new buildings as of 2030. We believe that quick steps and measures are required in this field, so we expect the Government to impose efficient regulations giving a stronger impetus, the implementation of which will not burden project implementation with excessive administration.

It will also be necessary to provide clearer regulations for renewable energy communities. The possibility for developing zero-emission buildings is influenced by several factors. They cannot be built just at any location and can be managed only as part of a broader renewable energy community.

A number of limiting factors appear in e.g. implementing climate objectives for leased office buildings as well. The lessee has no direct impact on the energy and automation solutions of the office building. In such cases, imposing an obligation to develop central actions plans to the owners of office buildings will facilitate attaining the obligations assumed by companies concerning climate objectives.

65. Given that data centers consume a considerable quantity of electricity, we recommend making the optimization of energy consumption a criterion for the development, procurement and operation of government IT platforms.

The development of sustainable (green) data centers, and the optimization of energy consumption enables direct savings on carbon dioxide emissions, which contributes to achieving climate protection goals. The dominant part of data centers in Hungary consists of government IT platforms, so the optimized energy consumption of these centers needs to be an important aspect. Naturally, several criteria need to be met in installing government information technology. Security, function and cost assessment are important to name but a few, but please also give consideration to energy consumption aspects when adopting decisions.

These criteria need to be applied to additional data centers in Hungary. As highly optimized data processing facilities, cloud-based data centers emit a fraction of carbon dioxide compared to traditional alternatives, given the same quantity of calculations. We offer and recommend reviewing the possibilities for providing successful incentives and information for an “IT Using Green Resources” initiative.

INNOVATION

RD&I subsidies

66. We recommend a review of certain conceptual elements of the subsidy system based on individual Government decisions operated by the Hungarian Investment Promotion Agency (HIPA), and simplifying the practice of applications.

In our experience, the EKD subsidy scheme is an important factor for increasing Hungary's competitiveness, as it facilitates attracting foreign working capital while promoting investments for innovation purposes. Even so, we believe there are a number of fields where the system could be improved further:

- a) For schemes based on individual Government decisions available for R&D activities, we recommend distinguishing between experimental development and applied research projects.**

Currently, under the R&D EKD scheme (subsidies based on individual Government decisions) offered by the Hungarian Investment Promotion Agency (HIPA), the rate of subsidy is no more than 25% of costs for both pilot development and applied research. A legal restraint substantiates practice only in the case of pilot development, but in the case of applied research, it would be possible to account for as much as 50% of the costs. We call for the HIPA to distinguish between R&D activities in its practice, and make use of the opportunities offered by the 50% limit for applied research.

In addition, we recommend that in order to increase subsidy intensity, the HIPA adopt the practice pursued by the Hungarian Research, Development and Innovation Office (NKFIH), according to which if the subsidized company agrees to communicate project results - in a form such as a conference or publication -, it is possible to increase the maximum of subsidy intensity by another 15%. Thus, in case the HIPA does not wish to separate the different research activities from one another to simplify administration, the rate of subsidy available for pilot developments will change from 25% to 40%.

- b) We recommend facilitating the administration of subsidies based on individual Government decisions by accepting documents with electronic certification.**

In order to facilitate administration of tenders, we recommend that the HIPA accept electronic versions of the required company abstracts and specimen signatures as well. In addition to the fact that using electronic documents accelerates administration in itself, any changes occurring in the meantime (e.g. in signatory powers) are easier to register. A further possibility for simplification is to submit only one specimen signature to the evaluator if the same company submitted applications for multiple projects.

