



MINISTRY FOR
NATIONAL ECONOMY

**REPORT ON THE MEASURES TAKEN IN RESPONSE TO COUNCIL
RECOMMENDATION OF 7 JULY 2009 UNDER ARTICLE 126(7) OF
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CONTENT

INTRODUCTION	1
1. MACROECONOMIC OUTLOOK.....	2
2. BUDGETARY DEVELOPMENTS.....	5
2.1. BUDGETARY DEVELOPMENTS IN 2011	5
2.2. BUDGETARY TARGETS FOR 2012	6
THE IMPACT OF THE SZÉLL KÁLMÁN PLAN ON THE 2012 BUDGET	7
Measures included in Convergence Programme and further balance improving measures.....	10
REGULATION ENSURING THE SAFE IMPLEMENTATION OF THE BUDGET	17
REDUCTION OF PUBLIC DEBT	17
2.3. MEASURES UNDERLYING THE 2013 BUDGET	18
3. STRUCTURAL REFORMS TO PROMOTE GROWTH AND COMPETITIVENESS AND TO ENSURE THE SUSTAINABILITY OF PUBLIC FINANCES.....	26
3.1. STRENGTHENING COMPETITIVENESS	26
CUTTING RED TAPE OF ENTERPRISES.....	26
INCREASING THE FLEXIBILITY OF THE LABOUR MARKET.....	32
3.2. GROWTH-FRIENDLY RESTRUCTURING OF PUBLIC EXPENDITURES	37
REFORM OF THE CENTRAL ADMINISTRATION	37
REFORM OF THE LOCAL GOVERNMENT SYSTEM	41
MEASURES IN THE PENSION SYSTEM	44
HEALTH CARE EXPENDITURES	45
SOCIAL BENEFITS	53
4. NEW GOVERNANCE OF PUBLIC FINANCES	58
Annex 1a MEASURES IN THE 2012 BUDGET BILL UNDERPINNING THE DEFICIT TARGET	61
Annex 1b BUDGETARY IMPACT OF THE ADOPTED AMENDMENTS OF TAXES IN 2012	67
Annex 1c BUDGETARY IMPACT OF APPROPRIATIONS PUT INTO RESERVES	68
Annex 2 BUDGETARY IMPACT OF THE SZÉLL KÁLMÁN PLAN IN 2013	69

INTRODUCTION

In line with the Council recommendation to Hungary with a view to bringing an end to the situation of an excessive government deficit, the Hungarian authorities submit a report twice a year to the Council and the European Commission. So far there have been 8 reports submitted, presenting the progress towards the correction of the excessive deficit, also including the measures taken in the field of structural reforms.

The Council recommendation set the deadline of 2011 for the correction of the excessive deficit. The general government balance will be in surplus this year, influenced by significant one-off items (first of all by the pension reform related asset transfer from private pension funds to the state pension pillar). These factors notwithstanding, the Government is committed to correcting the excessive deficit in a sustainable manner. Further to the growth supporting measures of the structural reform programme announced in March 2011 aimed at reshuffling and decreasing public expenditures and to additional measures included in the Convergence Programme of April 2011, in the context of the 2012 Budget Bill the Government decided on several new consolidation measures in order to safely attain the 2012 deficit target of 2.5% of GDP. Given the deterioration of the cyclical conditions and the unchanged headline deficit target, the structural deficit will be smaller than projected in the Convergence Programme and will drop by more than 2 percentage points in 2012.

The current progress report presents

- the updated macroeconomic forecast for 2011 to 2012,
- the budgetary developments in 2011,
- the measures built in the 2012 Budget Bill submitted to the Parliament and their impact on the budget,
- the measures underpinning the 2013 deficit target,
- the structural reforms launched in order to increase competitiveness and to promote sustainable economic growth in the medium to longer term, and
- the new regulation of the governance of public finances.

The Government discussed the Report on its meeting of 14 December 2011 that was subsequently submitted to the European Commission and the Council.

1. MACROECONOMIC OUTLOOK

Renewed risks from the debt crisis in developed countries evoked financial uncertainties that resulted in worsening business and household confidence among Hungary's major foreign trading partners. Taking this into account the Government adjusted twice its forecast downward compared to that included in the convergence programme. The macroeconomic outlook underlying the 2012 Budget Bill submitted to Parliament in September contained a real GDP growth of 1.5% in line with calculations of the European Commission and the IMF. In mid-December, as a consequence of the deterioration of the global, primarily European, macroeconomic environment, the Government decided on the revision of the growth forecast decreasing the real GDP figure to 0.5%.

The September forecast assumed already that the renewed crisis situation affects the Hungarian economy through both external and internal channels. Reduced prospects of external demand for the remaining part of 2011 and for 2012 moderates the exports' growth, which is the main driver of Hungarian GDP growth. The slowdown in export growth has unfavourable effects on manufacturing activity and hence on labour demand, thus decreasing both households' income and corporate profits.

Increasing risk premia bring about tighter credit conditions that constrain investment and household consumption. Even though previously announced major manufacturing investments are carried out as planned, household investments do not grow as expected earlier. The appreciation of the Swiss Franc increased the debt service of households and the resulting lower disposable income moderates private consumption. Moreover, the increased uncertainty is a further incentive for households to build up additional precautionary savings.

The additional adjustment measures underpinning the 2012 budget proposal include a number of expenditure and revenue side elements. The reduction of government expenditures has a direct effect on government consumption and therefore moderates the growth of GDP in 2012. On the revenue side, the increase of the VAT rate to 27% has both a one-off inflationary effect in 2012, as well as it reduces real disposable income and thus household consumption. The increase of excise taxes has an impact through the same channels, i.e. it contributes to higher inflation and lowers consumption. The widening of the base of social contributions and the increase of health care contributions by 1 percentage point have also some negative impact on households' balance sheets and slightly on employment.

Mainly as a result of weaker external economic conditions and, to a lesser extent, due to the indirect effects of the announced measures, the macroeconomic outlook underlying the Budget Bill contained a significantly slower GDP growth than projected in the 2011 Convergence Programme with lower growth rates both for household consumption and for gross fixed capital formation. In the public work scheme, the number of full-employed is expected to increase in 2012, whereas the reduction of government expenditure by recent measures offsets this effect on government consumption. Therefore, domestic demand contributes less to GDP growth, while net exports remain the key driver of growth.

Inflation was assumed to rise to 4.2% in 2012 in the Budget Bill due to the above mentioned one-off effects, then to gradually decline to the central bank's inflation target.

Macroeconomic projections underlying the 2012 Budget Bill*

	2009	2010	2011		2012	
	Fact	Fact	CP	2012 Budget Bill	CP	2012 Budget Bill
GDP growth, %	-6.7	1.2	3.1	1.9	3.0	1.5
Household consumption expenditure	-8.1	-2.1	3.1	0.7	2.2	0.2
Gross fixed capital formation	-8.0	-5.6	5.7	-2.0	5.3	3.2
Exports	-9.6	14.1	9.7	8.8	10.5	8.4
Imports	-14.6	12.0	9.7	7.7	10.4	8.1
Employment growth, %	-2.5	0.0	0.7	0.7	2.0	1.5
Unemployment rate (15-74), %	10.0	11.2	10.9	10.9	10.5	10.7

The cut-off date of the macroeconomic projections for the budget bill was 28 September 2011.

By early December the lingering of the debt crisis has strengthened heavily negative risks to the macroeconomic forecast. International forecasts suggest that growth in external environment will be significantly slower in 2012 than expected earlier.

In the wake of the international sovereign debt crisis business climate and consumer confidence deteriorated considerably, uncertainty heightened. In Hungary, after continuous decrease since April 2011 confidence indices fell sharply in the autumn. The increased uncertainty hinders domestic demand, investment as well as exports. Households' consumption is influenced by more prudent decisions and more enhanced balance sheet adjustment than previously assumed, whereas against a gloomier GDP growth outlook employment growth may be somewhat slower.

Despite significant new investments expected in manufacturing (primarily due to mega-projects in the automotive industry), investment of domestic companies is expected to remain subdued in 2012, until economic situation stabilises. In a deteriorating risk environment credit conditions are expected to tighten further with an additional negative effect on real estate investment.

Based on the usual technical projection (3 months average) the 2012 Budget Bill submitted to Parliament in September contained an exchange rate assumption of HUF 268.5 to EUR. In light of the depreciation in recent months the technical projection changes to HUF 299.4 to EUR for 2012. If the exchange rate remains depreciated, taking also into account some further measures, an additional inflation risk of 0.7 percentage points may materialise.

Macroeconomic projections, forecast of December 2011*

	2009	2010	2011 forecast		2012 forecast	
	fact	fact	convergence programme	forecast of Dec 2011	convergence programme	forecast of Dec 2011
	<i>change compared to previous year, %</i>					
GDP growth, %	-6.8	1.3	3.1	1.5	3.0	0.5
Household consumption expenditure	-6.4	-2.1	3.1	-0.1	2.2	-1.1
Gross fixed capital formation	-11.0	-9.7	5.7	-6.7	5.3	-2.0
Exports	-10.2	14.3	9.7	9.1	10.5	6.0
Imports	-14.8	12.8	9.7	6.3	10.4	4.1
Employment growth, %	-2.5	0.0	0.7	0.5	2.0	1.1
Unemployment rate (15-74), %	10.0	11.2	10.9	11.0	10.5	11.0

* changes in data for 2009 and 2010 reflect revision due to methodological changes introduced by the CSO

2. BUDGETARY DEVELOPMENTS

2.1. BUDGETARY DEVELOPMENTS IN 2011

The 2011 general government balance is influenced by significant one-off items. Nevertheless, the government is committed to achieving the original budgetary target, i.e. a deficit of 2.9% of GDP net of the bulk of the one-off items¹. In the course of the year, several steps have been made in order to keep the underlying budgetary processes on track.

Revenue shortfalls due to lower than expected GDP growth were compensated first of all by the abolishment of the stability reserve amounting to HUF 250 billion (around 1% of GDP), predominantly affecting the appropriations of budgetary chapters. The excise duty in case of the bioethanol component of the E85 fuel was increased and a new tax on unhealthy foods with high sugar or salt content was also introduced.

In light of the deterioration of the international macroeconomic environment and the growth outlook, the Government decided in early September on additional measures of HUF 100 billion (close to 0.4% of GDP) in order to improve the general government balance:

- The government decree of 1316/2011 ordered a stop on purchase of goods and services in budgetary chapters, the freezing of further HUF 37 billion in appropriations and the obligation to maintain the unspent appropriations²;
- Measures enhancing the efficiency of the tax collection, an increase of the gambling tax and excise duty of alcohol and gasoline products are to increase revenues;
- Furthermore, in the context of the pension reform, the Government could count on the dividends of shares transferred to the Pension Reform and Debt Reduction Fund.

As a result of the measures and the significant one-off items, the 2011 general government balance will be in surplus. The autumn notification on general government balance and debt sent to Eurostat included an estimate of a surplus of 3.9% of GDP in contrast to the figure of 2% included in the Convergence Programme. The difference is attributable to the overall impact of several factors, mainly to various changes in one-off items:

¹ The 2011 budget deficit target of 2.9% was based on the assumption that in the context of the pension reform only revenues of 2% of GDP would be realised from the assets of individuals returning from the private pension funds into the state pension pillar and a further 1% in 2012. However, the number of people opting for return was significantly higher than expected and the process closed already at the beginning of 2011. Thus, the whole amount of assets transferred to the Pension Reform and Debt Reduction Fund exceeding 9% of GDP improved the 2011 budget balance.

² Increasing expenditures by appropriations not used in earlier years is also forbidden.

- The assets of individuals returning from the private pension funds into the state pension pillar, net of the disbursement of real returns and of former voluntary contributions, generated 0.3% of GDP more revenues than estimated in the Convergence Programme.
- In July the European Court decided that the restriction of refunds on unpaid purchases in the Hungarian VAT regulation was not in line with the community law. As a consequence of the decision, taxpayers claimed for VAT refund of around 1% of GDP as a one-off item.
- The Convergence Programme assumed that a considerable proportion of the public transport companies' (MÁV and BKV) debt would be taken over by the budget and that certain PPP projects would be bought back. The autumn notification sent to Eurostat did not contain these one-off items (overall around 2% of GDP) due to the lack of exact details on implementation that time.

