First 100 Days of Hungarian COVID-19 Policies

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1 Hungary and the Covid Pandemic

1.1 Hungary and Covid Outcomes

In this chapter, we provide an overview of the structural conditions of Hungary, the state of the nation prior to the COVID-19 pandemic together with policy projections made at the time, in order to identify the significance of early pandemic policies and structural conditions. In the second section, we provide a historical narrative of democracy and civil activism in the Hungarian context before and during the initial stages of the pandemic to account for the context in which specific policy decisions were made. In the third section, we provide an account of the shift in surveillance from a state-controlled surveillance. In the fourth section, we consider the shift in economic policy adopted at important

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phases of Hungary's post-Communism development concluding with the pandemic. In the fifth section, we focus on the labour policy objectives along this trajectory showing how they increasingly sought to protect and empower labour, although mass unemployment continues to be a significant challenge for the nation. In the sixth and seventh section we consider the historical dynamic related to the significant infrastructural gaps in the health and education sectors, respectively, as it was impacted by the pandemic. Along the previously identified lines, in both of these sectors we observe an impetus from the pandemic which led to a shift in momentum that reinforced socially oriented policies that were put in place prior to the pandemic. Finally, we conclude by summarising different aspects of the gradual shift in policy making.

Hungary is a small country, poor in raw materials, and comprising of a population of only ten million. It is free of civil war, popular uprisings, and terrorism. It has neither become involved in any local wars nor has it been threatened by immediate bankruptcy. So why should we pay attention to what is going on there? As the late Professor Janos Kornai described, the reason is twofold. Firstly, Hungary deserves attention, because as a member of NATO and the European Union, it has begun to turn away from what was perceived as the great achievements of the 1989–1990 transition from dictatorship to democracy, the rule of law, a freely functioning civil society, and pluralism in intellectual life; and started attacking private property and the mechanisms of the free market. Moreover it is doing so in the shadow of increasing geopolitical tensions. Secondly, since Hungary became a member of the European Union CEE and the Baltic group, the country experienced an unprecedented capital inflow of EU-funds. Historically, there have been important checks on the Hungarian government's power even under extraordinary circumstances. In the Hungarian political system, the main actor that engages in the regulatory response to Covid-19 is the National Assembly, under the leadership of Prime Minister Viktor Orbán, whose party (FIDESZ) has had a supermajority (two-thirds) in the National Assembly since 2010 (Kornai 2015). The 4th Orbán-government introduced a constitutional state of exception. In Hungary the State of Emergency and the special mandate of the government have been extended until 30 June 2022.

Compared to other countries, Hungary had a moderate level of excess deaths from January 2020 to March 2021 (Wang et al. 2022). Excess death during the pandemic is mainly made up of direct and indirect deaths caused by Covid. For the case of Hungary, most deaths during the pandemic were caused by people catching Covid-19 and subsequently dying from it directly. A small proportion of death is caused by medical system overload during the pandemic. People who needed surgery or access to the hospital might have died due to the Covid-19 response absorbing the resources that would ordinarily have been available to tend to their medical cases. On the bright side, the Covid pandemic might have saved some lives in Hungary. Social distancing rules and restrictions for combating Covid-19 might have protected some people from catching seasonal flu, decreasing excess mortality. Moreover, many traffic accidents might have been prevented during the lockdowns in Hungary, which again reduced excess death to a small extent.

Economically, Hungary had a moderate to low level of economic losses compared to other countries (Fig. 1). Economic loss is defined as the GDP growth rate adjusted for additional fiscal spending during the pandemic. The average GDP growth rate of Hungary from January 2020 to March 2021 is around 4.8%. Total additional fiscal spending was 9.2% of GDP during the same period; 2.8% of the GDP was spent on health and 6.4% of the GDP was spent in non-health sectors. Hungary spent moderately in non-health sectors. Due to the relatively low level of GDP loss during the pandemic, there was little incentive for the Hungarian government to spend heavily in non-health sectors to save the economy.

1.2 Relevant Structural Conditions for Hungary

For geographical structural conditions, Hungary has seven neighbouring countries which is relatively high compared to other nations. Therefore, border control and testing during the pandemic was crucially important for Hungary, as Covid-19 could spread during the transportation process through the trade of goods. People entering Hungary through borders might also increase infection risks, so tight border controls were in place during the time when Covid cases peaked. Border controls became even more critical when other restrictions are lifted as the population becomes more vulnerable without the restrictions. This is especially true for Hungary as it has many bordering countries, thus bearing higher risks.

For economic and health structural conditions, Hungary had a moderate to high level of tax revenue. Therefore, the government had enough budget to spend. Hungary also had a moderate to high level of government debt. High government debt levels could limit how much