67. We recommend adopting market and profit oriented criteria in supporting and encouraging corporate RD&I activities.

- a) We call for carrying on the application schemes Gyorsítósáv (2020-1.1.5-Gyorsítósáv), and Nyílt Innováció (2019-1.4.1-Nyílt) on a broader basis, and for the development of additional general incentives to promote collaboration between large corporations and small and medium-sized enterprises, in order to improve the innovation skills of SMEs.**

Rationalization of the institutional system for the R&DI ecosystem and the provision of the missing infrastructure elements has greatly contributed to increasing Hungary's innovation potential. However, a significant portion of Hungarian SMEs still do not pursue sizeable innovation activities, neither are they motivated to do so, because practical utilization - e.g. introducing the innovative idea into production - is not ensured. Practical utilization is most cost efficiently done by companies having experience in such a process, so including this in the tender requirements - along the lines of the Gyorsítósáv (2020-1.1.5-Gyorsítósáv), and Nyílt Innováció (2019-1.4.1-Nyílt) projects - will prove to be beneficial. In addition, we recommend elaborating incentives to promote cooperation between large corporations and SMEs in a broader range of RD&I tenders.

- b) We recommend developing the National Contact Point (NCP) network to better utilize the aids provided directly by the European Research Council (ERC)**

In Hungary, a relatively low number of companies take part in EU tenders directly, even though this could help to bring significantly more EU funding into Hungarian research and development. The main reason for this is that the tendering procedure is complicated and requires a lot of preparation, and domestic companies often lack the dedicated resources for this purpose. Development of the NCP network will provide substantial assistance in this, particularly for SMEs, helping them to find their way within the tender conditions, facilitating networking with R&D centers of other EU Member States, or even assisting with specialist language.

- c) We recommend reducing the administrative burdens of the R&D&I application schemes and increasing the transparency of the evaluation processes**

In respect of these schemes, narrowing the scope of commitments and the better alignment of the existing commitments to the nature of research and development projects was a positive move compared to tendering in earlier years.

However, looking at the entirety of the RD&I tendering infrastructure, it is still characterized by uncertainty in terms of:

- the scheduling of funding being made available,
- the time required for evaluating the tenders submitted, and
- the time when funds can be drawn down in case of a positive result.

The deadlines open for tendering are typically very short, so that a business has an opportunity for submitting a tender if it practically completely prepares the tender documentation in advance - even if it has no exact knowledge on the timing and conditions with which the subsidy will be available. This puts disproportionate burdens mostly on small and medium-sized enterprises, but is a waste of resources also in a large corporate environment.

Increasing transparency and predictability will facilitate the process of developing partnerships and consortia between the various operators, thereby facilitating the quality optimization of applications overall.

Due to the above, it will be worthwhile to determine an itemized tendering schedule, fixed for at least one year in advance, for both co-financed subsidies and subsidies financed out of Hungarian funding. It will also be important to make transparent the criteria for professional evaluation, thereby reducing the number of applicants who submit applications unnecessarily, thereby reducing the burdens of both applicants and the evaluation body. In addition, a forum for legal remedy is required to enable appeals by rejected applicants on the basis of professional arguments.

68. We recommend making available the application funds that may be applied for for IT investments for service schemes in addition to tangible assets.

In line with the progress of IT technology, several IT solutions can be purchased not only as capital expenditure or tangible assets - out of capex funds - but also as services. On the other hand, a number of subsidy schemes support only the acquisition of IT assets as capital expenditure, while the same solutions are available for use as services, out of opex funds. While distorting investment decisions, this distinction makes subsidized organizations less flexible, as tangible assets represent a commitment to a given technology in excess of their own time of obsolescence. The technology available at the moment of drafting an application cannot be updated for six to seven years in many cases - calculating with a lead time of one or two years for the preparation and evaluation of a tender, and for purchasing and commissioning the tangible assets, plus the obligation to sustain the assets for five years.

Flexible adaptation to the quickly changing market conditions is better served by concluding a service contract without commitment, which can be transformed by the company in terms of both content and quantity, should its needs or the market situation warrant that.

University collaboration

69. We recommend the adoption of additional incentives to promote the collaboration between higher education institutions and companies.

The development of an education-research-innovation ecosystem that is strong in global terms as well is indispensable for ensuring Hungary's competitiveness in the long run. In order to attain this, it is important to have as many of the institutions ranked among the top 100 universities of the world as possible.