Following the submission of the notification Parliament amended the 2011 Budget and authorised the Government to take over HUF 64 billion from MÁV's debt and inject HUF 60 billion capital to the Hungarian Development Bank.

2.2. BUDGETARY TARGETS FOR 2012

The Budget Bill submitted to the Parliament set the ESA95 general government deficit at 2.5% of GDP for 2012. The safe attainment of the deficit target is ensured by the following items:

- Growth supporting measures of the structural reform programme announced in March 2011 (Széll Kálmán Plan) that reshuffle and decrease public expenditures,
- Additional budget improving measures included in the Convergence Programme,
- Further adjustment in view of the deterioration of the macroeconomic outlook and of the need to build increased reserves in the Budget Bill to tackle the impact of possibly adverse global macroeconomic and financial developments.

On the basis of the 2012 Budget Bill total adjustment exceeds HUF 1400 billion (4.8% of GDP), almost 60% of which will be realised on the expenditure side.

Owing to the structural measures with permanent effects, the cyclically adjusted deficit net of one-off measures drops by more than 2 percentage points in 2012. Given the deterioration of the cyclical conditions and the unchanged headline deficit target in 2012,

the structural deficit will be lower than projected in the Convergence Programme of April 2011.

General government balance

in per cent of GDP

	2011		2012	
	CP	2012 Budget Bill	CP	2012 Budget Bill
Balance	2.0	3.9*	-2.5	-2.5
Structural balance	-4.7	-4.5	-2.6	-2.4

* Autumn 2011 Notification sent to Eurostat

THE IMPACT OF THE SZÉLL KÁLMÁN PLAN ON THE 2012 BUDGET

EMPLOYMENT AND LABOUR MARKET

- The Act CVI of 2011 on the modification of the acts on public employment and related to public employment and other acts amended the Act IV of 1991 on job assistance benefits and unemployment benefits. Stricter conditions have been determined for job search allowance, as the upper limit has been decreased from 120% of the minimum wage to the exact amount of the minimum wage and the maximum eligibility period has also been decreased from 270 to 90 days. The impact of the measures is in line with former estimations, or even exceed them somewhat, and expenditures on passive benefits of the Labour Market Fund decrease to around half of the 2011 level.
- Concerning the financing of active labour market policies and vocational training, the Budget Bill contains savings in line with the Széll Kálmán Plan. These expenditures may only increase in line with amounts received from EU funds.
- As a result of the amendment of the Act LXXXIII of 1997 on the services of the compulsory health insurance system, the upper limit of sick pay benefit was reduced from four times the minimum wage to twice the minimum wage and the possibility for the so-called passive sick pay benefit ceased to exist as from 1 July 2011. Savings have so far been in line with the Széll Kálmán Plan.
- The Act CVI of 2011 on the modification of the acts on public employment and related to public employment and also other acts amended the Act III of 1993 on social administration and social benefits, and maximised the overall amount of social support transfers and wage substituting benefits available for families. Additional savings of HUF 10 billion in the Budget Bill stem from the abolishment of certain benefits provided by

local governments, or rather from the accordingly decreased contribution from the central government. This serves as an incentive for local governments to provide support only for those in need.

- In the framework of the new Start-Job programme, the number of participants in public work schemes will increase substantially, expenditures on this item will be doubled compared to 2011. Reflecting differing specificities of the public work schemes from normal employment, public employment wages are lower than the minimum wage. Active persons with working capacities who are unable to get a temporary job in the public work schemes will be eligible to employment substitute benefit instead of the former wage substitute benefit. The Budget Bill assumes that no savings will be achieved from the transformation of the wage substitute benefit, since the macroeconomic environment is significantly less favourable than expected at the time of the announcement of the Széll Kálmán Plan, thus the number of recipients is expected to be larger. In this area, the need for savings necessitates further measures.
- There is no indexation of family subsidies determined by law, therefore the Budget Bill calculates with unchanged nominal level of family allowance in line with the Széll Kálmán Plan.

PENSION SYSTEM

- Since real GDP growth in 2012 is expected to be below 3%, pensions increase by the inflation rate in line with the legislation in force at the preparation of the Budget (Act LXXXI of 1997 on social security pension benefits). The Act CLXVI of 2011 on the modification of certain acts underlying the Budget stipulates the changes in indexation: pensions continue to increase in line with the expected inflation.
- According to the Act CLXVII of 2011 on the abolishment of early retirement schemes, early pensions and service dues, pensions in early retirement schemes are transformed to early retirement benefits, and in case of armed forces, the pensions have been replaced by service dues. Following the abolishment of the early retirement schemes, as of 2012 no new rights to these entitlements can be gained. Pension entitlements for special occupations can be gained till 31 December 2012. Entitlements of Members of Parliament and members of armed forces will be decreased by the amount of the personal income tax. The budgetary impact of the measure is expected to be greater than what is included in the Széll Kálmán Plan.

- The Budget Bill includes prudent assumptions regarding the review of disability pensions: the savings estimated may be achieved during several years; only about 30% is expected to be achieved in 2012.

PUBLIC TRANSPORT

On the basis of the Act CLXVI of 2011 on the modification of certain acts underlying the Budget, the subsidy for discounts on long-distance travel to the suppliers will decrease by around HUF 16 billion due to the reduction of consumer price subsidies. Further savings of HUF 10 billion are expected from the enhancement of operational efficiency in case of subsidies for costs of public transport with public service purpose and due to the termination of redundant schedules.

HIGHER EDUCATION

The Budget Bill assumes that regulation will ensure savings included in the Széll Kálmán Plan.

HEALTH CARE

The 1226/2011 Government decree stipulates the transformation of the pharmaceutical subsidy system in line with the Széll Kálmán Plan. The July 2011 amendment of the Act XCVIII of 2006 on the general provisions related to the reliable and economically feasible supply of medicinal products and medical aid and on the distribution of medicinal products, as well as the resolutions already in force or entering into force by 1 January 2012 that are underlying the measures, are expected to ensure the planned savings at the pharmaceutical subsidies. Pharmaceutical subsidies decrease by more than 25% compared to 2011.

PUBLIC AND LOCAL GOVERNMENT FINANCING

- In the framework of the rationalisation of the central public administration, headcount is reduced by around 7,000. This is expected to imply savings of HUF 29 billion, which is 2.5 times of what was originally planned.
- The appropriation of expenditures to local governments contains the planned savings.

DEBT REDUCTION FUND

In line with the Széll Kálmán Plan, the level of the bank levy remains unchanged in 2012.

Overall, 83% of the savings planned in March are included in the 2012 Budget:

The impact of the Structural Reform Programme on the 2012 Budget Bill submitted to Parliament on 30 September 2011

	Billion HUF	In per cent of GDP
Employment and labour market	158	0.54
Pension system	42	0.14
Public transport	26	0.09
Higher education	12	0.04
Health care	83*	0.29
Public and local government financing	44	0.15
Contribution to the Debt Reduction Fund	90	0.31
Total	455*	1.56

*: Due to the amendment adopted after the submission of the budget bill the allowance related to R&D expenditures would reduce revenues from manufacturers by HUF 7 billion. Therefore figures for savings in the health care system is modified to HUF 76 billion and for the total budgetary effect to HUF 448 billion.

(The detailed measures in the different areas and their budgetary impact are expanded in the Annex 1.a.)

MEASURES INCLUDED IN THE CONVERGENCE PROGRAMME AND FURTHER BALANCE IMPROVING MEASURES

Further to the important structural reforms that mainly bring benefits in the medium to longer term, appropriations in the Budget Bill were determined in line with the prudent planning methodology described in the Convergence Programme:

- Nominal wages have been frozen in the public sector. The wage supplement compensating for the abolishment of tax credits for low earners remains in effect.
- In addition to the freezing of family subsidies, other social transfers do not increase either.
- Appropriations of budgetary chapters are based on the levels decreased by the 2011 stability reserve, making those measures structural.

The impact of the measures included in the Convergence Programme on the 2012 Budget Bill

	Billion HUF	In per cent of GDP
Freezing wages with the compensation of low income employees for the elimination of the tax credit	43	0.54

	Billion HUF	In per cent of GDP
Freezing social benefits other than family benefits	8	0.03
Freezing chapter reserves of constitutional chapters and reserves of the Media Service and Asset Fund	13	0.04
Elimination of spending included in the “stability reserve”	241	0.83
Total	305	1.05

Significantly stricter spending rules apply at central government level. Thus, in light of the new measures as well, intermediate consumption expenditures will decrease (see below).

SPECIFIC EXPENDITURE AREAS

- Extra expenditure need in previous years from transfers to the railway transport company (MÁV) was typically related to track maintenance for what the budget did not contain sufficient funds. (Bond issuance of MÁV amounting to HUF 35 billion backed by state guarantee this year is also attributable to this item.) Therefore the 2012 budget bill appropriates subsidies for track maintenance of HUF 47 billion significantly exceeding levels in previous years. The financing of passenger transportation usually proved to be sufficient, no change is expected in this regard as appropriation for this item has been planned prudently in the 2012 budget bill. Furthermore MÁV’s financial situation will be improved due to the fact that this year the Government will takeover HUF 64 billion from its debt (the Parliament authorized the Government with the amendment of the 2011 budget bill), which contributes to the decrease of MÁV’s debt service expenditures. Elaboration of the details of the implementation is underway.
- In 2011, the public transport company of Budapest (BKV) received subsidies of HUF 52.2 billion (HUF 32.2 billion normative subsidies and gross HUF 20 billion consumer price subsidies). In the course of this year additional expenditure need of HUF 24 billion has arisen in three occasions. The 2012 budget bill appropriates similar amount of subsidy like this year (HUF 52.2 billion) and the Government will review the general financing questions on local public transport (especially the local waste transportation in the capital) so that a sustainable agreement can be achieved.
- The recapitalisation need of the Hungarian Airline Malév can be tackled within the appropriations for extraordinary government measures (general reserve), if necessary. However, a number of factors indicate that this can be avoided. First, even under the present circumstances, there seems to be an interest from private investors to engage – after a possible restructuring – in the company. Second, there is an ongoing review of the possibilities for strategic changes ensuring the viability of the company, if it remains in

state ownership. These may include organisational, operational and destination related changes. Altogether, recapitalisation would only be needed if none of the above options is realised. In that case, the reshuffling of appropriations within the budgetary chapter of state-owned assets and/or the partial use of the general reserve could safely ensure the recapitalisation without endangering the attainment of the deficit target.

THE ROLE OF RESERVES IN THE BUDGET BILL

In view of the increased risks surrounding the macroeconomic projections, the Budget Bill includes substantially higher reserves than what was assumed in the Convergence Programme. Apart from the general reserve (HUF 100 billion) to be used for exceptional measures by the government, i.e. to cover unforeseeable expenditures and/or revenue shortfalls, a new, special reserve for interest expenditures (HUF 50 billion) caters for any risks arising from potentially adverse global financial market developments. Furthermore, an additional safety reserve of HUF 150 billion (0.5% of GDP) is set aside to tackle any unexpected revenue shortfalls or expenditure overruns due to possibly worsening macroeconomic conditions. Sensitivity analyses suggest that a 1% slower GDP growth implies a deterioration of only around 0.4 percentage point, even if the deceleration takes place in the worst structure, i.e. with the most negative effect on the balance (a weaker domestic demand). On top of the overall HUF 300 billion (1% of GDP) effective reserves, additional earmarked reserves of HUF 154 billion (0.5% of GDP) are also included in the Budget Bill, that cover principally the compensation related to the changes in the tax system.

NEW MEASURES IN THE BUDGET BILL

In light of the weaker growth outlook and also due to the decision of the Government to create sizable extraordinary reserves in the budget, the measures included in the Convergence Programme would not have ensured the attainment of the deficit target (net of the reserves). Against this backdrop, the Budget Bill contains further balance improving measures both on the expenditure and revenue side.