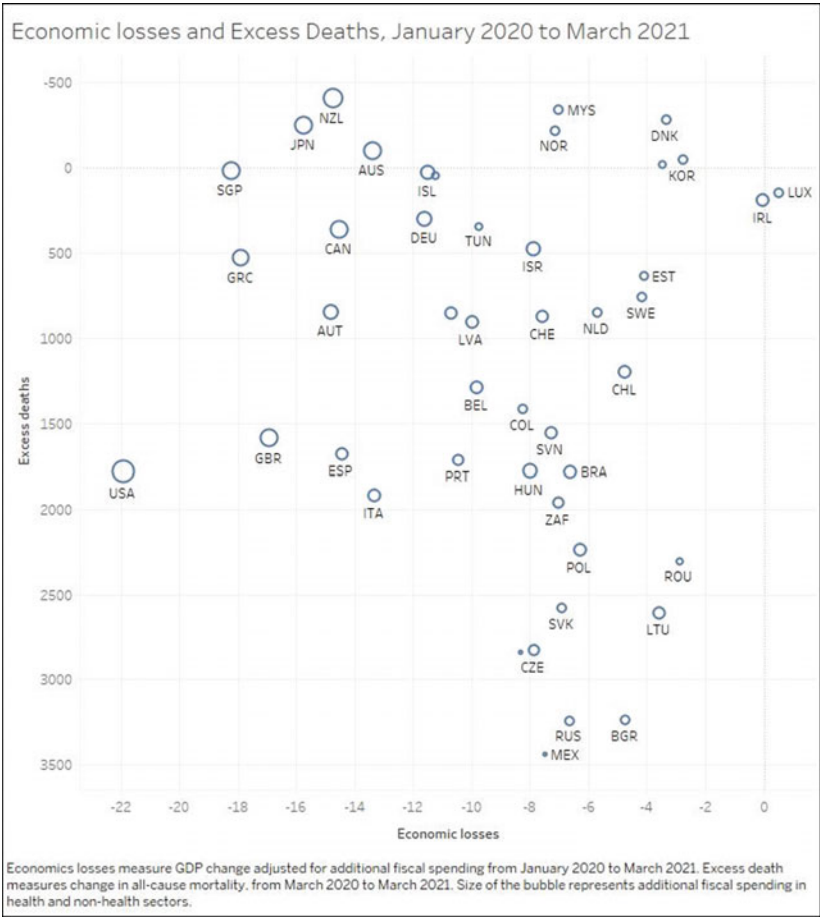

Fig. 1 Economic losses and excess mortality, January 2020 to March 2021 (Wang et al. 2022)

a government can spend during the pandemic. In some instances, high government debt might indicate that the government has decent credibility to pay back its debt. Moreover, when government debt is too high, the country might be trapped in a debt crisis such as in the case of Greece. In contrast, Hungary does not have a credibility issue and was not in a debt crisis before the pandemic. Hungary relies heavily on the trade of goods and less on the trade of services. This is a poor structural condition as the trade of goods was severely interrupted during the pandemic, which will directly damage the economy. Moreover, trade of goods might increase transmission risks during the pandemic through logistics and transportation. A strong testing system such as having drive-through testing open to all asymptomatic people could help reduce such risks. Unfortunately, Hungary did not have a high testing capability during the pandemic. Hungary mostly had testing available to people showing Covid-19 symptoms but did not have much open public testing available such as drive-through testing. On the other hand, heavy reliance on the trade of services is a desirable structural condition as more people could work from home and their income would be less affected. For Hungary, this is not the case, thus more people might have an incentive to take on risks by continuing to work in person at their offices as they cannot work at home. This is further proved by looking at the estimated share of jobs that can be done from home before 2020. Hungary has a relatively low share of jobs that can be done from home. Finally, Hungary has a relatively low Gini index, thus the inequality level is relatively low in Hungary.

To better understand the structural issues of Hungary before and after the pandemic in more detail, the article selected several important socio-economic topics which will be discussed below.

2 Democracy and Civil Activism

2.1 Democracy and Corruption Indicators in Hungary Pre-COVID-19

Hungary was relatively corrupt according to the corruption perception index in 2019 (Transparency International 2022). Corruption is a poor structural condition for the pandemic, as it might reduce the incentive for the government to save lives and the economy. Policy measures and fiscal spending might be over-reported, health performance might be under-reported. However, despite being relatively corrupted, Hungary did not under-report its Covid death judged by the difference between reported Covid death and excess death (Wang et al. 2022).

2.2 Democracy and Legal Challenges in a Post Pandemic Age

The state of danger regime was introduced on 11 March 2020 in response to the coronavirus situation. State of danger is a special form of extraordinary legal regime which can only be introduced and withdrawn by the government. While a state of danger is in force, the government can rule by decree and does not need parliamentary approval. In addition, the Act XII of 2020 on the Containment of the Coronavirus (hereafter: Coronavirus Law) provided the Hungarian government with a *carte blanche* mandate without any sunset clause to suspend the application of Acts of Parliament, derogate from the provisions of Acts, and take other extraordinary measures while the "state of danger" declared on 11 March by government Decree 40/2020 (III. 11.) is in place.

The Coronavirus Law, however, abolished the validity limit, because previously the decrees the government adopted during extraordinary periods were only valid for 15 days. Once expired, the parliament had to extend the validity of these acts, otherwise they automatically became invalid. From 1 April 2020 decrees adopted by the government remained in force only until the government decides to terminate them.

Since the adoption of the coronavirus law, the Hungarian government has been subjected to intensive international criticism. On 31 March 2020 Sophie in't Veld, a Dutch liberal MEP, who chairs the European parliament's rule of law group, said: "*Viktor Orbán has completed his project of killing democracy and the rule of law in Hungary. Clearly, the actions of the Hungarian government are incompatible with EU membership*". Without mentioning Hungary, European Commission President Ursula von der Leyen advised that measures for controlling the pandemic should be "*limited to what is necessary and strictly proportionate*", and "*not at the expense of our fundamental principles and values as set out in the treaties*". (…)The message from Washington was more direct. Eliot L. Engel, the chairman of the US House of Representatives' foreign affairs committee, said Orbán was making "*a blatant power grab in the face of the worst global health crisis in recent history. This legislation marginalises the Hungarian parliament and allows Prime Minister Orbán to rule by decree like a dictator. Such a serious affront to democracy anywhere is outrageous, and particularly within a NATO ally and EU member*" (Rankin 2020). Orbán's supporters argued the law did not give the Hungarian government any more power than similar laws across Europe. They said it was proportionate and could be rescinded at any time by parliament or reviewed by the constitutional court. "*They said there is an unlimited authorisation for the Prime Minister. This is not true, this is fake, this is a lie*" the Minister of Foreign Affairs told Euronews in an interview.

An important check on the government's power during a state of danger has been that the government could issue decrees only on issues specifically delineated in the law on disaster management (Act CXXVIII of 2011), but not on anything else. The Coronavirus Law abolished this constraint. After adopting the Coronavirus Law, the government of Viktor Orbán may regulate any issue it pleases with government decrees, as long as it can come up with an argument to prove that the given measure is somehow related to the coronavirus crisis (Rácz, 2020). According to Article 2(1) of the Coronavirus Law, during the state of danger, the government may, in addition to the extraordinary measures and regulations set forth in the Disaster Management Act, "suspend the application of certain Acts of Parliament, derogate from the provisions of Acts and take other extraordinary measures by means of a decree, in order to guarantee for citizens the safety of life and health, personal safety, the safety of assets and legal certainty, as well as the stability of the national economy". According to Article 2(2), the government may exercise this power "for the purpose of preventing, controlling and eliminating the human epidemic" referred to in Government Decree 40/2020 (III. 11.) on Declaring a State of Danger, and for the purpose of "preventing and averting its harmful effects, to the extent necessary and proportionate to the objective pursued". Thus, the Coronavirus Law first explicitly prescribes the application of the principles of necessity and proportionality. Secondly, the law sets out that the government may exercise its powers for certain, widely formulated purposes related to the state of danger. This very broad framework should serve as a yardstick when reviewing the constitutionality of each government decree (HHC 2020).

