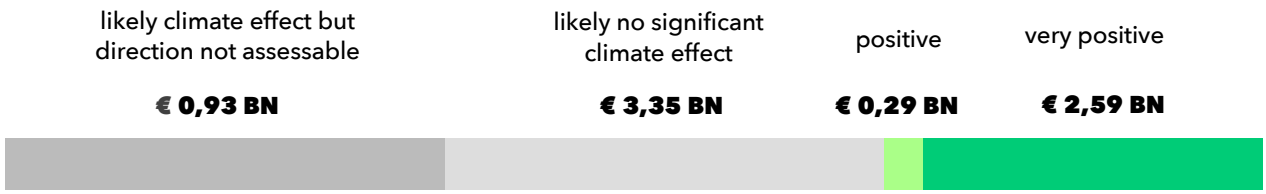
GREEN RECOVERY TRACKER

GREEN RECOVERY TRACKER REPORT: HUNGARY

In mid-April 2021, the Hungarian government presented a first complete public draft of its Recovery and Resilience Plan. The original plan set out measures for the full amount of grants and loans for which Hungary is eligible. The plan was subsequently fundamentally revised in late April. During the revision, the Plan was substantially scaled down, and the loans were completely deleted from the plan. The final Recovery and Resilience Plan was submitted to the Commission on the 11th of May 2021, and officially published only on the 17th of May, therefore external stakeholders had no chance to articulate any feedback to the fundamental changes made by the government. The final Hungarian Recovery and Resilience Plan includes € 7.2 bn in grant funding (almost 5% of the domestic GDP).
Overall, Hungary's recovery measures make a positive contribution to the green transition. Our analysis identifies the following spending shares:

Figure 1: Amounts committed by assessment category (all recovery measures)



In focus: Green Spending Share

We find that the Hungarian recovery plan (RRP) achieves a green spending share of 37%, equal to the EU's benchmark. Furthermore, we find that 13% (€ 0.93bn) may have a positive or negative impact on the green transition depending on the implementation of the relevant measures. According to the government, the plan's climate spending share is 41% (see page 6 for more details).

Our calculation of the green spending share aims to mirror the approach used for the official assessment of national recovery plans, which distinguishes between measures contributing fully to the green transition (100% coefficient) and measures contributing partly (40% coefficient). Therefore, we fully count "very positive" measures towards the green spending share, while "positive" measures are weighted using a coefficient of 40%, which is applied to the associated costs. All individual assessments can be accessed via the country page on our website.

The dedicated aim of the Hungarian plan is primarily to counteract the economic and social impacts of the COVID-19 epidemic and to increase the resilience, sustainability and preparedness of the economy for the challenges and opportunities presented by the green and digital transition. The main part of the budget is devoted to improving health, education, boosting environmentally friendly forms of transportation and scaling up solar electricity production, with a clear focus on areas relevant to climate change and digitalization.[1].
NGOs critizised that the entire Plan is dominated by infrastructure developments and it does not mention any measures that might compensate for the biodiversity loss that inevitably happens when new buildings are built, roads fragment habitats and all the material needed for the construction is sourced and transported. (E.g.: no net loss measures, power lines with bird protection devices (wildlife-friendly power poles), bird boxes, pollinator-friendly green infrastructure) and nature-based solutions (smart use of rainwater, green roofs, etc)[2].

While the plan looks strong on climate-spending, the positive impact of the green investments set out will depend heavily on the funds being effectively disbursed in line with principles of good governance and to those entities who are best capable of delivering the respective services in the public interest.

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OUR HIGHLIGHTS

Good Practice

Transmission and distribution grid developments

The measure aims to significantly expand both the power transmission system and distribution network. Improvements to these systems will be particularly important in the context of the government's plan to increase solar power and the electrification of heating systems.

Bad Practice

Energy efficiency measures are very scarce

The Plan includes a number of good measures for increasing the share of renewable energy in final energy consumption. However, energy efficiency measures in the building sector are underrepresented in the plan. If the use of renewable sources in heating systems is not combined with deep renovation measures, these heating systems will not be able to effectively contribute to decarbonization.