In the course of 2021, the implementation of the new higher education model initiated significant changes in the lives of the Hungarian universities that underwent the model change. One of the priority goals of the restructuring was to create more favorable legislative and operating conditions for collaboration between higher education and the business sector. Certain effects of the model change are already perceptible, however, much more time is needed to draw the balance of the exercise; however, we wish to share a few comments stemming from the practical experience gathered by our members to date:

- i. We welcome the long-term goal set by the Government, according to which it intends to create a more flexible and predictable operating environment by restructuring higher education institutions into operation by foundations, and to elevate the standard of education to make Hungarian higher education more attractive for everyone.
- ii. It is our general experience that the model change made higher education institutions more open to industry-higher education cooperation channels, which allows for teaching

basic business knowledge in non-business faculties, and promotes the acquisition of marketable, practice-oriented knowledge to supplement theoretical knowledge.

- iii. While this openness is in place, the efficiency of cooperation with business operators varies by institution in practice. In order to improve this, it is necessary to set up a single and easily accessible institutional framework system to help business operators in mapping up and using the services of the given higher education institution. This will also accelerate local operating processes, thereby promoting compliance with market deadlines.
- iv. In line with the establishment of that single institutional framework system, it is important to develop a project management approach among staff members working in the business coordination field, and to use allocated project managers in these areas. In addition to operational actions, the efficient market positioning of institutional capacities requires a background in marketing research and a certain extent of sales mentality.
- v. The issue of the ownership of copyrights and patent rights as well as license fees generated in the course of applied and basic research activities is pivotal. The innovative capacities of institutions could be greatly enhanced by having clean and fair rules for all stakeholders (research institute, faculty, company, inventor, etc.).
- vi. In addition to committing research capacities based on market-oriented criteria, it is important to leave enough space for basic research activities, as these are important not only for the purposes of potential 'breakthrough' innovation but also play a role in increasing the attraction of a researcher career, thereby ensuring the supply in education. The combined effect of these steps will increase the global competitiveness of Hungarian higher education as well.
- vii. The issue most debated by society evolved around the composition of the boards of the institutions that undertook the model change. Unfortunately, the discourse has grown completely political, removing emphasis from the changes that are basically of a positive nature. In order to restore the credibility of the process in society overall, the boards need to be composed of members with sufficiently diversified experience, with a balanced representation for professionals who are thoroughly familiar with the institution, have a background in education and research, and for financial, business, legal and other professional who are independent from the institutions.

DIGITIZATION

Digital skills and development

70. We recommend putting in place the conditions required for the comprehensive implementation of the Digital Workforce Program, including the involvement of the corporate sector in the process of digitizing the greater society.

The Digital Labor Force Program (DMP) published by the Government in 2018 provided a precise definition of the developments that were to prepare the labor market for complying with the changing labor market needs of the digital economy, but the interventions to support the program's main goals, originally proposed by the program and suggested in the past two or three years have yet to be set out in a single framework and fully implemented. Also, in the period since the completion of the DMP, a number of technological changes have taken place that can

accelerate the transformation of labor market needs even more, increasing the number of employees appearing in the labor market who have increasing difficulties in finding employment in the absence of appropriate digital and other competences.

In Hungary, the rate of participation in adult education programs remains below the European average, particularly in respect of those with low qualifications. Employers could cooperate in substantially improving the situation, but the vast majority of Hungarian companies either do not consider it necessary to develop employee competences or refrain from doing it in the lack of appropriate resources. This problem could be bridged by providing sufficient and targeted central funding and appropriate education.

71. We recommend pursuing the programs in place for training ICT professionals and launching additional programs, as well as launching projects that develop the basic digital skills of the broader population.

One of the major factors preventing digital development in Hungary is the lack of digital preparation on the part of employees. In addition to the ratio of nationals who refuse to or are unable to use digital equipment and services typically due to their age or low social status - which ratio is, unfortunately, high in comparison with the EU as well -, this stems from the fact that many of those who use digital services on a basic level resort to the use of social media, chat applications and games, typically on mobile phones. As they do not use digital services with a high added value, they do not have the competences required for actively participating in the digital economy.