3 Surveillance and Security

3.1 Pre-COVID-19 Surveillance and Security

The Covid pandemic is very different from standard social-economic shocks such as financial shocks or wars. Therefore, like many other governments, Hungary did not have much pandemic experience. Due to lack of experience, the Hungarian government also did not have much pandemic surveillance before the pandemic. Lack of pandemic experience and the absence of surveillance left Hungary vulnerable to the unexpected Covid shock.

3.2 Surveillance in a Post Pandemic Age

The Coronavirus Law was adopted by the Hungarian Parliament on 30 March 2020. As of 1 April 2020, the extraordinary powers of Viktor Orbán's government have become de facto unchecked both in terms of duration and content. Duration of the state of danger depended solely on his government (and on the parliament, firmly controlled by him), which can rule with decrees that remain in force until they themselves decide to relinquish this power.

As of July 15, 2020, the government of Hungary introduces entry restrictions. Countries are classified into "red", "yellow", and "green" categories, based on the severity of the COVID situation in each. Hungarian citizens and their relatives can enter Hungary from a "green" country without a health check. A Hungarian citizen coming from a "yellow" or "red" country will be subjected to health checks at the border and must be quarantined for 14 days. An exception to this is if they can credibly show two negative coronavirus tests 48 hours apart in the previous 5 days. A Hungarian citizen coming from a "yellow" country may be released from quarantine after the first negative coronavirus test, but if coming from a "red" country, two negative tests are required. In the case of non-Hungarian citizens, those coming from a "yellow" country can enter under the same conditions as Hungarian citizens, but it is not possible to enter Hungary from a "red" country.

4 Challenges and Constraints on the Hungarian Economy

4.1 Pre-COVID-19 Economic Policy

The 2008–2009global crisis hit the Hungarian economy when it was very vulnerable. Hungary's pre-crisis growth model relied on excessive indebtedness in an unfavourable structure, affecting the state, households (through foreign exchange lending), and companies alike. The country's macroeconomic equilibrium indicators were unfavourable, and in addition to the unsustainably high government debt to GDP, and external debt, Hungary was characterised by a twin deficit, i.e. the simultaneous deficits of public finances and of the current account. In 2010, in addition to the debt crisis, Hungary faced an internal credit crisis, and the unemployment rate also rose to a high level. The macro-financial equilibrium and economic growth entered their respective crises simultaneously. The fiscal turnaround was an essential element of the new growth model. Financial rebalancing was fundamentally conditional on a disciplined budget and a reduction in debt indicators. Economic policy recognised the need to support budgetary revenues with a new tax structure. Between 2010 and 2018, Hungary recorded the sharpest fall in EU member states in the effective personal income tax rate, and, after Latvia, the second sharpest fall in the employer tax wedge. As a result of the new incentives, the domestic labour market has undergone a spectacular transformation. The Hungarian unemployment rate, which exceeded 11% in 2010, decreased to 3.4% by the end of the decade. Debt stocks decreased from historic heights to favourable levels by the end of the decade. Fiscal reforms resulted in a return to budgetary equilibrium from 2012, with gross government debt to GDP ratio falling from above 80% to around 65% by 2019. In 2009, Hungary's net external debt amounted to 54.1% of GDP, its highest debt ratio in 70 years. By the end of the decade, the country's net external debt dropped to around 8% of GDP owing to the economic policy model that sought to maintain equilibrium. Few countries succeeded in reducing public debt simultaneously with the debt of the private sector. Through a significant increase in debt stocks and the sovereign debt crisis in the euro area, the 2008–2009crisis drew attention to the trap of debt-financed growth models. Nevertheless, in the years following the recession, most of the countries saw debt increases or merely rearrangements between the private sector and the state (MNB 2021).

4.2 Post COVID-19 Economic Prospects

The Hungarian government has taken effective measures to protect the economy. According to the calculations of the Ministry of Finance, government measures boosted GDP growth by 5.5% in 2020. The government announced the first phase of its three-stage Economy Protection Action Plan on 18 March 2020: reduction of social security contributions, tax cuts, and support for private entrepreneurs as well as moratoria on loan, credit, and lease payments. Hungary has come to an agreement with the European Commission concerning the fact that it may provide state funding with no upper limit to enterprises that realise investment projects in the interests of protecting workplaces. A maximum of half the volume of the investment may be awarded in funding, meaning that in the case of a EUR 1. 6 million foreign investments, an enterprise will be eligible to receive EUR 800 thousand in funding (*Hungary Today* 2020).

The Hungarian Forint (HUF) weakened to historic levels, its exchange rate: 367 HUF/EUR (+8.0% since 28.02.2020)/325 HUF/USD (+5.5% since 28.02.2020) (updated on 14.12.2021). Successful USD and EUR bond issuances on 14 and 15 September 2021, which was the highest international issue amount of Hungary ever, with an oversubscription of 4 times, showed stable investor confidence in Hungary.

Job-related measures included: (i) preserving jobs, (ii) job creation, (iii) protection of priority sectors, and (iv) reduction of the tax burden on employers. The financing of companies and households included: (i) payment moratorium, (ii) interest rate subsidies and guaranteed loans, (iii) State guarantee programme, and (iv) State capital funds and other loan programmes.