- The bulk of the measures on the expenditure side generate further savings at the central budgetary chapters, by the revision or complete elimination of tasks, by limiting the possibilities of assuming liabilities and the restriction of non-indispensable purchases.
- Tasks related to the operation, renovation and development of the national public road network (former Road Fund appropriation) are financed, besides the incomes from the road toll system, from extra revenues stemming from the extension of the road toll

(instead of budget transfers). The Ministry of National Development is examining different versions of the road toll system.

- Concerning social benefits provided by local governments, employment substitute benefit should be brought in line with the public employment wage set lower than the minimum wage. The Bill T/4656 on the modification of certain acts underlying the Budget amended the Act III of 1993 on social administration and social benefits. In accordance with the amendment, the employment substitute benefit decreases by 20%.
- The Act CLXVI of 2011 on the modification of certain acts underlying the Budget amended the Act LXXXIV of 1992 on the financial funds of the social security system. From 2012, pension entitlements will be significantly streamlined at the Pension Insurance Fund: entitlements paid below the mandatory retirement age will be provided partly by the Health Insurance Fund (disability benefits) and partly by the newly established National Social Policy Fund (advanced old age allowance, service dues and early retirement benefits).
- According to the Act CLVI of 2011 on the modification of certain acts on taxes and other related acts, some tax bases will be broadened and certain tax rates will increase in 2012. The macroeconomic risk reserve (National Protection Fund) is practically financed from the extra revenue from the VAT rate increase.
- Contrary to the plans outlined in the Convergence Programme, tax credits in the personal income tax system and, below an income of HUF 202,000 per month, the so-called super-grossing will be abolished already as of 2012. These changes are expected to be neutral to the balance, since the generated windfall revenues offset the compensation of low earners.

Additional balance improving measures in the 2012 Budget Bill submitted to Parliament on 30 September 2011

	Billion HUF	In per cent of GDP
Expenditure side		
Narrowing of tasks in chapter managed appropriations and increase of own resources (fee revenues)	35	0.12
Review and more efficient management of public tasks and duties, reduction and abolishment of certain public tasks	110	0.38
Reduction of social subsidies granted at local level (decrease in employment substitute benefit)	18	0.06
Reduction of spending related to public assets	5	0.02
Expenditure reduction	168	0.58
Revenue side		

	Billion HUF	In per cent of GDP
Increase of the standard VAT rate from 25% to 27%, end of prohibition of the deduction of car leasing VAT	140	0.48
Increase of excises (tobacco*, alcohol, gasoline)	42	0.14
Increase of gambling tax and taxing of on-line gambling	32	0.11
Increase in employee's contribution by 1 percentage point and broadening of the base of contributions	112	0.38
Broadening of the PIT base	15	0.05
Stricter conditions for accounting losses in the CIT and an increase of the company car tax	51	0.17
Increase of the tax on unhealthy foods and broadening of the tax base	10	0.03
Introduction of (insurance) tax on car accidents	24	0.08
Increase of other fees	11	0.04
Increase of product fees	36	0.12
Change of licence plates	12	0.04
Revenue increase	485	1.67
Total ADDITIONAL adjustment	653	2.24

* The impact of the increase of excise duty on tobacco was partly already included in the Convergence Programme projections.

(The detailed measures in the different areas and their budgetary impact are expanded in the Annex 1.a.)

As a result of the structural reform programme and of additional adjustment measures, the structure of public expenditures will change considerably. Social transfers will decrease by one percentage point of GDP and despite the significant extension of public work schemes, GDP-proportionate current operational expenditures (compensation of employees and intermediate consumption) will also decline. At the same time, taking into account the increasing EU transfers, government investment will rise as well.

General government revenues and expenditures

(based on the Budget Bill submitted on 30 September 2011)

in per cent of GDP

	2010	2011	2012
Revenues			
Total taxes and social contributions	37.6	35.7	38.6
of which: taxes on production and imports	16.9	15.8	17.8
current taxes on income and wealth	8.0	6.3	7.1
social contributions	12.1	13.1	13.2
Other	7.6	16.1	7.6
Total revenues	45.2	51.9	46.2
<i>Total taxes and social contributions excluding one-off VAT refunds</i>	37.6	36.6	38.6
Expenditures			
Compensation of employees + intermediate consumption	18.7	17.7	17.4
Social transfers	18.5	18.3	17.3

	2010	2011	2012
Gross fixed capital formation	3.3	3.2	4.1
Other	4.8	5.0	5.9*
Primary expenditures	45.3	44.1	44.7
<i>Primary expenditures excluding EU-transfers</i>	43.0	42.1	41.6
Interest expenditures**	4.1	3.9	4.0
Total expenditures	49.4	48.0	48.7
Balance	-4.2	3.9	-2.5
Primary balance	-0.1	7.8	1.4

*: Including the general reserve and the macroeconomic risk reserve

**: According to the EDP-methodology; in 2012 including the interest risk reserve.

NEW MEASURES IN ADDITION TO THE SUBMITTED BUDGET BILL

Parliament concluded the debate on the bill on amendments of certain acts on taxes. According to the adopted amendments to the bill, the (so-called cafeteria) non wage payments will be taxed, apart from the 16% PIT, by a 10% health care contribution. The health care contribution paid by persons without insurance rights increases to HUF 6,390 per month. A new „culture tax” has been introduced on pornographic products and services. The upper limit of revenues till the so-called simplified entrepreneur tax available for small enterprises can be used increases from HUF 25 million to HUF 30 million, and its rate from 30% to 37%.³ Furthermore regulation of the tax on unhealthy foods, environment protection product and other fees has been amended and the social security contribution paid by employers has been replaced by a social contribution tax. Among the adopted amendments, the reduction of the registration tax results in a notable revenue shortfall, which is expected to be offset by higher VAT revenues due to increased turnover. The adopted amendments overall are expected to generate extra revenues of around 0.2-0.3% of GDP. (Detailed budgetary effects of adopted amendments are included in Annex 1b.)

Furthermore, the legal means of the tax authorities are reinforced and extended. The modifications will guarantee enhanced efficiency through the following measures:

- Tax registration procedure examining past tax record of members of new companies;
- new tax control methods, the most important of which is the control of realization of effective economic activities;
- new database to find and identify risky taxpayers;

³ Impact of the measure can be realised through increased revenues from the tax item as well as through increased revenues from other tax items (PIT, CIT, tax on dividends, VAT) in case of opt outs from the simplified entrepreneur tax.

- reinforcement of the system of default penalties for executives.

Headline figures have been endorsed by Parliament in the first phase of the debate on the budget. Changes to the tax system have been incorporated and primarily technical reshuffling between chapters has been made. Following the amendments the budget balance has only marginally changed (improved by HUF 0.4 billion).

Nevertheless, by early December in light of the lingering of the debt crisis, the need for a downward revision of the macroeconomic forecast underlying the Budget became evident. Due to the changes in the macroeconomic parameters (slower real GDP growth, weaker domestic demand, weaker exchange rate) general government balance would deteriorate by HUF 200 billion in 2012.

The Government is committed to the attainment of the deficit target of 2.5% of GDP and thus decided on its 14 December meeting on balance improving measures of HUF 120 billion:

- HUF 52 billion in the appropriations of budgetary chapters will become reserves. As in the case of the macroeconomic and interest reserves, these reserves cannot be used in the first three quarters and also thereafter their use is linked to the attainment of the 2.5% deficit target (for details on appropriations to become reserves see Annex 1c);
- Private pension fund members will pay their contribution to the state pillar as of 2012 as well (estimated budgetary impact: HUF 48 billion);
- Excise tax on tobacco increases further (estimated budgetary impact: HUF 20 billion).

Besides, extra reserves (interest and macroeconomic reserves, overall HUF 200 billion) have been created for this very purpose, namely to cover economic and financial risks. The balance improving measures of HUF 120 billion and the extra reserves together create room for manoeuvre of HUF 320 billion. In case of a more adverse macroeconomic scenario reserves can offset risks not covered by measures (estimated around HUF 80 billion), whilst remaining reserves of HUF 120 billion may compensate for direct costs of the agreement with the Banking Association in 2012.

At the same time, the agreement with the Banking Association impacts positively growth and thus fiscal room for manoeuvre through decreasing yields and reducing burden on households with FX loans. Taking also into account indirect effects of the agreement, its budgetary impact is considerably smaller; therefore there still remain reserves to compensate for a more adverse macroeconomic scenario. Moreover, the so-called general

reserves (of HUF 100 billion) greater than in 2011, for the compensation for extraordinary measures can also be used to offset a greater than expected revenue shortfall.

REGULATION ENSURING THE SAFE IMPLEMENTATION OF THE BUDGET

The implementation of the budget and the achievement of deficit target are further ensured by the following regulations.

- Budget transfers to any appropriation that would result in an increase of expenditures would need, as the organic law stipulates, the amendment of the budget law, and thus the decision of the Parliament. Neither the Government, nor the line ministries can increase their own budget transfers. (The government itself can only pursue the opposite: it can *decrease* these transfers.) For any particular appropriation, expenditures can only increase above the budgeted figure for that appropriation, if additional windfall revenue of the line ministries occurs (that is not tax or tax-like revenue). However, such an increase of expenditures is deficit neutral; it does not increase the deficit as it is financed by extra revenue in that particular area. Furthermore, also a necessary *technical* condition would have to be satisfied to allow for overspending, namely that the Treasury would have to open an account on behalf of the beneficiary line ministry with a higher amount than adopted in the budget law. This is in fact not possible by law.
- Finally, Parliament adopted the amendment to the Budget Bill by the Audit and Budget Committee of the Parliament according to which a rule-based framework on the use of the interest risk reserve and the macroeconomic risk reserve will be introduced. These reserves cannot be used before 30 September 2012 and that the Government may decide on the use, only if in the Autumn 2012 Notification the expected EDP-deficit for 2012 does not exceed 2.5% of GDP. When preparing the decision, the Minister for National Economy has to present a report on the economic and budgetary developments and expected EDP deficit and debt figures for 2012.

REDUCTION OF PUBLIC DEBT

The new Constitution (the Fundamental Law of Hungary), entering into force on 1 January 2012, defines a 50% of GDP upper limit for the public debt, and requires the reduction of the debt ratio until it reaches the reference level.

According to the new Constitution, another law shall prescribe that the consent of the Government is required in case of borrowing or assuming any obligation by a local government exceeding the amount defined by the law.

The Government submitted to Parliament the Bill no. T/5130 on the financial stability of Hungary that stipulates the detailed rules for respecting the debt brake rule included in the Fundamental Law. The Bill contains the definition of general government debt and provides for strict conditions on the creation of local government debt being part of the overall public debt and stipulates furthermore that other organisations of the general government sector can only agree on debt generating transactions upon the preliminary approval of the minister responsible for the budget.

As for the definition of the general government debt, a definition close (but not identical) to that of the Maastricht public debt is to be created. This means that the covered institutions are broadly the same as in the case of ESA figures, but debt consolidated according to Hungarian accounting rules is recorded at transactions. The ESA public debt figure can be derived from this debt figure with some statistical corrections.

The Bill, until public debt declines below 50% of GDP, determines a debt reduction rule that is simple (nominal debt can increase by the difference of the expected inflation and half of the real GDP growth), prevents pro-cyclical fiscal policy and ensures the attainment of the 50% reference value in 10 to 20 years. Furthermore it automatically ensures the requirement laid down in the Fundamental Law according to which debt reduction should not be pursued in case of protracted and significant economic downturn. The debt reduction rule will have to be applied for the preparation of the 2015 Budget for the first time, until then – as a transitional provision – the deficit path laid down in the 2011 convergence programme of Hungary will govern the minimum extent of debt reduction.

2.3. MEASURES UNDERLYING THE 2013 BUDGET

The Government is committed to the attainment of the fiscal targets set out in the convergence programme. The general government deficit decreases further in 2013, from 2.5% in 2012 to 2.2% of GDP in 2013. The achievement of the deficit target is ensured by the continued prudent planning in line with the convergence programme (wages, operational expenditures) on the one hand and the saving measures of the Széll Kálmán Plan on the other. Should macroeconomic and fiscal developments deviate from the planned path, the Government stands ready to implement further measures to meet the fiscal targets.