To Our Surprise

Community renewable energy production and use

Following a successful pilot project, this measure seeks to implement environmentally and socially sustainable housing solutions using renewable energy, with the revenues from a small power plant to be used for social housing in a settlement through pre-payment meters. For the long-term success of the measure, it would be extremely important to combine renewable energy production with building energy efficiency measures.

GENERAL CONTEXT

In October 2019 municipal elections took place in Hungary. While the governing Fidesz party received the majority of the votes, opposition parties won the elections in numerous larger cities including Budapest[3].

The Hungarian government reacted quickly and assertively as soon as the first cases of COVID-19 appeared in the country. On the 30th of March 2020, the so-called coronavirus law was introduced, which allowed exceptional legal order for an undefined period of time. The parliament was suspended, and an Operational Tribunal Body was formed to organize the fight against the disease. Soldiers were commanded to several strategically relevant companies and hospitals to support the protection against the virus. Hungary was shut down gradually. During the period of the exceptional legal order, the government passed or amended nearly 150 regulations[4], some of them had little connection to the control of the virus or to the mitigation of the economic or social implications of the pandemic (e.g. curtailed the right of transgender people to change their name).

While in the first wave the infection rates remained rather low, the second and especially the third wave of the pandemic hit the country hard. The lockdowns had serious economic and social consequences[5]. The unemployment rate increased significantly although it still remained far below the EU average. Hungary's real GDP declined by 13.6% in the second quarter of 2020 compared to 2019, because the country's economy is dependent on highly cyclical industries (such as the automotive sector) as well as tourism[6].

Context indicators[7]	Hungary	EU average
GDP (2019)	**146 bn €**	
GDP (per capita, 2019)	**14 950 €**	**31130 €**
GDP (per capita, 2020, provisional)	**13 940 €**	
Debt (% of GDP, 2019Q4)	**65.5 %**	**77.6 %**
Debt (% of GDP, 2020Q3, provisional)	**73.9%**	**89.8%**
Unemployment Rate (December 2019)	**2.9 %**	**6.5 %**
Unemployment Rate (August 2020)	**4.1 %**	**7.7 %**
Unemployment Rate (December 2020)	**4.2%**	**7.5%**
Real GDP forecast for 2020	**- 7 %**	**- 8.3 %**
Real GDP forecast for 2021	**+ 6 %**	**+ 5.8 %**
EU recovery funding (grants only, current prices)	**7.2 bn €**	

KEY FOCUS AREAS OF THE HUNGARIAN RECOVERY DEBATE AND THE RECOVERY PACKAGE

The submitted Hungarian RRP contains a total of 47 reforms or investments, which are classified under 9 national strategic pillars (demography and public education, highly educated competitive workforce, catching-up municipalities, water management, sustainable green transport, energy, transition to a circular economy, health, not policy related country-specific recommendations). The overarching aim of the recovery plan is to support the green and digital transformation of the country.

The first draft of the Hungarian "Recovery and Adaptation Plan" was released online in early December 2020. Rough descriptions of draft chapters of the plan were published on the official website of the government, with the possibility to submit comments in the following months. However, these pieces lacked sufficient information, such as the budget allocation. The detailed draft of the plan was only published in mid-April. A week later, the government

announced that they had decided to rewrite the plan and submit to the European Commission only measures that would be financed by grants, and to cut those that would be financed by loans. The final plan was submitted to the Commission without any public consultation or debate on its content.

Hungarian NGOs prepared comprehensive assessments to point to the weak parts of the draft Recovery and Resilience Plan[8]. Their main criticism was that it remains unclear why these measures were chosen for the recovery plan[9]. A comprehensive impact assessment of the introduced measures is missing. Furthermore, energy efficiency measures were completely deleted from the final version of the plan. It aims to reach decarbonization with the deployment of renewables and electrification of heating, but it lacks adequate support for the renovation of buildings to improve energy efficiency. Without the decrease of energy consumption, the proposed investments cannot support sustainable energy use or tackle energy poverty.