Under Article 53 of the Basic Law (the Constitution of Hungary), the government is entitled to issue such decrees to fight the consequences of a natural disaster if a state of danger is formally declared by the government. However, the Constitution itself limits the scope of these decrees for fifteen days, unless the government, based on authorisation by the National Assembly, extends those decrees. Under the Act on the protection against disasters, the content of the decrees is also limited to explicit emergency measures such as restrictions on the movement of citizens. The government had declared a state of danger due to the pandemic on the 11th of March, but on the 30th of March 2020—right after the end of the 15-day time limit of the first emergency measures—the Parliament adopted the Act XII of 2020 on the containment of the coronavirus. The Act had significantly broadened the latitude of the government: the 15-day time frame was de factolifted (the Parliament had given preliminary consent for all future governmental decrees in the Covid-19 state of danger), while the government was entitled to issue state of danger decrees for any regulation topic. Such a decree is only required to be "in order to guarantee that life, health, person, property and rights of the citizens are protected, and to guarantee the stability of the national economy, to the extent necessary and proportionate to the objective pursued".

The Orbán government has adopted 104 state of danger decrees so far, 92 of which were published after the Coronavirus Act. A significant number of the measures are only indirectly linked with the pandemic, such as the fiscal and financial measures to protect the economy, while some of them—like the ones stripping local municipalities (in general or by even naming them) of some of their powers and incomes—were pandemic-related in name only. However, most of the decrees were also not promptly applicable by their nature, so Parliament—which was constantly in session from the beginning of the pandemic—would have been in the position to regulate the wide range of matters in the decrees, from the special rules on judicial proceeding to the limitations of GDPR rights and access to information during the state of danger.

The Minister of Foreign Affairs and Trade issued a decree on 16 April 2020, announcing a new, HUF 50 billion subsidy scheme to improve competitiveness in the face of the coronavirus epidemic. Medium-sized and large enterprises may apply for a subsidy from the HIPA (Hungarian Investment Promotion Agency) for investments worth over EUR 150 thousand—provided that they undertake to maintain existing jobs—if they can prove that their economic difficulties are attributed to the negative impacts of the current pandemic.

The Central Bank of Hungary announced a new version of the Funding for Growth Scheme for micro, small, and medium-sized enterprises providing a total of EUR 4.2 billion (HUF 1500 billion) in funding, and a total of EUR 1.2 billion (HUF 450 billion) for the Bond Funding for Growth Scheme for large enterprises. In addition, through measures aimed at boosting the liquidity of the banking system and other measures, the Central Bank provided HUF 3 thousand billion in fresh funding for the protection of the financial system. In June 2021 the Monetary Council announced a base rate increase cycle to secure price stability. All in all, after 180 bps hike in the base rate (the latest, December rise was 30 bps), the base rate is now 2.40%, while in December the overnight deposit rate was increased by 45 + 80 bps to 2.4% and the overnight and one-week collateralised lending rates were increased by 105 + 30 bps to 4.4%. The one-week deposit rate was raised to 3.6% and functions as the key interest rate. The Hungarian central bank reintroduced its swap facility providing foreign currency liquidity, it provided funds through this instrument for the SME sector with favourable and predictable interest rates to maintain jobs and production capacities and to finance their investments. As a replacement of the FGS and part of its new green instruments strategy, from October 2021 MNB introduced the Green Home Programme for the retail sector with a framework of HUF

200 billion. The loan programme is available for building or buying new flats with at least BB energy efficiency-grade. At its December meeting, the Monetary Council decided to close the Bond Funding for Growth Scheme and its government securities purchase programme. Although occasional and targeted government securities purchases can happen in the future if necessary. The Monetary Council terminated the use of the long-term collateralised lending facility in July 2021. MNB introduces a limited, occasional, and short-term central bank discount Bill that supports the effective sterilisation of liquidity in the financial system. The effectiveness of monetary policy transmission is also facilitated by the modification of the foreign exchange balance ratio (FXBR) regulations by the MNB's Financial Stability Council, which provides more room for banks' activity at the FX swap market.

The Hungarian Development Bank (MFB) and its affiliates (MFB Group) are set to make available to Hungarian businesses a financing package in a total amount of EUR 4.1 billion (HUF 1490 billion) via harmonised loan, capital and guarantee programmes designed to offset the economic impact of the coronavirus epidemic and help relaunch the economy. The programmes come with an 80% state guarantee. The loan programmes can be used to satisfy the short-, mid-, and long-term financing needs of businesses. While the MFB Crisis Loan assists primarily micro and small enterprises (maximum loan amount of EUR 423 thousand (HUF 150 million) at a 2.5% annual interest rate), the MFB Competitiveness Loan Programme is an effective tool primarily for large companies and mid-size companies that are planning to implement major investments. In the framework of the Garantiqa Crisis Guarantee Programme, domestic SMEs and large enterprises can get access to financing in the amount of EUR 141 million (HUF 500 billion) with a 90% government guarantee. The SME Rescue Capital Programme may give a lifeline to struggling SMEs with low capital, while the Startup Rescue Capital Programme may give rapid assistance to successful start-ups that have stalled as a result of the crisis. The Crisis Capital Programme provides financing to distressed strategic companies for purchases and development projects.

When preparing the 2020 budget, the government set a 1% deficit target by anticipating a 4% economic growth and a 2.8% inflation rate, which corresponds to a 1.1% structural deficit. Practically, this would have meant the fulfilment of the medium-term objective established for Hungary. However, the unfolding global coronavirus pandemic is causing significant economic challenges both domestically and internationally, which is expected to result in a deterioration of the budget situation. Since the macroeconomic and fiscal conditions changed as a result of the global pandemic, it is necessary to deviate from the 2020 budget.

The Hungarian government adjusted the accrual deficit target of the 2020 budget from 2.7% of the GDP to 3.8% of the GDP because of the unfavourable economic outlook caused by the COVID-19 pandemic as well as fiscal policy actions intended to mitigate its economic impact. Accordingly, the funding requirement of the central budget increased to HUF 1890 billion. Due to the increased funding requirement and the changed market situation, the Government Debt Management Agency Pte. Ltd. (ÁKK) published the modification of the 2020 financing plan on May 26, 2020. As of July 1, 2020, 60% of the actual 2020 financing plan was completed.

