Executive summary

This report outlines a set of key elements for the development of the Hungarian National Circular Economy Strategy and Action Plan within the framework of the European Commission's Technical Support Instrument, which provides support to the circular economy transition in Hungary.

There is a strong rationale for transitioning towards a circular economy in Hungary

The continuously growing demand for raw materials in the Hungarian economy is expected to exert significant pressure on the environment, putting the country at risk of missing important environmental goals and opportunities to strengthen the competitiveness and resilience of its economy. Despite the notable progress in achieving relative decoupling of economic growth from materials use, several challenges remain related to the country's relatively low performance in resource productivity, circular materials use and waste recycling. On current trends, the overall demand for materials is projected to increase by one-third in 2050 compared to 2017 levels (an increase from 119 million tonnes [Mt] to 160 Mt). Economic growth and increased consumption will drive this demand for raw materials and generate significant negative environmental impacts. A circular economy offers a significant potential to address these challenges, making the consumption of materials more sustainable and generating additional economic value for the country.

A national strategy is required to help steer the transition in the right direction

To fully realise the circular potential of the economy, Hungary will need to adopt a comprehensive circular economy policy framework. Although Hungary has a long-established policy and legal framework for waste management, it has struggled to finance high-quality municipal waste management, and has not yet succeeded in integrating circular economy principles into its sectoral policies nor has it adopted a whole-of-government approach to the circular economy transition. Additional policies are needed to achieve absolute decoupling of materials consumption and environmental pressures from economic growth. Further improvements in resource efficiency and waste management can lower environmental externalities related to the use of materials and enhance Hungary's competitive advantages. Fostering and investing in recycling and promoting eco-design can increase the availability of green jobs, products and services. The development of product reuse and repair can generate local product loops that create local jobs and make the economy less dependent on imports. A national circular economy strategy can focus policy efforts where they are needed most to complement the existing policy framework.

To achieve its ambitions by 2040, Hungary will need to focus its efforts on high-impact actions critical to the circular economy transition

The OECD analysis, combined with a stakeholder dialogue and a multi-criteria assessment, identified a set of priority areas and high-impact actions that are deemed critical to the Hungarian circular economy transition. These selected priority areas include biomass and food, construction, and plastics, as well as cross-cutting horizontal tools that can be put in place across product and material life cycles. This report outlines 45 policy recommendations and suggests specific implementation actions across the priority areas for the short, medium and long term. These are summarised below.

The **biomass and food** sector's transition to circularity has significant potential to contribute to Hungary's economic development, climate change mitigation and environmental protection. It is also critical for achieving the EU municipal waste targets and obligations. The value added in Hungary's agricultural sector already outperforms that of the rest of the EU, while the industrial processing and distribution of food products, beverages and tobacco represents the third largest sector of Hungary's economy. However, the current policy framework does not sufficiently encourage circular approaches. To accelerate the sustainable consumption and production of biomass and food, Hungary's long-term policy efforts will need to shift focus from waste management (composting and anaerobic digestion) towards strategies aimed at supporting the use of bio-based resources in agricultural practices and the development of the circular bioeconomy. Key policy recommendations include:

- Developing a regulatory framework to support the use of quality compost and digestate in agriculture.
- Providing additional economic incentives for the separate collection of municipal bio-waste by supporting "pay-as-you-throw"-based household waste charges and by increasing landfill taxes.
- Strengthening education, information and training tools to raise awareness and skills in the area of circular bioeconomy.

The **construction** sector offers a large untapped opportunity for Hungary's transition to a circular economy. More than half of all raw materials consumed by the Hungarian economy were used within the built environment. Construction is also responsible for about one-third of Hungary's waste generation. The current Hungarian construction policy framework has a strong focus on the end-of-life phase, while measures are missing upstream in the value chain. To fully unleash the potential of a circular building construction sector, Hungary will need to strengthen existing measures targeting construction, renovation and waste management in the short term, and introduce new policies to tackle the production of materials and the design of buildings and cities in the long term. Key policy recommendations include:

- Developing a new quality standard and a quality label for secondary construction materials to increase demand for them.
- Establishing a mandatory selective demolition scheme to enhance materials recovery.
- Promoting digitalisation of the industry to enhance reuse and recycling.

Plastics are strategically important for Hungary for its high circularity potential. They are a key input to several sectors in Hungary's economy, most importantly in packaging, construction and transportation. Plastic packaging currently makes up one-quarter of total packaging used in Hungary. Only about one-third of plastic packaging waste is recycled. Hungary faces a potential challenge in meeting relevant EU targets on plastics because its few plastics-specific laws were only recently introduced. To encourage a shift away from primary plastics, promote sustainable alternatives and bolster recycling, Hungary would benefit from a mix of policy instruments, targeting the most frequently used polymers in the most problematic applications. Key policy recommendations for a more circular plastics life cycle include:

- Promoting design for recyclability among businesses.
- Eco-modulating extended producer responsibility (EPR) fees on plastic packaging to create economic incentives for recyclability.
- Expanding Green Public Procurement (GPP) and introducing mandatory GPP to disincentivise the use of primary plastics and promote the use of secondary plastics and sustainable alternatives.