Savings planned in the Széll Kálmán Plan for 2013 are underpinned by the following specific measures (the detailed budgetary impacts are expanded in the Annex 2):

EMPLOYMENT AND LABOUR MARKET

The transformation of job search allowance and sick pay benefits, capping the overall amount of social support transfers and wage substitute benefits available for families as well as the nominal freezing of family allowances continue to improve the general government balance in 2013, realising all of the planned savings (HUF 135 billion, 0.44% of GDP).

The elaboration of proposals on financing certain active labour market policies and vocational training schemes from EU funds are underway. Taken also into account the expenditure cuts at the Labour Market Fund, the measure will improve the budget balance to the planned extent (HUF 40.5 billion, 0.13% of GDP).

In the fields of employment and labour market, only savings related to the transformation of the wage substitute benefit cannot be achieved due to the substantially more adverse macroeconomic environment. Nevertheless close to half of the additional expenditure need stemming from the increased number of entitled persons is offset by the 20% reduction of the level of benefits that generates savings of HUF 18 billion (0.06% of GDP).

PENSION SYSTEM

TRANSFORMATION OF DISABILITY BENEFITS

The government submitted to Parliament the Bill (T/5000) on the benefits of persons with altered employment capacity and the amendment of certain acts.

The thrust of the new regulation is to put emphasis on rehabilitation, fostering employability; on the basis of an expert analysis jobs are offered to persons able to work who are obliged to accept them. If the offered job is refused, the person loses his eligibility to the benefit. During the period of employment the provision of the benefit is suspended. As a consequence, after 2012 further gradually increasing savings are to be realised related to both former and new entitlements. Based on prudent assumptions and calculations, even against the background of a less favourable macroeconomic environment than foreseen at the announcement of the Széll Kálmán Plan, close to 40% (around HUF 45 billion, 0.15% of GDP) of the originally planned savings is expected to be met.

ELIMINATION OF EARLY RETIREMENT SCHEMES, ALSO FOR MEMBERS OF ARMED FORCES

Parliament adopted the Act CLXVII of 2011 on the elimination of early retirement schemes, early pensions and service dues. The bulk of early pension entitlements will be transferred from the Pension Insurance Fund to the National Social Policy Fund and new entitlement cannot be gained. Savings are attributable to the phasing out of early pension entitlements, the increase in retirement age and the reduction of the entitlements of members of armed forces by the amount of the PIT (16%).

As a result of the transformation, savings (HUF 23 billion, 0.08% of GDP) of around four times than that planned in the Széll Kálmán Plan may be achieved.

PUBLIC TRANSPORT

The National Transport Holding Company is expected to be established through merging passenger railway transport company (MÁV-Start) and road transport (Volán) companies. Savings (reduction of subsidies of passenger transportation) may be achieved through the elimination of redundant schedules of railway and coach companies providing public transport services, fulfilment of functions in the merged organisation and the reduction of personnel related expenditures (cut of managerial positions and reduction of management costs). The related expected cost reduction of HUF 15 billion in 2013 seems realistic compared to the size and overall costs of the public transport network.

The appropriation for passenger transportation subsidies to MÁV, decreases already in 2012 by HUF 10 billion in real terms. The subsidy need will be further reduced by the Baross Gábor Programme to be adopted soon which aims at significantly reorganising MÁV in order to improve cost efficiency (rationalisation of the system of subsidiaries and accounting between subsidiaries, internal organisational changes, streamlining of administrative centres, changing wage and bonus policy). The partial debt takeover by the state contributes further to the savings.

Stricter ticket control will be implemented and the tariff system will be transformed. The track use fee will be reduced which – due to the expectedly increasing demand – will result in increased total revenues from track use fee, thus reducing the need for subsidies.

According to the Bill (T/4656) on the modification of certain acts underlying the budget adopted by Parliament, subsidy for transport discounts (consumer price subsidy) decreases already as of 2012. The Ministry of National Development and the Transport Working Group of the Széll Kálmán Plan are to submit a proposal soon on the transformation of the system

of discounts and fees of regional transports including the elimination and reduction of inefficient discounts claimed by persons not in need.

Overall, the measures ensure savings of HUF 60 billion (0.2% of GDP) as included in the Széll Kálmán Plan.

HIGHER EDUCATION

The appropriation for subsidies to higher education in 2012 has been reduced by the time proportionate part of subsidies related to students on faculties where the state financed headcount for the first semester has been reduced. (Government decree containing headcount figures is to be published soon.) The decrease in the number of students with full state scholarship will impact the whole year of 2013. This together with further headcount cut, amounting to one third of the cut in 2012, is expected to bring about the savings planned in the Széll Kálmán Plan.

The government has submitted to Parliament the Bill on national higher education on 20 November. The reduction of the capacity need can be achieved through the modification of other measures affecting parameters (e.g. number of students). In this context, two government decrees (1355/2011 of 21 October and 1365/2011 of 13 October) aim at the revision of the public higher education and at the general review of the whole educational institution system.

Overall 60% (HUF 22 billion, 0.07% of GDP) of savings related to the transformation of the higher education planned in the Széll Kálmán Plan is expected to be achieved.

PHARMACEUTICAL SUBSIDIES

Close to 80% (HUF 88 billion, 0.3% of GDP) of the savings planned for 2013 will be ensured by the measures which took effect already from July 2011 and further measures entering into force from 1 January 2012. Further savings (HUF 25 billion, 0.08% of GDP) can be realised through long term measures further improving the efficiency of the subsidy policy. These include the transformation of the individual means tested system, improvement of the cooperation of patients, the implementation of the revision of the therapy procedures, the setting-up of disease registries based on scores, introduction of e-prescription, alignment of the pharmaceutical supply between in-patient and out-patient care (which will be facilitated by the taking over of hospitals by the state) and the transformation of the system of contribution payment of producers.

STATE AND LOCAL GOVERNMENT FINANCING

The impact of the layoff of more than 7,000 persons in 2012 will have a carry-over effect to 2013 as well. This, together with savings to be achieved in the local government sector, may imply a somewhat higher than planned improvement of the general government balance (HUF 129 billion, 0.42% of GDP)

LOCAL GOVERNMENTS

First, savings of HUF 100 billion related to the local government sector envisaged in Széll Kálmán Plan by 2013 will be realised by the savings already included in the 2012 Budget Bill (HUF 15 billion, 0.05% of GDP)

Second, the following measures under preparation are specifically aimed at implementing the envisaged savings in this area:

- Bill (T/4864) on local governments stipulates that settlements with inhabitants not exceeding 2000 people should establish joint mayor offices (budgetary impact of HUF 15 billion, 0.05% of GDP through wage and operational expenditures);
- The institutions maintained so far by the county governments will be taken over by the state (central governments). County municipalities spent around HUF 120 billion for operational expenditures of their institutions. As of 1 January 2012 the amount available in the budget for the operation of the institutions is around HUF 20 billion less than this figure. This difference is expected to be covered by the savings due to more efficient provision of tasks by the central government and this is expected to improve the budget balance in a sustainable manner. (HUF 20 billion, 0.07% of GDP);
- The deficit of the local government sector will be reduced due to the fact that borrowing by local governments will be subject to approval by the Government. (HUF 20 to 23 billion, 0.07% of GDP)

Third, further savings may be realised due to the cuts in certain development subsidies and the transformation of social cash benefits provided by local governments-(overall budgetary impact: HUF 15 billion, 0.05% of GDP).

Deficiencies of the Hungarian social system for children can be easily identified and the sectoral reform is expected to create a more rational system. Areas of particular importance are the following:

- One of the main problems is that one person can be easily entitled to several benefits and services, since the relevant law makes a clear distinction between benefits in cash and basic services. The system cannot handle a person's situation in a complex way which results in an inefficient and uneconomical structure. This must be changed; more flexible forms of benefits have to be explored.
- There is currently no registry that would show the place where and the form of benefits/services a given person is entitled to. The registry financed from the Social Renewal OP based on social security identity code (TAJ) will partly solve this problem as of July 2012 and following its extension – preferably as of 2013 – it is expected to eliminate redundant claims.
- A telling characteristic of the national benefit system is the existence of so-called normative benefits (legally available for everyone) “means tested” benefits (that local governments can provide to persons not in need according to the law). This has led to a situation where wealthier municipalities provide much of such benefits/services that relatively poorer local governments cannot afford. In order to moderate this unfairness a form of “means tested” benefits will be abolished as of 2012; subsidies on this item are reduced considerably (by HUF 10 billion). Further significant savings can be realised by the extension as of 2013.
- The state has a predominant role in the support for those in need compared to responsibilities of relatives. The law on rights and the amount of benefits basically does not take into account roles and situations of relatives; thus the state provides support there where this could also be done e.g. by children of the person in need. The Government's objective is to change this situation, as it is reflected already in several other legislative acts.

The responses to the above mentioned deficiencies as of 2013 will certainly result in a more economical and more rational system that will bring about the expected savings. Taking into account that the budget contains expenditures of around HUF 200 billion to local governments for benefits and further HUF 72 billion for services and institutions financed by municipalities, even with prudent assumptions savings of HUF 10 to 15 billion can be reckoned with and with a comprehensive overhaul a significantly greater amount would be realistic.

In order to reduce the burden of local governments related to the financing of the institutional system, in the context of maintaining their institutions, from 2012 local government will be allowed to impose a charge not only for meals but also for care in the nurseries. Applying this new rule, the MoE will initiate that from 2013 in all institutions the

cost of meals should be reimbursed in case of children not in need of social support.
(Budgetary impact: HUF 12 billion, 0.04% of GDP)

Furthermore, additional savings – to tune presently not specified – are expected in relation to social care expenditures performed by the present institutional system. The division of responsibilities between the state and the local governments will be changed. The assessment of available capacities and the new regulation will ensure that the services provided will be aligned to the effective needs and their volume will not exceed the necessary level. Furthermore, financing will be adjusted to the real costs of the tasks and account will be taken to the revenue raising possibilities of those in charge of fulfilling the tasks.

DEBT REDUCTION FUND

The adopted amendment of the acts on taxes stipulates that the standard corporate tax rate will not decrease to 10% in 2013.

The Széll Kálmán Plan sets out the introduction of an electronic toll system from 2013. Already before then, in 2012 a new system ensuring the maintenance of the road network will be introduced. Based on the 2012 budget proposal, expenditures related to road use and road maintenance will be covered from the revenues generated by the budgetary institution in charge of the organisation of this tasks. To this end, the Ministry of Development is currently exploring several ways and means of the overhaul of the road toll system that currently generates revenues of HUF 48 billion. Whatever practical solution is chosen, additional revenues of HUF 45 billion may be generated in 2012 and this will be further increased by HUF 55 billion to HUF 100 billion in 2013, thus yearly resources for road maintenance will rise to close to HUF 150 billion overall.

OTHER MEASURES TO ATTAIN THE DEFICIT TARGET

- Impact of the expenditure cuts underlying the 2012 fiscal target pertain in 2013. Alongside prudent fiscal policy, the reorganisation of the public administration will continue. Government Decree no. 1365/2011 launched a programme of revision of tasks and institutions. The programme covers budgetary organisations as well as enterprises with a majority state share. The revision includes inter alia the analysis of the justification for the public provision of tasks and it defines requirements and conditions (quantitative and quality indicators, norms on headcount and costs) necessary for the efficient provision of tasks.

- The budget proposal for 2013 will include significant reserves, the amount of which will be equal to those in the 2012 budget proposal.
- A large part of the measures decided on in December for the compensation of the gloomier growth outlook in the 2012 Budget is of a structural nature, improves permanently the budget balance (increase in excise taxes, redirecting contributions of private pension fund members, part of appropriations of chapters put into reserves presented in detail in Annex 1c)
- According to the Bill (T/5130) on the financial stability of Hungary, the detailed rules on the Fiscal Council will ensure the high quality of economic governance. The Fiscal Council will examine the fulfilment of the debt reduction rule on a quarterly basis and will be empowered with a right to veto with respect to any legislative proposal affecting the budget law.
- Changes to the legislation on public finances are also underway. The Government submitted to Parliament its proposal for the new act on public finances (bill no. T/5069). The bill attributes particular importance to the medium term budgetary planning underpinning the sustainability of public finances.