FINANCING AND ADDITIONALITY OF HUNGARY'S RECOVERY PACKAGE

The previously published final draft plan included € 7.17 bn of non-reimbursable grants, plus the possibility to receive € 9.66 bn in loans[10]. Later the loans were completely eliminated, and the plan was rewritten. The grants of the final Recovery and Resilience Plan are fully financed through the EU Recovery Facility. The Hungarian government has the possibility until 2023 to decide on the use of the loans[11].

GOVERNANCE OF THE RECOVERY PACKAGE

The Hungarian RRP aims "particularly to counter the economic and social impact of the coronavirus epidemic and to improve the resilience, sustainability and the green and digital transition of the economy". The introduced measures are linked to the targets defined in the Hungarian National Energy and Climate Plan[12]. The plan describes these links in detail and the "Do Not Significant Harm" principle is explicitly flagged and elaborated on for each strategic objective. Furthermore, the relevance of the measures from the climate view are presented in detail.

According to the plan, the measures achieve a 41,17% share of climate spending. The deviation between our numbers and official numbers can be explained partly by methodological differences. Furthermore, the measures „Green infrastructure development of early childhood education", „Infrastructure and skills development for practice-oriented higher education" and „21st century vocational training institution development programme" include only vague

information about the share of green infrastructure developments and the energy efficiency requirements of new and refurbished buildings. Therefore we assessed these measures as „likely climate effect but direction not assessable".

The recovery plan includes a section describing the modalities of implementation and monitoring procedures. The central coordination shall be carried out by a National Authority, a Deputy State Secretariat in the Prime Minister's Office[13].

NOTEWORTHY SHORT-TERM LIQUIDITY AND STATE AID DECISIONS ("COMPANY BAIL-OUTS")

The first short-term fiscal measures were introduced in the first half of 2020, with an Anti-Epidemic Protection Fund (€1.88bn) and the Economy Protection Fund (€3.82bn) announced on 8th of April 2020[14]. These were measures to alleviate the fiscal burden on businesses, such as the social contributions of employers were lifted in the most affected sectors and the healthcare contributions were lowered. The taxes paid by small and medium enterprises (mainly in the services sector) were deferred until the end of the state of emergency[15]. Furthermore, about € 0.69 bn (0.6% of GDP) was reallocated to the healthcare sector. In the second half of 2020 several further tax relief measures were introduced to support families and businesses (especially for tourism, entertainment and leisure sectors).

The Funds were mainly financed by the reallocation of the state budget without much additional spending. Especially the budgets of local governments and the state funds of political parties were cut radically.[16]

DEEP DIVE: THE MOST IMPORTANT RECOVERY MEASURES AND HOW WE ASSESS THEM

The most important measures with an effect on the green transition are:

- Extending the capacity of the Budapest suburban rail network (HÉV) (€723m), which we assess as very positive due to the importance of the sustainable development of the suburban public transport. Similarly, the measure Competitive urban and suburban fleet in Budapest (€663m) is assessed as very positive, because it supports the modernization of the suburban public transport.

- Support for residential solar systems and electrification of heating systems in combination with solar systems (€454m), which we assess as very positive due to its importance of increasing renewable electricity generation. **However, it must be noted that the Hungarian RRF does not adequately support energy efficiency in the building sector. If the electrification of heating systems is not accompanied by the deep renovation of buildings and high energy efficiency standards both for new construction and existing buildings, then the measure will not be able to effectively contribute to the green transition.**
- Classical and smart grid developments for transmission system operators and distributors (€296m), which we assess as very positive due to its contribution to integrating fluctuating energy sources in the energy mix.
- Community renewable energy production and use (€33m), which we assess as very positive due to their importance for increasing the share of renewable electricity generation. **Again, here it is very important to accompany the local use of renewable electricity with deep building renovation measures, otherwise the measure is likely to be counterproductive.**
- Waste management infrastructure development (€171m) which aims to improve waste collection facilities. We assess this measure as positive due to the direct mitigation of CO_2 emissions from waste production.
- The measures Construction works for main irrigation systems, construction of new networks and systems (€120m) and Nature protection in water management (€6m) are very important climate adaptation measures. Nevertheless, we assess them as "likely no climate effect", because as we only evaluate the direct climate mitigation effects.