The pandemic-related and economy protection measures implemented by the government affect both the income and expenditure side. In order to provide the resources required for the measures, the government reallocated funds of thousand billion forints from appropriations where savings are expected to occur in the current situation, or where funding may be delayed due to the nature of the given appropriation. The discretionary expenditure items used for the reallocations represent nearly one-third of the central government budget (budgetary organisations, chapter-managed appropriations). It is important to highlight that instead of uniformly cutting specific budget appropriations, a rearrangement took place which, on the one hand, ensures the availability of funds actually necessary within the ministries' budget, and, on the other hand, sets up two funds from the sources released—one for addressing the pandemic situation (Disease Control Fund—DCF) and one for relaunching the economy (Economy Protection Fund—"EPF"). The main source of the Fund for Combatting Pandemic comes from the merger of the Country Protection Fund ("CPF") with total reserves of HUF 378 billion. This is supplemented by the reallocation of 50% of the political parties' subsidy, the newly introduced retail tax, the motor vehicle tax channelled into the central budget from local governments' budget, the contribution of the financial sector and other reallocations. These all resulted in a total funding capacity of HUF 634 billion for the DCF at the time of its founding. The funds released thanks to the savings imposed on ministries are reallocated into the EPF; the combination of these funds and the National Employment Fund give the EPF a total funding capacity of

HUF 1346 billion. Revenues were mostly determined by the processes that commenced prior to the emergence of the pandemic.

On 7 April 2020, the government announced the second phase of the Economy Protection Action Plan. An Epidemic Containment Fund and an EPF were set up and five schemes were launched: job protection, job creation, financing of enterprises, protection of families and pensioners, as well as key sectors' programmes to be implemented in the third phase of the Action Plan. As a result of measures announced so far, the deficit-to-GDP ratio is expected to increase from 1 to 3.8%.

The Hungarian Central Bank unveiled a package of measures to help mitigate the economic fallout of the novel coronavirus outbreak. The measures will be worth 3000 billion forints (EUR 8.3 billion), equalling 6% of GDP. The central bank will make up to 1500 billion forints of cheap and stable financing available to the SME sector in the framework of a programme dubbed Funding for Growth Scheme Go! It will include 500 billion forints that have not been drawn down under the NBH's earlier launched FGS fix programme. FGS Go! will operate with the same conditions as earlier FGS phases: the NBH will continue to provide refinancing loans to banks at 0%, and interest to be paid by SMEs will be capped at 2.5%. Investment loans, including leases, will still be available, but the maximum maturity of refinancing loans will be set at 20 years in order to secure financing for protracted investment projects with a slower payback period.

Measures introduced to mitigate the consequences of the coronavirus pandemic on the Hungarian economy included the exemption of businesses engaged in certain activities (e.g. tourism, catering, entertainment, sport, culture, and passenger transport) between March and June 2020 from the payment of employer payroll taxes in regard to employed persons, while from among the employee payroll contributions, they are only required to pay the minimum amount of healthcare contribution in-kind. Small businesses engaged in specific activities are exempted from the payment of the small business lump-sum tax (KATA) between March and June 2020, and in the case of small business tax (KIVA) subjects, the staff costs paid during this period shall not be included in the calculation of their tax base. The tourism development contribution will not have to be paid in the period between March and June 2020. In the sectors most affected by the crisis, lease contracts regarding non-residential premises may not be terminated and rental fees may not be increased.

Enterprises may request a reduction of their taxes if faced with difficulties because of the pandemic. The amount of such tax reduction may reach HUF 5 million per enterprise. The deadline for submitting the annual reports and related tax statements (corporate tax, local business tax) and paying the taxes was extended from 31 March 2020 to 30 September 2020. The social contribution tax will be cut from 17.5 to 15.5% as of 1 July 2020, while the rate of the small business tax (KIVA) will be lowered from 12 to 11% as of 1 January 2021 (Gov. Decree 47/2020; Gov. Decree 51/2020).

Despite the pandemic, new investments worth more than HUF 3600 billion have been announced since early 2020. Despite the coronavirus, the economy remains resilient to external financial shocks. Despite a temporary increase of the debt ratio, the government is committed to the reduction of public debt. Hungary improved by 5 places in World Competitiveness Ranking 2021 by Swiss-based IMD compared to last year. In addition to achieving the 3rd highest annual progress among all countries, Hungary is the only one that has been able to improve its ranking among Visegrád countries since the financial crisis. An all-time-high 53% of respondents chose competitive tax regime as the best key attractiveness indicator. Economic performance was ranked as 8th best out of 64 economies. As part of it, employment (13.) and international investments (10.) were outstanding.

Budgetary measures, including programmes launched by the Central Bank, reached in total almost 30% of GDP in 2020. Redesigning of budget at all levels: In view of the slower-than-expected recovery in 2020 and the measures taken to protect the economy, the budget deficit was 8.0% of GDP in 2020, which is slightly higher than the average of the EU member states. The budget deficit is expected to be 7.5% of GDP in 2021, based on the budget modification submitted to the Parliament. Use of reserve appropriations was made faster and more flexible. On 3 July 2020, the Hungarian Parliament approved the budget of economic protection. The 2021 budget provides HUF 2550 billion in the EPF for priority programmes, developments, and investments aimed at relaunching the economy, as well as measures related to promotion of employment. Another key pillar of the budget is the Health Insurance and Pandemic Protection Fund (EJEVA), which, in a renewed structure compared to 2020, contains the resources needed for pandemic control and the operation of the health care system in an amount of approximately HUF 3000 billion.

In April 2021, the government submitted amendments to the 2021 budget act that raised the accrual-based deficit target, calculated according to European Union rules, to 7.5% of GDP. The focus of the Bill is to maintain protection against the pandemic and to implement decisions that aim to jump-start the economy. The modification was necessary also because when the 2021 budget act was approved, in July 2020, the expected GDP path was different.

In December 2021, the government decided to postpone certain investments, thus significantly increasing Hungary's financial reserves by a total of HUF 350 billion this year, while reducing public debt.

In the 2022 budget, the government expects a dynamic economic growth of 5.2%, with a deficit target of 5.9% of GDP and public debt of 79.3% of GDP. The most important focus of the budget for 2022 is the relaunch of the economy, while preserving the achievements so far.

Next year not only the two-week—as the budget law stipulated—but also the full 13th-month pension will be paid to retirees.