3. STRUCTURAL REFORMS TO PROMOTE GROWTH AND COMPETITIVENESS AND TO ENSURE THE SUSTAINABILITY OF PUBLIC FINANCES

3.1. STRENGTHENING COMPETITIVENESS

CUTTING RED TAPE OF ENTERPRISES

Cutting red tape of enterprises has been of utmost priority for the Government since it took office in 2010. This attempt is in accordance with the EU goal of reducing the administrative burden on companies by 25%. It also aims at improving the inherited situation in which administrative costs make up 10.5% of the GDP which is about three times that of the EU average. The vast bureaucracy is also an important factor behind the significant extent of the informal economy. Consequently, cutting red tape substantially improves competitiveness of Hungarian enterprises and the budgetary situation at the same time, by decreasing excessive costs of enterprises and by whitening the economy.

At the beginning, the administrative burden reduction actions focused on procedures of authorities, grant procedures, taxation, employment regulation, public procurements, permits and the product fee system. A very important step was the approval of the Government Resolution 1133/2011 (V.2.) on the Short and Medium Term Government Program aiming at Administrative Burden Reduction of Enterprises (First Programme to Reduce Administrative Burden of Enterprises or First Programme, or the “First Strike”). The Resolution sets out concrete measures to reduce the administrative burden of companies by 105 billion HUF, and foresees the elaboration of another 400 billion HUF reduction package (Second Programme to Reduce Administrative Burden of Enterprises or Second Programme). Furthermore, it requires the establishment of a system that prevents the building-up of administrative burdens.

The Second Programme was approved by the Government in November 2011. The Programme contains more than 110 measures and impact assessments were carried out for all the measures according to a standardized methodology.

Both Packages were elaborated in consultation with concerned entrepreneurial organizations, and widely based on their suggestions. Another important characteristic of the Packages is their harmony with the Széll Kálmán Plan and the Convergence Programme. The planned measures must not challenge the budget deficit targets and, moreover, the First and Second Programmes are to produce 35-40 and HUF 100-140 billion additional budgetary income, respectively, in the longer term. It is also expected that cutting red tape for

enterprises will foster job creation: according to our estimation around 40-50 thousand jobs by the First Package and broadly 100 thousand by the second one.

MEASURES OF THE FIRST PROGRAMME TO REDUCE ADMINISTRATIVE BURDEN OF ENTERPRISES

(1) The measures of the First Programme are in the phase of implementation, and many of them have actually been implemented as detailed below.

(1) TAX ADMINISTRATION OBLIGATIONS

Payment of several taxes will be made on an annual frequency instead of a monthly, quarterly or biannual (HUF 6.7 billion saving). The number of tax accounts in the state tax authority will be decreased to 75 from 140 resulting in a saving of about HUF 0.5 billion.

Payments of various tax obligations to the state tax authority in a one single transaction will result in savings of around HUF 8 billion.

(2) AUDITING OBLIGATIONS

Threshold for compulsory auditing which is presently HUF 100 million will be increased to HUF 200 million from January 2012, and HUF 300 million from January 2014. Seventeen thousand and later another 7 thousand SMEs are concerned. Annual savings are expected to be around HUF 5.6 billion and later HUF 7.5 billion. The relevant amendment was adopted in July 2011.

(3) INFORMATION REPORTING OBLIGATIONS

Databases of different authorities will be streamlined in a way that the same data should be requested by only one authority and shared electronically with the others. The expected annual administrative cost saving is HUF 16 billion.

The simplification of the National Statistical Data Collection Programme (OSAP) will save HUF 0.5 billion for enterprises.

Eliminating the parallel data requirements of the tax and social security authorities will result in HUF 15.2 billion cost savings per year.

(4) PREDICTABILITY OF PENALISATION

Measures to assist enterprises in understanding regulations, penalties and inspecting authorities will help companies to act according to the rules. As a result, an annual saving of

around HUF 7 billion is foreseen in the entrepreneurial sector in parallel with a GDP increase of around 0.1-0.2% as a result of the whitening the economy.

A key element will be a tailor-made and up-to-date information portal where all important information will be available and the enterprises can receive reliable answers to their questions.

A government project to review penalisation practices of inspecting authorities will be financed by the State Reform Operational Program

(5) EMPLOYMENT ADMINISTRATION OBLIGATIONS

Modifications adopted by the Parliament in July will streamline the simplified employment administration and it is expected to bring about 3.4 billion HUF yearly administrative cost reduction for the business sector. Calculation of the maximum number of employees in simplified administration became easier. Employment by simplified administration can be started following notification to the tax authority without concluding a work contract. In case written contract is concluded working time registration can be omitted. Employees in simplified administration are not necessarily entitled for paid vacation, sick leave or other working time allowances, uneven working time disposition is more flexible, and issuing certification documents are not required when terminating employment.

Abolishment of unnecessary qualification requirements will make it possible for companies to employ less qualified and cheaper workers for the same jobs. It is expected to result in new jobs for less qualified people where unemployment is a specially important issue. The proposal for a Government resolution specifying principles and assigning legislation to be deregulated is in its final stage.

The data supply requirements at starting the employment will be drastically streamlined and all other necessary information will be received from the existing databases. This reform will save about 5 billion HUF for companies. Development of a personal contribution accounting system where the employee can follow the contribution payments of his/her employer could replace the requirement of preparing monthly salary statements (19.2 billion HUF administrative cost saving). The obligation of establishing work councils is planned to become optional which would result in 0.1 billion HUF savings. Redundancy obligations will be eased in harmony with the Constitution to save 16 billion HUF for enterprises. Bearing liability for damages are to be alleviated when the damage is not directly linked to the employee's work, which would mean 2 billion HUF cost reduction. Working time disposition within the daily, weekly and yearly limits will be made more flexible for micro and small

enterprises. The weekend and night shift bonuses, redundancy money and dismissal periods should be reconsidered for being decreased. Companies of continuous operation will be allowed to introduce 5.5 working days a week. These measures will create about 50 thousand new legal working places and repress black labour. Most of these planned measures are incorporated into the new Labour Code, which was presented to Parliament on 26 October.

MEASURES OF THE SECOND PROGRAMME TO REDUCE ADMINISTRATIVE BURDEN OF ENTERPRISES

(1) TAX ADMINISTRATION

Tax administration is one of the largest burdens on enterprises, as reflected in both surveys and international comparisons. It is one of the main reasons for the relatively high share of the grey economy. The planned measures therefore envisage simple solutions for *bona fide* tax payers and transparency for the inspecting tax authority.

The Programme foresees further reduction in bureaucracy of employment taxation and the number of taxes on enterprises. The tax administration process is planned to be made fully electronic and more user friendly. It is considered that enterprises themselves can request inspection of the tax authority. It is also envisaged that the National Tax and Customs Administration of Hungary become more supportive to enterprises. Harmonisation in naming and calculations of taxation and accounting can also save considerable entrepreneurial resources.

(2) ACCOUNTING

Accounting obligations make around 25-33% of the entrepreneurial administrative burdens. The planned measures are taken from international best practice.

Double-entry bookkeeping will be simplified for certain small enterprises in accordance with the Council Conclusions on modification of the EU Fourth Directive: annual accounts of companies with limited liability adopted during the Hungarian Presidency. Alleviating the document keeping obligations by shortening its period is also planned. Simplified accounting reports will become an option for more SMEs.

(3) BUREAUCRACY OF OFFICIAL PROCEDURES

Institutional transformation is a corner stone of the public administration reform of the government. Envisaged measures will be embedded in the Act CXL of 2004 on the General Rules of Administrative Proceedings and Services and other statutory instruments, and will be reflected in the working practice and financing of public administration institutions. The

objective of the planned measures is a client-oriented authority system based on mutual reliance which supports honest businesses and, at the same time, can effectively filter and penalise those who violate the rules in order to get undue benefits.

Deadlines for public administration procedures will be shortened. According to the planned modification of Act CXL, the general deadline of 30 days for public administration proceedings will become 21 days as from January 2014. The deadline for general proceedings will also include the deadline for the competent authorities. Furthermore, the Act will incorporate new rules and requirements for the inspecting authorities. They will be obliged to make their inspection schemes and reports public.

Furthermore, it is considered that enterprises themselves can request inspection of authorities.

(4) ADMINISTRATION OF GRANTS AND PUBLIC PROCUREMENTS

The Government has already made important steps towards reducing administrative burden on development grants by adopting a Government Decree earlier this year. According to that, the procedures of development grants became unified. General contracting conditions were introduced, and it became a part of the call for application. Guarantees and progress reports were rationalised, deadlines shortened.

Public procurement procedures were simplified by the Act on Public Procurements. As a part of that competence of the applicant and its subcontractors can be verified more easily. Rules for modification of the contract became less demanding. Especially procedures under European limits were streamlined.

Objectives of the formulated measures are reducing administrative burden on enterprises in the development grants and public procurements. Therefore, further simplifications are planned to be introduced, such as shortening of deadlines, improvement of help desk services, further electronic services etc.

(5) SELECTED SECTORAL REGULATIONS

The Programme deals separately with the agricultural sector and food safety, environmental production and product fee obligation and transportation.

The Government has already made significant effort to help farmers. The sale of local products in the neighbourhood was made possible without any red tape. Inter alia basic cooking ingredients as well as fresh and processed fruits and vegetables can be purchased

without public procurement. Furthermore, farmers can employ people by simplified employment.

The Programme aims at reducing bureaucracy, improving local markets and easing permission processes in the agricultural sector. Special measures are envisaged for the winery sector.

Recommendations will be prepared to help small farmers and entrepreneurs to meet HACCP requirements more easily.

Environmental legislation is planned to be developed simpler, easier to comply with, more adequate and differentiated according to environmental risks of entrepreneurial activity. Among others, administration and data provision in waste management will be simplified.

Product fee administration was made easier by the relevant Act adopted earlier this year. From January 2012, the fee will be paid by the producer, and the data provision will be simpler. It is planned that paying lump sum will be made possible for all product fee payers.

The transportation measures of the Second Programme aim at solving the specific problems of the transport sector but, at the same time, are linked to other initiatives. Official procedures will be simplified, *one stop shop* electronic procedures developed, data requirements streamlined and penalising practices changed.

(6) E-GOVERNMENT

This chapter consists of mainly horizontal measures relating to the whole economy, nearly the entire entrepreneurial sector. The measures are part of a broader e-government program affecting the entire public administration. The changes are to be financed by the Electronic Administration Operational Programme co-financed by the EU. The proposed changes can save more than HUF 100 billion for enterprises. As a result of the planned measures, certain enterprises will be able to fulfil all their data and documentation requirements electronically, and safeguard their documents in electronic form. The government and the authorities will supply up-to-date information to businesses and state databases will be interoperable. Another essential project is the electronic payment system which will make electronic payment possible for all official proceedings.

(7) DEALING WITH INVESTMENT PERMITS

Investment permission processes are often long and unpredictable. Besides the construction authority the actual process is influenced by other competent authorities and interested parties. Measures aim at simplifying and speeding up the processes and at making them

predictable. An EU co-financed project is to realise an electronic construction permit process. In industrial areas a simplified process will be elaborated for quick and professional permissions.

(8) EMPLOYMENT ADMINISTRATION

Improving the employment rate is a flagship objective of the Government. To achieve this goal, administrative burden on employment should be further reduced and legislation has to act towards whitening black employment. The vocational training system and the Labour Code will be renewed and the labour inspection system will be reorganised by the end of 2011. The measures proposed in the First Programme are supplemented by the Second Programme *e.g.* in labour medical services to become risk based, in simplifying reception of apprentices, and in reducing labour guideline preparation obligations etc.

(9) LEGAL PROCEEDINGS

One objective of these measures is to strengthen the responsibility of *mala fide* entrepreneurs and to avoid that limited liability companies become bankrupted leaving bad debt behind, upon which by their owners create new limited liability companies to continue their activities accumulating bad debt again. For this purpose public company information will be extended.

Another objective is the speeding up of due processes. To this end, besides measures in judiciary system mediation and arbitration tribunal systems will be strengthened.