According to the DESI figures published annually and other assessments, Hungary is considerably lagging behind the EU average in respect of both basic and high digital skills. This is not only due to motivation reasons; the basic competences (such as reading, reading comprehension, calculation) required for digital literacy are lacking in a considerable part of society.

DESI's 2021 report also points out the areas of the human capital dimension with the greatest backlog. Looking at the issue from the perspective of training and the labor market, we wish decision-makers to make note of two aspects:

- i. It is indispensable to teach and properly hold students accountable for basic digital competences for the purposes of the given level in the elementary, secondary and higher education systems and in adult education programs.
- ii. Development of IT and digital specialist training, the promotion of IT and STEM careers and the reduction of the dropout rate from such careers are of critical importance, along with the broader application of 'boot camp' training courses.

72. We recommend launching broad-reaching education, training and support projects and schemes with ample funding to accelerate the digitization of SMEs.

The analyses assessing Hungary's digital situation regrettably agree on the point that the Hungarian SME sector's digital integration is lagging way behind the desired standards, and there are no signs of a considerable positive change. The digital integration of SMEs is directly associated with the sector's productivity, which greatly influences the country's competitiveness in general as well.

There are two aspects to the problem: On the one hand, the necessary number of labor with the necessary knowledge is not available, which is a serious obstacle preventing the digital transformation of SMEs, and on the other hand, often the company management is not duly informed about digitization options, or is outright distrustful of digital technologies. Therefore, we recommend that education and support projects be launched in a harmonized way, supported by ample resources.

73. Cybersecurity We recommend giving more attention to the cybersecurity of government and administrative systems and critical infrastructure.

Today, there is barely any public administration, administrative, operational or service process that is not digitized at least in part, and as digitization and cyberspace nearly completely overlap, one of the most important challenges of our time is providing appropriate protection for this cyberspace. In the wake of digitization accelerated by COVID and the war in Ukraine, the threat has reached its all-time peak.

In our position, the government allocating appropriate financial and human resources for the protection of public administration systems and the critical infrastructure, and assessing and considering all potential risks over a sufficiently long time horizon are matters of fundamental importance in respect of sovereignty. Given that the issue ultimately concerns all nationals, conducting social consultations at several levels is absolutely necessary in this process.

a) We recommend regular consultations between the Government and the companies and experts involved in cybersecurity on the comprehensive strategy for and legislation on cyber protection.

A considerable expert knowledge base on matters affecting cybersecurity is available in the ICT sector, with Hungarian and international companies, consultancy and law firms, and in the working groups of sectoral representative bodies. It is definitely reasonable to take into account the knowledge and experience amassed by these entities in drafting and implementing the applicable legislation, as well as implementing the EU directives.

We recommend convening the Cybersecurity Forum on a regular basis to discuss strategic aspects concerning cybersecurity, and to take into account the common position developed there in the cybersecurity strategy and practice.

b) We recommend efficient action against the dissemination of unlicensed and falsified software.

According to the latest report published by the BSA (June 2018), the ratio of forged and pirate software in Hungary amounted to 36%, at a value of some USD 104 million. This ratio increased considerably during the pandemic, based on data from technology analyst IDS and manufacturer statistics. According to estimates, in 2021, the software with invalid licenses may have made up a value of around USD 143 million, which rid the public budget as well from a significant VAT revenue of around USD 39 million.

Forged and pirate software also represents a significant cybersecurity risk for the systems running it, because, in the best of cases, they just do not receive the appropriate security updates; in worse cases, however, may include vulnerabilities hidden on purpose.

The problem may also arise if an end user acts in good faith. Fraudulent practices have cropped up, in the framework of which software appearing to be original but actually forged is advertised on web advertising channels, at highly favorable prices.

Due to the above, we request that special attention be paid to ensuring that the licenses for software running on the IT infrastructure in public administration and budget agencies are valid, and that employees are duly educated on the topic.