5 The Labour Market

5.1 Pre-COVID-19 Unemployment

In the past decade, Hungary has been a top performer in the EU in terms of increasing employment rate: the employment rate of people aged between 20 and 64 years grew by 12.9% between 2008 and 2018, which is the second best figure among member states. All seven regions of Hungary recorded a double-digit increase, with three regions (Northern Great Plain, Northern Hungary, Southern Great Plain) experiencing a higher than 15% growth in employment.

The employment rate of the 20–64 age group stood at 75.3% in 2019, which means that Hungary managed to achieve the 75% employment rate target defined in the Europe 2020 Strategy. The government aims to further increase the number of employed persons in 2020 by mobilising labour force reserves, that is, primarily by bringing disadvantaged groups including people in public employment, inactive persons and jobseekers, young people, women raising small children and retired persons, back into the labour market. As a result of government measures, the participation rate—following further increase—reached 71.9% in 2018, which took place in parallel with the expansion of employment and the moderation of the unemployment rate to 3.6%. In addition to the increase of employment by 48,000, the number of public workers declined by 46,000 in 2018.

5.2 *The Future of the Hungarian Market*

In announcing the national lockdown measures, the Hungarian government published new regulations and policies to stimulate the economy.

A first wave of fiscal measures was introduced earlier in the epidemic, including, on the revenue side, measures to alleviate the fiscal burden on businesses: (i) employers' social contributions were lifted in the most affected sectors; (ii) the health care contributions were lowered through June 30; (iii) around 80,000 SMEs (mainly in the services sector) were exempt from the small business tax (the payment of the tax by other companies in affected sectors will be deferred until the end of the state of emergency); (iv) the tourism development contributions will be temporarily cancelled; (v) media service providers will be given a tax relief for incurred losses of advertising revenue; and, (vi) procedures for collecting tax arrears will be suspended during the state of emergency. On the spending side, about HUF 245 billion (0.6% of GDP) was reallocated to the healthcare sector.

On April 16, the government introduced three new export support measures through the state-owned Eximbank: (i) EUR 800,000 grant for investments of export companies; (ii) preferential working capital loans, and (iii) a new guarantee and insurance scheme. On April 23, a state-owned development bank MFB launched a HUF 1490 billion package of financial support instruments for companies, consisting of three loan products, two guarantee instruments, and four capital programmes. On May 7, the government announced it will purchase up to HUF 150 billion (0.3% of GDP) of bonds issued by banks in order to support lending during the crisis and to ensure financial stability. Interest-free loans to SMEs will be available from June 12. Half of the programme's budget will be available for investments, while the other 50% is intended to finance liquidity and operations. The highest amount available for investments is HUF 150 million, while asset and liquidity financing loans are capped at HUF 300 million.

The Széchenyi Card Programme designed to support the liquidity of micro, small, and medium-sized enterprises is also going to be modified in order to mitigate the impacts of the coronavirus on SMEs, allocating HUF 2.9 billion for products specifically designed to alleviate the crisis. The measures include several areas. According to the government plans, the economic rescue package's size—including three rounds of measures—will be circa 18–20% of the Hungarian GDP. The measures can be summarised into four aspects. The first aspect is job protection. The state financed 70% of the employees whose full-time jobs were transformed into part-time jobs due to the spread of the Covid-19. The support only applies to firms where the demand fell by 15–50%. People employed in research and development areas will get 40% extra salary support from the government for three months. In this case, full-time employees are also entitled to this support. The second aspect is job creation. In order to create new jobs, the Hungarian government supports new investments, the estimated value of these investments is 450 Billion HUF. The third aspect relates to sectoral subsidies. Supported sectors include government communication, tourism, health care, food processing industry, agriculture, construction sector, transport sector, logistics, creative, and the film industry. The final aspect involves financing for enterprises, the value of favourable credit lines and guarantees is 2.000 Billion HUF (Xin 2020).

In November 2021, the number of registered jobseekers decreased by 18% compared to November 2020. The unemployment rate has remained low during the whole pandemic period. The number of registered jobseekers went below 243 thousand in November 2021. The government has so far helped more than 1.6 million employees. Various subsidy programmes protected 844 thousand jobs. The R&D wage subsidy programme protected 38 thousand jobs, wage subsidies in tourism contributed to retaining more than 180 thousand jobs. More than 78 thousand new jobs have been created through various government programmes. The job creation programme supported 33,655 low educated and young employees. In October 2021, the number of employed persons exceeded 4.67 million while the unemployment rate was 3.8% (EU-27 average: 6.7% in September).

Despite dynamic wage growth, wage adjusted labour productivity is the highest in Hungary among EU countries.

5.3 Economic Resilience Action Plan in 2020—Immediate and Medium-Term Measures to Create as Many Jobs as the Coronavirus Destroys

Job-related measures included: (i) preserving jobs, (ii) job creation, (iii) protection of priority sectors, and (iv) reduction of tax burden for employers. To retain jobs, in addition to wage subsidies, the government also supports businesses and employees with taxation instruments and interest-free credit in sectors affected by restrictions (these are detailed in the Taxation and Business development chapters). The enhanced flexibility of labour law rules also serves job retention, enabling modification of the work schedule to the extent necessary and the ordering of working from home or teleworking. To achieve full employment, in the coming years the Recovery and Resilience Facility ("RRF") of the European Union aimed at eliminating negative social and economic consequences of the coronavirus pandemic will finance substantial State public investments, which will ensure continuous orders until Q3 2026 in the construction and renewable energy sectors playing a key role on the labour market, while the implemented infrastructure will create new jobs (GoH 2021).

6 Health Care

6.1 Pre-COVID-19 Health Care Infrastructure

The key health indicators of Hungary have been improving in the past decade. Infant mortality fell from 5.3 to 3.4 between 2010 and 2018 for every 1000 live birth, while life expectancy at birth showed a slight increase from 74.38 years to 75.94 years. According to Eurostat data, the number of healthy years expected at birth grew by 3.6 years to 61.1 years. Women are expected to live 4.1 years longer in good health, while the number of healthy years for men grew by 3.2 years. As a consequence of these favourable developments, Hungary has improved its ranking from 23rd to 15th place, approaching the EU average (63.6). Between 2010 and 2018, the per capita health care spending on purchasing power parity increased by 23%, while the number of practising doctors per 10,000 people went up by 20%.