(10) SYSTEMIC MEASURES TO CONTINUOUSLY CUT RED TAPE

A successful administrative burden reduction programme requires systemic and institutional measures to continuous further performance and avoidance of bureaucracy rebirth. Impact assessment of the new legislation on the entrepreneurial sector will be an important step. Annual progress reports are to be prepared on the effect of new legislation and judiciary performance. Further administrative burden reduction programmes will be elaborated every year in consultation with the entrepreneurial and governmental sector and based on international best practices. A government unit will be formed to coordinate the process.

INCREASING THE FLEXIBILITY OF THE LABOUR MARKET

The main objective of the Hungarian government – in addition to the reduction of public debt – is to increase employment. This purpose is served by reforming the labour market regulation in order to increase the flexibility of the labour market. The main objectives

remained the same as outlined in the Convergence Programme; however, the reform of labour legislation will be realized in a more extensive form, by introducing more changes. Since the publication of the draft version of the new Labour Code in summer 2011, consultations with social partners and relevant stakeholders have been ongoing. (Parliament adopted the bill no. T/4786 on the Labour Code).

In June 2011, the government published the Hungarian Employment Plan which was drawn up within the framework of the Széll Kálmán Plan and is aimed at transforming labour market conditions in order to increase employment. The Hungarian Employment Plan envisages the creation of a New Labour Code ensuring modern labour law regulation as the rules of the Labour Code in force have not contributed to the increase of employment. The need for the new Labour Code was also clearly confirmed by professional feedbacks.

The objective of the new Labour Code is to establish the rules of decent work, on the one hand so that „every person of working age who wants to work should have the opportunity to do so”⁴and, on the other, to promote the operation of the right to enterprise.

The application of the currently effective Labour Code revealed several discrepancies in the Labour Code which were also reflected in its frequent modifications. The new Labour Code addresses these discrepancies by relying primarily on the practice of the Supreme Court in legal application which also contributes to the improvement of the legislation.

Two requirements have become decisive in shaping the labour legislation in developed economies which have also been highlighted – beside other EU documents – in the Green Paper (COM/2006/708 final) based on the Lisbon Strategy. The Green Paper aimed to formulate the requirements of labour law modernisation in the 21st century. It pointed Member States’ attention to the legislative steps needed for creating flexible employment as well as to maintaining employees’ social security. The new Labour Code respects the academic debates evolved in Member States after the publication of the Green Paper as well as the legislative solutions which appeared as a result of these debates.

Hungary’s Constitution pays special attention to the role of work when defining the essential economic and social rules. The new Labour Code is based on the approach of the Constitution. The Constitution transformed the regulation of several basic rights related to individual as well as collective labour relations. When laying down the rights and obligations of the subjects of labour law, the new Labour Code respects these basic principles in particular the protection of personal rights of employees, freedom of enterprise and the

⁴ Paragraph (2), Article XII of the new Constitution

right of association. The new Labour Code relies extensively on the practice of the Constitutional Court and of the parliamentary commissioners.

Like a codex, the new Labour Code includes all the rules of substantive law concerning labour relations, thus it will still contain the provisions on individual and collective labour relations, atypical forms of employment including the legal status of outworkers, the basic rules of simplified employment, as well as rules on temporary agencies and school co-operatives.

The new labour legislation pays increased attention to the competitiveness needs of small and medium enterprises. However, it does not intend to reduce the wages of employees. The objective of the government is to find the appropriate balance of flexibility and security. Therefore, the government supports both flexible employment and the security of employees. The latter should be provided by the adequate development of labour market institutions (e.g. provision of training opportunities, active labour market policies, social security until the next workplace is found, more effective job matching etc.).

The new law leaves a wider scope for the agreements of the parties and interferes with the new agreements only if it is necessary in order to ensure the guaranty interests of the employee or to protect overriding public interest.

NEW PROVISIONS SERVING BOTH THE FLEXIBILITY OF REGULATION AND SOCIAL SECURITY

(1) PROTECTED AGE:

Regarding those in “protected age”, the Labour Code in force includes a rule of a general nature (it allows for the termination “in particularly justified cases” only), which led to legal uncertainty in practice.

The employer may terminate the permanent employment relationship of a non-retired employee 5 years prior to the relevant retirement age only, if

- the employee considerably violates the relevant obligations arising from employment relationship intentionally or as a result of gross negligence, or if the employee engages in a behaviour due to which the maintenance of employment relationship becomes impossible,
- the employee is incapable of work, or

- there are redundancies due to reasons related to the operation of the employer.

THE NEW RULE: if the termination is due to reasons related to the operation of the employer, the employer is obliged to offer a position which is in compliance with the education and experience of the employee in protected age.

(2) EQUAL TREATMENT:

In accordance with European legal obligations, the adopted act regulates the rules of equal treatment including the principle of equal pay for equal work, while applying the provisions of the separate relevant law.

(3) ENSURING EMPLOYMENT OPPORTUNITIES OF INCAPACITATED PERSONS:

In accordance with the decision made by the Constitutional Court, the adopted act establishes the legal conditions and guarantees of the employment of incapacitated adults.

(4) WORKING HOURS-ACCOUNT:

The adopted act considerably simplifies the current regulation and takes advantage of European labour legislation. It takes into account the specific needs of different economic sectors (e.g. agriculture) as well as small and medium enterprises where there are no regulations through collective agreements. Regarding the regulation of the working time and weekly rest days, the proposal includes several new features (for example it introduces the institution of the so-called “working hours-account”), which increase the flexibility of employment.

(5) ACCUMULATION AND GRANTING OF HOLIDAYS:

Regarding the granting of holidays not taken or not given in the due year, the adopted act allows for a more flexible holiday-granting and extends the possibility of holiday-granting for the next year, taking into account international legal obligations as well. Furthermore, the “accumulation” and granting of holidays granted as compensation for extraordinary work – by reason of the related agreement between the parties – become possible after the reference year as well.

(6) THE SIMPLIFICATION OF THE CALCULATION OF REMUNERATION FOR THE TIME OUT OF WORK:

The adopted act eliminates the unnecessary duality of the calculation of remuneration for the time out of work (absence fee and average income) and follows the principle that for the period of absence, the employee should be entitled to a remuneration granted for hours

worked. Accordingly, the Proposal considerably simplifies the rules of the calculation of the absence fee.

(7) REDUCTION OF THE DURATION OF EMPLOYMENT OTHER THAN THAT IN THE EMPLOYMENT CONTRACT:

According to the adopted act, the duration of employment other than that of the employment contract is reduced significantly compared to the current scheme of 110 working days, thus narrowing the possibility of this kind of employment.

(8) WORKING TIME ALLOWANCE:

Working time allowance is extended with the period required for the participation in education when the employee pursues elementary school studies.

(9) PROVIDING COMPULSORY PART-TIME EMPLOYMENT FOR PARENTS WITH SMALL CHILDREN:

Upon request of the employee in this respect – under four-hour-employment –, the adopted act makes part-time employment compulsory until the child turns three years old.

(10) UNPAID LEAVE FOR THE PURPOSE OF CHILD-CARE:

The adopted act provides the opportunity that both parents would be entitled to unpaid leave for the purpose of child-care if they intend to.

(11) THE POSSIBILITY OF WORKS COUNCIL AGREEMENT IN THE ABSENCE OF A COLLECTIVE AGREEMENT:

In the absence of a collective agreement, the adopted act allows for the realisation of the so-called works council agreement between the works council and the employer regarding working conditions.

(12) ATYPICAL FORMS OF EMPLOYMENT:

The adopted act provides a new framework for the promotion of new atypical forms of employment and extends them as well:

- call-in work: the part-time employee working for a maximum of 6 hours per day fulfils her job duties under an employment contract by taking into account when the tasks are due. In this case, the working time period may not exceed a period of four months.
- job-sharing: the employer and several employees may agree on the mutual delivery of tasks within one job profile included in the employment contract; in case an employee is

indisposed, an other contracting employee is required to fulfil the duties arising from the employment relationship;

- employment relationship established by multiple employers: it means that several employers and the employee may agree on the delivery of tasks within one job profile included in the employment contract.

CHILD BEARING AND FAMILY PROTECTION are served by the following provisions:

- the adopted act includes the time-off for breastfeeding and ensures the exemption from the obligation to work for the duration of the treatment relating to human reproduction procedure in a health care facility, under a separate legislation;
- the adopted act determines the duration of maternity leave in 24 weeks invariably. (It should be noted that several Member States spoke out against the introduction of a maternity leave of 18 weeks, a period shorter than the one in Hungary);
- employment relationship cannot be terminated during the periods of pregnancy, maternity leave or that of the unpaid leave of the mother for the purpose of child-care;
- mothers are entitled to a protection equal to protected age until the child turns three years old, even if they are not on unpaid leave;
- the employee may not be obliged to work in an other location (without her consent) from the establishment of pregnancy until the child turns three years old as well as until the child turns sixteen years old in the case of single parents;
- both parents would be entitled to unpaid leave for the purpose of child-care;
- around the time of the childbirth, the father is still entitled to an additional paid leave of 5 days;
- upon request of the employee in this respect – under four-hour-employment – , the adopted act makes part-time employment compulsory until the child turns three years old.

3.2. GROWTH-FRIENDLY RESTRUCTURING OF PUBLIC EXPENDITURES

REFORM OF THE CENTRAL ADMINISTRATION

The general objective of the Magyar Zoltán Public Administration Development Programme (hereinafter Magyar Programme) on the renewal of public administration is to create an

efficient national public administration. Since the Government took office, the first efficiency increasing measures have been taken in all four components of the Magyary Programme: tasks, organisation, procedures and human resources, and further steps are to follow.

Objectives, goals of the Magyary Programme have been included in the Action Plan of the Programme. The implementation of the package of 33 measures is monitored by the Ministry of Public Administration and Justice. The Programme is to be revised yearly in light of the achieved results, gained experiences and new expectations.

ESTABLISHING AN EFFICIENT INSTITUTIONAL FRAMEWORK

Similar to the new, more transparent and streamlined structure of ministries (8 instead of 13), integration of the former fragmented regional administration agencies have commenced in 2011. County government agencies have been established by 1 January 2011 based on the county public administration offices re-established in autumn 2010. The objective of the creation of the new agencies is to fulfil regional public administration tasks in a more coordinated, controlled and cost efficient manner. The enormous reorganisation (15 of the around 30 regional administration agencies have been directly integrated to government agencies) evidently requires significant efforts to improve organisational structure and promote integration. Therefore, preparation and planning of the development of organisations as well as elaboration and realisation of technical and economic integration of government agencies have begun in the framework of EU projects.

The National Public Administration Centre opened on 1 January 2011 to coordinate the financial and other material conditions required for the performance of the basic professional tasks of government agencies and controlling the operation of the integrated citizen centre system of government agencies.

The planning of the district public administration organisational structure has commenced. The concept and the roadmap have been elaborated, principles for the establishment of districts have been laid down in a government decree, regional level discussions have been held by the government commissioners. Legislative work to match district level to local government and public administration competences is ongoing.

Closely related to these, the concept of the reorganisation of the local government system have been worked out, which together with the Magyary Programme, is devoted to provide a solution to the long due division of local public tasks and public administration tasks between government agencies and local governments.

In 2011, the streamlining of the public foundation system will practically be completed; 21 of the 68 foundations founded by the government or ministries continue to function.

Decision has been made on the rationalisation of capacities of public administration agencies; 10% of the headcount at the end of 2011 will be cut at the beginning of 2012.

RENEWAL OF THE TASKS

The renewal of the public administration tasks follows 3 main directions:

- Identification of public tasks,
- Formal and substantive deregulation,
- Renewal of the strategic planning.

With regard to the restructuring, the tasks of the government at national level and in relation to international undertakings are identified. This review will result in a complex register of public tasks. The public task cadastre has been created; registration of all tasks is made continuously till end 2011.

Besides legislative acts, other important sources of public tasks are tasks arising from different strategic documents. In this context, a coordinated strategic planning system based on a standard methodology is to be introduced. The concept for the planning process has been worked out and planning methodologies are to be elaborated in due course. As a result of the measures, the planning process based on the standardised methodology has been introduced for the whole public administration, which contributes to more effective realisation of government goals.