The package furthermore contains a significant number of measures that do not directly relate to the green transition but are still important and potentially transformative, such as:

- Ensuring equal access to digital education for learners and teachers (€463m, likely no significant climate effect)
- 21st century vocational training institution development programme (€269m, likely climate effect but direction not assessable)
- Creating the conditions for 21st century health services (€834m, likely no significant climate effect)

- Supporting the digital transformation of healthcare (€309m, likely no significant climate effect)

IMPORTANT CLIMATE POLICY DECISIONS TAKEN DURING THE CRISIS AND RECOVERY PERIOD

Shortly before the pandemic, in December 2019, the Hungarian National Energy and Climate Plan was adopted[17]. The main objectives of the NECP are the improvement of energy security and sovereignty, keeping the reduced overhead costs[18] and to achieve the decarbonization of energy production with nuclear and renewable energy sources. The National Hydrogen Strategy was approved by the government in May 2020[19].

The Law on Climate Protection was passed in June 2020 with the dedicated aim to protect the natural heritage and natural conditions in the Carpathian Basin. The act sets a new interim target for GHG emission reduction (at least 40% by 2030 compared to 1990) and it aims to achieve complete climate neutrality until 2050. The share of renewable energy sources in the Hungarian gross final energy production should reach at least 21% by 2030[20].

Furthermore, in June 2020, the Hungarian Climate and Nature Protection Plan and related energy policy strategies were approved. The resolution aims at mitigating and adapting to climate change, upgrade the Hungarian energy system and enhance energy efficiency and decarbonize electricity generation. The document includes several climate related targets, such as the increase the capacity of solar plans by 6% until 2030 and 90% of the electricity supply should be carbon neutral until 2030[21].

The Long Term Renovation Strategy was approved by the government only on 3 June 2021, and published on the 5th of July[22]. Unfortunately, there were some setbacks in the field of energy efficiency, too. The introduction of near-zero energy building requirements has been postponed to 30th of June 2022[23].

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ANNEX: MOST IMPORTANT MEASURES OF THE RECOVERY PACKAGE BY SECTOR

Sector	**Most important measures with effect on green transition**
Energy	• Classical and smart grid developments for transmission system operators and distributors (€296m, very positive) • Support for residential solar systems and electrification of heating systems in combination with solar systems (€454m, very positive)
Mobility	• Extending the capacity of the Budapest suburban rail network (HÉV) (€723m, very positive) • Competitive urban and suburban fleet in Budapest (€663m, very positive) • Elimination of rail bottlenecks on the TEN-T corridor (€57m, very positive) • Developing zero-emission bus transport (€151m, very positive) • Improving cycling infrastructure (€123m, very positive) • Deployment of central traffic management on TEN-T railway lines (€86m, very positive)
Industry	• Strengthening a smart, innovative and sustainable recycling industry and market (€123m, positive)
Buildings	• Construction and renovation of social housing, improvement of housing conditions (€188m, likely climate effect but direction not assessable) • Community renewable energy production and use (€33m, very positive)
Agriculture	• Construction works for main irrigation systems, construction of new networks and systems (€120m, likely no significant climate effect) • Establishing a monitoring system in water management (€1m, likely no significant climate effect) • Nature protection in water management (€6m, likely no significant climate effect)
Cross-cutting	• Green infrastructure development of early childhood education (€114m, likely climate effect but direction not assessable)

- Infrastructure and skills development for practice-oriented higher education (€183m, likely climate effect but direction not assessable)
- 21st century vocational training institution development programme (€269m, likely climate effect but direction not assessable)
- Waste management infrastructure development (€171m, positive)
- Ensuring equal access to digital education for learners and teachers (€463m, likely no significant climate effect)
- Establishment and complex development of National Laboratories (€180m, likely climate effect but direction not assessable)
- Improving basic health care (€192m, likely no significant climate effect)
- Creating the conditions for 21st century health services (€834m, likely no significant climate effect)
- Adjusting the salaries of doctors, phasing out of the gratuity (€857m, likely no significant climate effect)
- Supporting the digital transformation of healthcare (€309m, likely no significant climate effect)
- Digitalization development for the safety and security of people with reduced self-sufficiency (€257m, likely no significant climate effect)

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