The health of the Hungarian population is not in a good state; despite an increase in both life expectancy at birth and in healthy years in recent years, the figures are still below the EU average. The government aims to promote a healthy lifestyle, ensure the availability of screening to the extent possible, and improve the accessibility and quality of primary care. To fulfil these goals, the boosting of the primary care systems—with a focus on public health—is a central element of the new sectoral strategy (GoH 2021). Hungary did not suffer from the SARS pandemic and not many people died in the H1N1 pandemic. It is reasonable to conclude that Hungary did not have much pandemic experience (for the government and individuals). Hungary has a high level of smoking prevalence which is a poor health structural condition. Hungary also has a high cardiovascular disease death rate, which could result in high excess deaths during the pandemic. This is possible via two channels. First, people who need heart surgery or access to emergency services might struggle during the pandemic, led to a lower survival likelihood. Second, people with heart disease might be less likely to survive if they are infected by Covid-19. Moreover, Hungary has moderate to high level of diabetes prevalence, which is again a poor health structural condition.

6.2 *Health Care Infrastructure in a Post Pandemic Age*

The government of Hungary launched its official webpage and official Facebook page about the novel coronavirus, both on 4 March 2020. The data on the epidemics dynamic and testing are released daily on the government websites.

The Hungarian government's coronavirus response has angered doctors—and created rare tensions within the country's ruling coalition. In early April 2020 the government ordered hospitals to ensure that over 30,000 beds were available in less than a fortnight. That sparked chaos and outrage, as medical staff began calling relatives to take patients home. The Hungarian Medical Chamber, the country's main professional association of doctors, warned the government in a letter that "uncertainty and tension" are growing within the health system. The Hungarian government said that its aim was to ensure that 50% of beds—a total of 32,900—were free by April 19, 2020, and in a later phase raise the number of available beds for coronavirus patients to 39,500. On 22 April 2020, the country's chief medical officer announced that 50% of beds had been freed up. For Hungary's doctors, the order to empty beds created a moral dilemma (Bayer 2020).

Experience related to managing the coronavirus epidemic underscored the vulnerability of the current health care system. As the key element of the new management system, the National Directorate General for Hospitals (NDGH) was established in November 2020 as a central office with a separate budget, also taking over functions of the earlier National Healthcare Service Centre (NHSC). The NDGH is responsible for monitoring the operation of the health care system, laying the groundwork for strategic government decisions relating to its review; in this process it takes part in developing a single and transparent new national health care management system. Within the scope of its diverse functions, it enforces, or—by also providing methodological assistance—procures enforcement of and verifies fulfilment of requirements relating to public functions, and the regular and efficient management of resources.

The financing structure of health institutions will also change. As opposed to current area-based distribution, more flexible, dynamic, case-based financing frameworks will be introduced, which follow patient movements and professional particularities. The projected annual budget is based on the assessment of case numbers of the previous year. In contrast to distribution in the past, the new financing structure is even more adapted to monitoring patient needs and the performance of service providers, enabling payments by the health insurance body based on work actually performed. The reform of the public financing structure adapted to actual health care needs improves the efficiency of allocation, resulting in substantial progress in the sustainable management of institutions carrying out additional functions.

To ensure professional support for enhancing the efficiency of health care financing, in the 2021 period of the technical support instrument of the European Commission, the Ministry of Human Capacities submitted an application entitled "Joint improvement of the efficiency and quality of health care services". The project aims to test the possibility of introducing batch financing methods, integrating several levels of care, and the drawing up of a new concept relating to national (qualitative) management (GoH 2021).

The Hungarian health care system is struggling with enormous challenges relating to human resources; the profession is ageing at a rapid rate, and there is significant outward migration of young and middle-aged physicians. The government is attempting to reverse the negative trend with wage raises, surplus financing of the basic health care system, and by improving the working and living conditions of rural general practitioners. The government has raised physicians' wages in several steps in recent years, which has moderately reduced their outward migration, but continuation of this process is essential. As an encouraging sign, in the 2015 and 2020 age structure, the number of new generation physicians in the 25–29 and 30–34 age groups is increasing. If efforts to keep younger physicians within the health care system are successful, the distribution of age groups may even out in 20–25 years, putting an end to the years-long trend of a shortage of physicians.

Act C of 2020 on health service status ("Health Service Status Act") entered into force on 1 March 2021 to resolve the problem of out-migration of physicians; it provides more transparent employment conditions for physicians entering into a contractual relationship, and an unprecedented wage raise implemented in three phases. The government has planned a budget of HUF 300 billion for implementing the phased wage raise programme. The act regulates in detail the employment of health care workers; under such regulation, health care activities may be carried out by health care providers only within a legal relationship of health service. Workers employed by health care providers operated by the State or local authorities on the effective date of the act, who agreed to the new legal relationship, fall within the scope of the act. The act is applicable to public servants working in both primary care and specialty care. Pursuant to a milestone provision of the act entering into force on 1 January 2021, the provision and acceptance of informal payment constitutes a criminal offence. The elimination of informal payments from the system ensures equal access to health services for all Hungarian citizens.

In a separate decision, the government is providing HUF 96.1 billion in additional funds in 2021 to people working in general medical practices, affecting around 18,400 physicians, dentists, and health care professionals in primary care with a total financing requirement of HUF 96.1 billion in 2021. The wage subsidy will first be paid in early April 2021, retroactively including January 2021; its amount is adjusted to physicians' and health care professionals' pay grades, therefore the amount of subsidies will increase from 1 January 2022 and 1 January 2023 (a wage raise valid from 2022 has been resolved in relation to health care professionals) (GoH 2021).