REVIEW OF PROCEDURES

Concerning the review of procedures, the most important objectives set by the Magyar Programme are the following:

- Introduction of quality legislation, revision of the impact assessment system,
- Reorganisation of public administration client service, establishment of government windows,
- Simplifying procedures for individuals, reduction of administrative burden,
- Extension of e-government tools.

Several measures are related to the introduction of quality legislation. The legislative act on the new impact assessment process provoking substantive impact assessments has been adopted; it is in force for proposals for the Government submitted after 30 September 2011. The training of the 500 public servants preparing the impact assessments has finished; monitoring of the system is ongoing. Linguistic review and simplification of the legislative acts will be carried out in the framework of the Simplification Programme.

The objective is to create a multi-channel (personal, electronic and phone-based) government citizen centre system between the state and clients, enabling clients to use single-window services. The first 29 offices of the new citizen centre system, the so-called 'government windows', opened on 3 January 2011. Planning process of the extension of the net to district level is underway. In the light of the integrated development concept financed from EU funds, government windows will be established in each district by 2013, providing equal access to the modern single-window services.

Related to the reduction of burden on enterprises, the Magyar Programme contained as a comprehensive objective to reduce administrative burden on households; the framework is defined in the Simplification Programme. The government decree on the implementation of the Programme has been published; in the implementation phase to begin soon, the ministries responsible for the simplification of the procedures will assess the procedures and provide their proposals for the amendments of the respective legislative acts in 3 phases.

In the context of the extension of e-government IT tools, the implementation of several measures has begun, such as electronic file and document management at government level and the establishment of the National Standard Card System.

RENEWAL OF THE HUMAN RESOURCES POLICY IN THE PUBLIC ADMINISTRATION

In the field of human resources policy a new carrier model will be implemented in the public administration, which will ensure a calculable, safe and well planned carrier for the public servants. The well defined scope of activities will provide the basis of the carrier model. In the scope of activities, system specific goals, responsibilities, performance measurement, required knowledge, experience and competences will be defined for each activity. In the framework of the carrier model, training and assessment system will be introduced providing and assessing the necessary knowledge for the given profession. This creates the possibility for lifelong learning and enables mobility in the public administration. As from 2012, faculty for public administration, military and police forces will be based on common ground stipulated by the Act on the establishment of University for National Public Services.

Some of the elements (selection, termination the labour contract) of the new carrier model have been implemented already in 2011. The new carrier model expected to be fully implemented in 2013, with the introduction of the system based on the scope of activities.

In light of the renewal of the human policy the basic test on public administration will be re-established. In addition the reshaping of the training and management training system has been started.

REFORM OF THE LOCAL GOVERNMENT SYSTEM

The aim of the reform is to renew the system of public administration in its entirety at local and territorial level, remedy its low efficiency and to make the structure more transparent.

STATE TAKEOVER OF COUNTY INSTITUTIONS

The first step towards these priorities is for the state to take over the maintenance of county institutions. The agreements concluded on 3 October 2011 by the Prime Minister and the Presidents of County Assemblies serve as the basis for this process. By virtue of these agreements,

- the state shall take over county institutions with effect from 1 January 2012,
- the state shall assume county governments' debts (credits, bonds) in 2011,
- the debts of county institutions as suppliers shall follow the maintenance of institutions,
- the assets, business companies, foundations, etc. of county governments shall pass to the state free of charge.

Parliament adopted the legislative package effective as of 1 January 2012 that contains the legal basis for and main elements of the takeover process, amends the sector-specific laws (health care, public education, social care, culture) on local government tasks. (Act CLIV. of 2011)

In addition, the new financing system of county governments is based on the Budget Bill 2012. According to the amendments discussed during the parliamentary process institutions currently in maintained by counties were reclassified to the chapter of the Ministry of Public Administration and Justice. Centres in the central government sector will be established for the management the budget of these institutions.

THE NEW LOCAL GOVERNMENTS ACT

The draft of the new Local Governments Act (LGA) assigns tasks to local governments in settlements in a more diversified way than the current one. A significant part of their tasks will be provided directly by state from 2013. In the future, local governments in settlements will provide public services which require real decisions on the management of local tasks and which may be performed most practically at a local level. County governments will be key actors in the field of territorial development.

As opposed to the current legislation, the vast majority of responsibilities and competences of public administration will be performed by government agencies, and such tasks may only be left within the organisational system of local governments by way of exception, greatly reducing the burdens of local governments, and ensuring the performance of administrative tasks within the country by equal standards.

In parallel with the reorganisation of tasks, the financing system will also change from 2013. Financing will be allocated to individual tasks with the aim to provide operative funds required for performing the obligatory tasks of local governments and to prevent any operative deficit in the future. Task financing, the budgetary subsidisation of individual local governments will be determined in consideration of the need for operative expenses identified by the state and the possible local government revenues aimed at operation.

REGULATION OF THE STABILITY ACT ON DEBT GENERATING TRANSACTIONS FOR DEVELOPMENT PURPOSES

In light of the provisions of the Fundamental Law entering into force as of the beginning of 2012 the Stability Act stipulates that future debt generating transactions of local governments for development purposes requires henceforth the preliminary approval of the government. For operational purposes local governments can only take loans with in-year repayment.

These provisions do not concern loans for advance payment of EU financed development subsidies, loans for operational purposes with in-year repayment and reorganisation loans for lender agreement in the framework of a debt restructuring process.

The government approves a transaction if:

- the local government determined the related development purpose and its intention for the debt generating transaction in its regulation or decree for the given year and provided preliminary information in line with legislation,
- the transaction is needed for the establishment of capacity for provision of tasks prescribed by law to secure operational expenditures and
- total liabilities from previous years and from the given debt generating transaction overall do not exceed in any year 50% of own revenues of the local government till the end of the duration of the transaction.

IMPROVEMENT OF THE PUBLIC EDUCATION SYSTEM

The public education system needs to be improved, or rather rebuilt, in the sense and with the aim that it should provide each and every Hungarian child with a real opportunity and chance to participate in education and instruction which is demanding and constructive from a psychological, spiritual and physical point of view.

In order to bring this task to a successful completion, the standard of education must be made independent from the financial situation of local governments, and the state must play a bigger role in public education, which results in a more rational organisation of institutions in parallel with the improvement of the equality of opportunity. Thus, the bill in preparation proposes to leave pre-school education within the scope of local government tasks, and assigning the state direct responsibility for primary and secondary school education.

The aim is to reinforce state control over the uniform regulation of teaching contents and over the development of nationwide inspections of professional quality. In addition to teaching, the education of children and students, the assistance to those lagging behind, and the development of children in need of special education due to a disease or a physical or mental disability will be new duties of particular importance. Also, there is a need to provide ample room for the unfolding of talent.

All this may be facilitated by the free and compulsory use of pre-school education between the ages of 3 and 6, and the compulsory participation of primary school students in an all-day program of instruction and education.

Secondary education is increasingly diverse. Within school-based vocational training, the training period and professional contents will be revisited in line with the principle of

“necessary and sufficient”, the real needs of the economy and with the changes in the labour market.

Grammar school will be the par excellence institution within public education to act as a gateway to higher education. The state provides various forms of support for additional employment and person-centred development in order to unfold talent. Its condition is that the schools that undertake this task achieve excellence in the preparation of students.

Institutions are organised with a focus on the traits of individual age groups. Specifically, junior school classes for 6-10-year-olds, even for a limited number of students, must be run in local neighbourhoods, while the teaching and education of 10-14-year-olds (Years 5-8) must be integrated in state-of-the-art schools which guarantee the improvement of educational standards and can operate within an economy of scale also in financial terms. Vocational training must be diverted to central workshops which can provide marketable skills that comply with market competition and which are duly equipped to practice the required trades. The latter principles of organisation strongly improve not only professional effectiveness but also economic efficiency.

MEASURES IN THE PENSION SYSTEM

The Government has started to implement successful steps to reshape the pension system in 2011. The first step was a systemic approach with the abolition of mandatory private pension fund membership whereby 99.7% of members returned to the social security pillar. The second step is the rationalisation, transformation of different schemes in the social security system. This process continues in 2012 in order to reinforce the insurance and solidarity character of the pension system, and improve its long-term sustainability and transparency.

The measures prepared in 2011 will take into effect in 2012, are the followings:

The big novelty in the pension system is that the Pension Insurance Fund in the 2012 Budget is already budgeted along with the new streamlined benefit profile. It means that as from January 2012 early retirement schemes will be eliminated by phasing out the different forms of entitlements. Early old age retirement and early old age retirement with decreased entitlement will be abolished, thus effective retirement age increases. Advancing retirement will be reconsidered that has been used as an employment policy tool, as of 2013 advance retirement and retirement schemes for special occupations will be transformed. In this

context, the most important element is regulation of the very generous pension entitlements for members of armed forces. No unnecessary harm of interest shall be caused during the phasing out period, therefore certain early pension entitlements will continue to exist as early pensions or service dues till the concerned persons reach the old age retirement age, they will nonetheless transferred from the Pension Insurance Fund to the National Social Policy Fund to be established. As a consequence, as of 2012 pension entitlements can be financed from payments from employers and employees. Survivors' benefits (widows' pensions, orphans' and parents' benefit) continue to be financed from the Pension Insurance Fund. The possibility remains open for women with at least 40 years of service period insured by contributions to retire (regardless their age).

The following items will be financed from the National Social Policy Fund as of 2012:

- early old age pensions and early old age pensions with decreased entitlement,
- pension entitlements in advance retirement schemes,
- pension entitlements for members of armed forces (service dues),
- pension entitlements in early retirement schemes,
- already awarded pension entitlements to members of parliament and mayors that cannot be revoked retroactively (entitlements below the retirement age).

Further consequence of the transformation is that the following items will be transferred to the Health Insurance Fund:

- all three forms of disability benefits and accident allowances and
- rehabilitation allowance.

A closely related change is furthermore the more effective rehabilitation and reinforcement of employability of persons with altered employment capacity.

HEALTH CARE EXPENDITURES

THE SEMMELWEIS PLAN

The health of the population is an important factor of Hungary's social and economic convergence towards the level of more developed countries of the European Union. In this context, preconditions for health, prevention and an appropriate, efficient health care system are needed. To this end, a health care system is envisaged, the quality services of

which are available for anyone regardless health status or financial situation. The aim is to reduce regional disparities in health care provision and to improve accessibility and efficiency.

A key problem of the Hungarian health care system is the misallocation of resources and the resulting efficiency deficit due to the distorted income distribution, which at the same time has a negative effect on availability and quality of provision.

Principles and directions of the reorganisation of the health care system are laid down in the Semmelweis Plan. The Government decree no. 1208 of 28 June 2011 stipulates the related tasks and their schedule.

Parallel to these tasks, reorganisation of public and local government tasks is also on the agenda in line with the Government programme, notably to ensure an enhanced role of the state.

This reorganisation of tasks between central and local governments requires a new local government act. The relevance of the new local government act to the reorganisation of the health care system comes into view when the tasks related to the three levels of the health care provisions (basic health care, outpatient and in-patient provision) are determined as obligatory tasks of the central or the local government sector. From a professional aspect it appears to be reasonable that basic health care remains the responsibility of local governments and the two types of specialised care become mandatory tasks of the central government.

Rationale behind the transmission of outpatient and in-patient provision to central government responsibilities is that a more rational and more efficient system can only be established if counter interests stemming from the current proprietary structure do not hinder the implementation.

The Semmelweis Plan determines numerous directions and measures. The following measures are of particular importance:

- Establishment of a new public health care institutional system with enhanced public responsibilities, ensuring better cooperation between institutions, helping the renewal of the structure, supporting the management of patient registration and the related necessary structural changes, e.g.
 - = Improving patient registration through the establishment of regional health organisation centres and the Public Health Organisation Centre;

= Reorganisation in the capital and its suburbs;

- Harmonising investments supporting the reorganisation in health care and social sectors, strengthening basic care and outpatient provision and clearly defining competencies;
- Reorganising emergency ambulance;
- Renewal of the public health care programme and its alignment to the health care system as well as alignment of the health care system to public health care needs at the same time;
- Establishment of a new institutional system that enables systemic quality improvement, strengthens respect of rights of patients, reduces undesirable occurrences, helps the prevention or reduction and early detection of medical malpractices and prevention and indemnification of related damages;
- Transformation of vocational system of health care workers providing realistic and predictable perspectives with career models for different groups;
- Substantial renewal of the sectoral IT system (transformation of data structures, refreshing registries and standardising their management, fostering availability of statistics derived from data) and further systemic development;
- Development of health tourism which has also potential positive effects on growth, supporting systemic investments in health education and health industry.