The Hungarian vaccination campaign was launched on 26 December, when the first vaccine delivery arrived. Vaccination is voluntary and free; vaccination registration is offered on the www.vakcinainfo.gov.hu website. Upon appointment by the Operational Group, the Vaccination Working Group monitors vaccination progress and expected vaccine deliveries. Based on the vaccination programme, the first vaccines for immunity were administered to health workers, followed by residents of retirement homes, the elderly, people with chronic illness under the age of 60, workers employed in law enforcement and critical infrastructure, kindergarten, school and nursery employees, and then the registered population under the age of 60, whose vaccination is still under way. Up to 16 April, Hungary contracted more than 31 million vaccine doses, which is enough for vaccinating 17.6 million people. Among the contracted vaccines, currently 5 types (Pfizer, Moderna, AstraZeneca, Sputnik, and Sinopharm) are available, and the contracted Janssen and Curevac vaccines will also be soon available. On 23 April the number of people receiving at least one dose passed 3.5 million, which was the second highest vaccination rate in the European Union at the time. To keep the vaccination programme on schedule, an online time reservation system was launched on the same day, where all registered and unvaccinated citizens can reserve a place and time for vaccination. As the number of registered people passed 4.3 million in the final week of April, the government launched a promotional campaign to increase their number. With the current vaccination speed, all those citizens who registered were very likely to have received their first vaccination by the first week of May. After 5 million administered vaccines new regulations are to be put in place allowing for much more freedom, among them annulling the obligation to wear a mask in public places.

The digitisation of health care is a key priority in the Hungarian health sector; the government will support this process in the coming period with a number of measures and tenders. The main goal of these digitisation projects is the improvement of efficiency in preventive care, diagnostics and patient care by use of information and communication technologies. During the restrictions introduced in relation to the epidemic, the writing of e-prescriptions—already used on a wide scale last year—and the retrieval of patient data from the Single Health Platform proved to be of significant assistance. In April 2020 the multi-stage drafting of the legislative background of telemedicine care—not requiring the personal presence of patients—commenced. By establishing options for telemedicine, the rate of contact by telecommunications significantly increased during the COVID-19 epidemic. In response to the coronavirus epidemic, the government of Hungary launched the Health Industry Aid Programme with the aim of developing the production of pharmaceutical products and medical devices in Hungary with a HUF 50 billion budget to support the investments and development of Hungarian enterprises.

Based on the decision of the government, the National Coronavirus Vaccine Plant will be established in cooperation between the University of Debrecen and the National Public Health Centre; production of the Hungarian coronavirus vaccine is expected to begin at the end of next year. The National Public Health Centre is establishing the National Security Laboratory with a budget of HUF 12 billion financed by the EU and Hungary. As a unique leading institution in the region, it will have the task of identifying new, hazardous pathogens, to conduct immunological and disease progression research, and to participate in the testing of new vaccines (GoH 2021).

7 Conclusion

The Hungarian Parliament adopted a new Bill which increased the government's powers during the coronavirus pandemic. The Coronavirus Law allowed Viktor Orban's government to extend the state of emergency indefinitely, even if the spread of COVID-19 made it impossible to sit in Parliament. At the time of the first wave of the epidemic, the Coronavirus Law showed well the crisis of the Hungarian state. Through this law it was not the health protection or the economic crisis that followed the epidemic that was better resolved, but the intimidation of dissenting members of society, the looting of local governments and the enrichment of a narrow circle of power. When the Hungarian government announced that it would end the state of emergency and return its special powers to parliament, critics described the move as a political ploy: at the same time as the emergency was lifted, parliament also voted in favour of a draft law on a new, so-called "state of medical emergency". According to this Bill, the government would be able to govern by decree again in such a case, with even less control than before. Both Bills were adopted by Parliament on 16 June 2020. While government officials have trumpeted the government's intention to withdraw the powers on June 20, and demanded apologies from those who criticized Hungary's coronavirus law, an analysis of the new Bill by lawyers from several Hungarian NGOs suggests that it makes possible the declaration of a "state of medical emergency" without parliamentary approval which would grant the government powers similar to those granted by the Coronavirus Law. The Central Bank of Hungary (MNB) declared a moratorium on the installment payment of loans disbursed under the Funding for Growth Scheme (FGS); the MNB also decided to increase the scope of eligible collateral for corporate loans. As a result of these measures, the value of eligible collateral available for central bank operations grew by around 2600 Billion HUF. To sum it up, it can be argued that the Hungarian government and the MNB swiftly took the necessary economic measures to fight against the adverse economic effects of the Covid-19 pandemic. The size of the economic measures seems to be appropriate at this point.

The government responded to the special situation created by the new coronavirus epidemic in 2020 by carrying out a major restructuring of the budget and implementing a wide-ranging package of measures aimed at protecting the population and the economy. The Operational Group Responsible for Containment of the Coronavirus Epidemic was set up at the end of January 2020, is responsible for managing government measures related to the epidemic and for coordinating public bodies.

During 2020 the government introduced restrictions in consideration of epidemiological trends, aimed at protecting the population and preventing overload of the health system, with restrictions on the activity of economic operators to an extent calculated to enable rapid recovery after easing of the epidemic. In the middle of February 2021, the government launched online national consultations on the possible timetable of opening after lifting of restrictions related to the coronavirus epidemic. The majority of respondents (88%) supported a gradual opening. From 8 March 2021, to curb the rising third wave of the epidemic in Europe, the government again ordered tightened protective measures. According to such restrictions, shops were required to remain closed with the exception of shops selling essential goods (grocery stores, pharmacies, petrol stations, drug stores), all services were suspended (except for private health care, social, financial, postal, vehicle servicing services), and kindergartens and primary schools remained closed until 7 April, the end of the spring break. The evening curfew remained in force from 8 p.m. to 5 a.m.; exemption was granted only for documented proof of work. Wearing of masks was mandatory in all streets of residential areas and in public spaces. The government bound the lifting of restrictions to the vaccination rate of the population. The first step of loosening—determined by the government by decree—was 2.5 million vaccinated people. The population reached the required vaccination rate in early April; within the framework of introduced easing measures, the period of the curfew was shortened (from 10 p.m. to 5 a.m.), and shops were allowed to open with a limited number of customers (1 customer per 10 square metres). The opening hours of shops were extended to 9:30 p.m., but catering establishments were still permitted to only offer take-away meals. Kindergartens and lower levels of primary schools reopened on 19 April. Restrictions were to be further lifted after reaching a vaccination rate of 3.5 million, followed by 4 million people. The fixed reopening timetable aimed to enable businesses to plan ahead for the coming period.

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