Furthermore the Semmelweis Plan defines other areas of intervention and necessary arrangements. Several measures have already been implemented or are underway, such as restriction of smoking at public places, realisation of the database of the national health monitoring and capacity map for the necessity based planning, shortening the waiting list in the field of cardiology and orthopaedics, merging national academic institutions into one organization (Pharmaceutical and Health Care Quality and Organisation Improvement Institution)

The concept defined in the Semmelweis Plan regarding the transformation of the health care system is tightly connected to the government programme and the New Széchenyi Plan. The aims and tasks of the Semmelweis Plan are in line with the National Cooperation Programme adopted by Parliament.

Based on the Government programme provision needs in different regions have to be determined. To satisfy these needs the suitable amount and quality of capacities need to be identified and sufficient resources need to be ensured. Different provision levels need to be determined in order to ensure effective and quality care. The basic health services have to

be of good quality and accessible to anyone who is entitled to medical provision. Outpatient provision should have a strategic role since this provides care for citizens, makes one day medical interventions possible and relieves hospital provision at the same time.

Regarding inpatient provision, needs have to be in line with capacities and financing. Financing of the health care system should be simpler, more predictable so that multiannual forecasts can be made. Health care services should be financed at their value in an outcome oriented way.

In the framework of the New Széchenyi Plan the remainder capacities could be improved and reorganised systemically with the help of the available development funds. Accordingly the funds support three coherent investment aims: (1) improvement of medical higher education and doctor qualification, (2) support of the restructuring of the provision system, and (3) development of the supplementary institution system connected to health industry and health tourism, and development of the management with natural medicinal elements.

The Semmelweis Plan and its programmes are financed from EU and domestic funds as follows:

- Between 2011 and 2013 (until 2015) from EU funds in the framework of the Social Infrastructure Operational Programme's second priority, and the Social Renewable Operational Programme's sixth priority;
- In line with the Széll Kálmán Plan and the Convergence Programme from the budget, in particular prescribing that part of resources from taxes and contributions and the use of properties which has become free due to medical reorganisation, the income which derives from the sale of these properties can only be used for health care.

Savings could be realised from eliminating redundancies, the improvement of patient registration, strengthening the basic care and outpatient provision, alignment of in-patient provision to real needs and from the functional reorganisation motivated by domestic relations. Linking resources to the measures of the Semmelweis Plan translates into the effective use of resources as well as makes offsetting of one-off items related to the reorganisation possible.

PHARMACEUTICAL SUBSIDIES

The following measures were implemented from first of July 2011:

MEASURES AIMING AT INCREASING PAYMENTS OF PHARMACEUTICAL COMPANIES

- Increase in claw back from the present 12% to 20%

Until 1st of July The drug pharmaceutical companies were obliged by law to pay back 12% of the amount of reimbursement based on medicinal products' producer price or import price into the Health Insurance Fund (furthermore: HIF) on a monthly basis. In order to improve the balance of HIF it was necessary to increase this in-payment rate to 20% as from 1st of July 2011.

- Increase in the fee of medical sales representative

In order to reduce marketing activities to an appropriate level it was necessary to increase, from the 1st of July, the yearly fee of medical sales representative from HUF 5 million per person to HUF 10 million per person.

- Re-negotiating subsidy-volume contracts

Subsidy-volume contracts are binding contracts based on the civil law between the Health Insurer and the distributors in order to share the financing risks. In order to keep the balance target of the drug subsidies it is worth considering the reconcluding of expired contracts with a threshold limit lower by 10%. It means an increase in payment of pharmaceutical companies having Subsidy-volume contracts.

MEASURES AIMING AT DECREASING EXPENDITURES

- Generic program, the scheme of preferred reference price band, generic incentives

Following the patent expiry of original products the reference product of a fixed group formed after the market entry of generic products did not have enough advantages which could make its marketing authorization holder interested in reaching, by means of price decrease, *reference product* status for its medicinal product. Therefore it was necessary to develop a multi-component scheme which makes all parties of the market interested in attaining the reference product status. The system now provides preferred status besides the reference product for products with price above the reference price level by 5% in case they are in the same fixed group on the basis of active substances and for products in the same therapy fixed group with 10% higher price.

- Expiring patents

In the following years a number of patents of pharmaceuticals with considerable turnover are going to be expired. Therefore, the entry of generic products would result in significant

savings when introduced in the reimbursement scheme. It is particularly important that this will affect at some point the accentuated category (100%) of subsidy rate linked to special diseases. In 2011, already two medicinal products used in oncology and one used for treating schizophrenia will be available in generic form as well. From 2012 an oncology medicine with one of the greatest turnover will also be available in generic form.

- The spread of first generics

Until the 1st of July, following to the patent expiry, 6 months were required from a generic product to become a reference product after its placing on the market. It was necessary to reduce this period to 3 months to make drug prescription more economical. The adequate guarantee of supply can be ensured by a sufficient number of marketed products.

- Review of combined products

According to the regulation in force since 1 January 2011 the reimbursement of medicines containing a combination of active substances has been fixed in keeping with the reimbursement rate applicable to the relevant monocomponent medicinal products.

The following measures are entering into force as from the beginning of 2012:

- Bio similar subsidies

Biologic medicines cannot be substituted with each other since changes between different products raise risks of reactions of the immune system, thus the fixing procedure as in case of generic products is not an option. In addition, patients should not be detrimentally influenced only as a consequence that the manufacturer of the product they are set to take cannot compete with its prices resulting in a significant increase in the price of the product.

Medicines are grouped based on professional assessment and there is competition within the group. (Those products in the financed indicative band can be classified in one group that, based on professional medical assessment, can equally be chosen for a patient not having had treatment previously.) In the beginning of the following year, preferred biologic medicine status is given based on price competition. Manufacturers set their prices in the form of bids. Thus products with the least daily therapy cost and those with at maximum 10% higher costs will be preferred biologic medicines. Related fee remains at HUF 300. Products with at least 30% higher daily therapy cost compared to that with the least daily therapy cost are excluded after 180 days. In order to avoid unnecessary increase in the burden on patients, prices are maximised.

- Reclassification (change in the form of financing)

In line with the principle that financing should be where use happens, some products have to be reclassified to hospital financing. If medicines are financed where they are used, significant savings can be realised in case of efficient financing of certain expensive products (e.g. in oncology) through public procurement in hospitals based on a monitored procedure (patient registry). The doctor registers electronically data on the patient's situation and matches the medicine with special software. This can serve as a basis for establishment of disease registries and outcome based financing.

- Further improving efficiency of the generic programme

The efficiency of the generic programme is improved by the gradual introduction of ordering medicines on the basis of active substances. This is made possible by professional protocols provided to medicines requiring doctor's prescription. In this context, ordering medicines on the basis of active substances should be introduced for a well determined group of medicines (cholesterol reducers) where further reinforcement of the generic competition is needed.

Better information to patients and protection from price increases can be achieved through documented information from the doctor to the patient on prices of the reference product and the other product in the same preferred reference price band in case of products in a fixed active substance group. This has to be provided by the pharmacy's software on a printed document.

It has to be regulated that price offers in the fixing procedure below the reference price band cannot be revoked and that delisted products cannot be admitted in the following half a year unless the offered price is significantly below the reference price.

- Regulation for economic use of medicines

In case of prescription of 3 month amount of a medicine, patient should only be allowed to purchase one month dose at once. Thus termination of the therapy due to side effects or other reasons does not result in unnecessary outflow of subsidies.

Further savings can be generated by changing packages of medicines that are prescribed for one month to closer to 30 days dose and by stipulating that medicines for only one month can be prescribed. (Packages currently often contains somewhat less than a monthly portion necessitating the prescription and purchase of two packages to cover one month portion.)

- Subsidizing depending on the therapy effectiveness

In the case of high cost therapies the State/Insurer provides reimbursement not on the basis of data produced in the course of clinical trials, but on the basis of the proven results achieved in the real domestic circumstances. If these results are not satisfactory, the pharmaceutical company pays back the subsidy.

- Transformation of the system of drug supply for the poor

Due to the recent legislative changes, in case of fixed active substance groups only medicines within the preferred reference price band or, should there be no such product, the reference product can be purchased with full government subsidy, where classification into fixed group is possible.

- Transformation of the scheme of individual equity

The supply of medicines developed at very high cost for the treatment of rare diseases puts a heavy burden on the budget of countries especially the smaller ones. Therefore, it is necessary to develop a system based on transparent decision making, which gives the opportunity for the concerned to obtain the needed medicines even if negative decisions are made (by way of establishing alternative fund raising mechanisms).

- System of improving patient compliance

The effectiveness and the efficacy of drug therapy are not satisfactory in the case of chronic diseases in Hungary because of the Hungarian life style and the irregular medication discipline of the sick. According to the new legislation, sick people who fail to attain the medication target scores established in protocols are going to gain less reimbursement for their medicine than those living having a healthy lifestyle and observing medication rules.

- Introduction of e-prescription

E-prescription helps stricter control, thus compliance with provisions, prevent redundant medication and the resulting multiplication of side effects and thus reduce costs of their treatment.

Long term measures further improving the subsidy policy with impact in 2013:

- New therapy revision regulation

Yearly revision of therapy efficiency has to be mandatorily carried out by the health insurer and financing protocols have to be introduced with the widest coverage possible.

- Outcome oriented disease registries

Establishment of disease registries or matching products to a register of disease patterns is a precondition for admission of medicines where a parameter measuring effectiveness is possible (in case of newly admitted medicines and after a defined transitory period in case of subsidised products as well).

- Alignment of the pharmaceutical supply between in-patient and out-patient care

With the takeover of hospitals by the state, aligning use of medicines on a macro level in case of in-patient and outpatient care creates further potential efficiency gains. This is known as interface management.

- Transformation of the system of contribution payment of producers

In order to respect appropriations for pharmaceutical subsidies the system of contribution payment of producers may be revised.

SOCIAL BENEFITS

In international comparison, Hungary spends rather a lot on welfare benefits while analysts claim that the benefits are not necessarily targeted to the individuals in need. The purpose of the adopted and planned measures is to change this situation, to improve the targeting of the system already in the short term and to encourage and support economic activity and taking up employment. The most important measures in this area:

- - transformation and preservation of the nominal value of social benefits,
- - changes in the family support system,
- - restructuring of the system of health damage allowances.

CHANGES IN THE FAMILY SUPPORT SYSTEM

Cash benefits, known as family benefits, are the basis of Hungarian family policy. Financial support is given to the families in different forms: e.g. family allowance, maternity support, child care allowance, child raising support, life-start support, in-cash child protection benefit. Families with 3 or more children receive a special support for decreasing their gas energy costs, a new system of family tax allowances were introduced in 2010, etc.

A declared fundamental value of the Government has been the family and one of its most important priorities is the strengthening of families. This value and the high importance of families are expressed also in the new Constitution.

Research shows that families in Hungary plan to have more children than they actually have in their lifetimes. Among the reasons insecure labour market prospects, frequently changing family benefit systems, lack of flexible workplace arrangements, and shortage on childcare facilities can be mentioned.

The aim of the Hungarian Government is to provide its citizens with the opportunity to choose between different life styles. We should help them take decisions with equally acceptable consequences. Others, should they decide to have a family and also work and have a career, should be able to do so, the most flexible way possible in a part time job if necessary and with high quality and affordable child care. Therefore obstacles for childbearing should be broken down.

The Government considers families and work equally important, the taxation system must reflect work and family simultaneously, and their values and needs must be recognised in it. Therefore we introduced a system in Hungary, providing families with their fundamental right to keep their earnings without taxation of their expenses related to raising children – instead of giving them benefits and allowances.

The introduction of the *child tax allowance* reduces the tax base of parents raising child(ren). All economically active families raising children benefit from this new component from 2011, since the gross monthly amount of the deduction is HUF 62,500 per child in case of one and two children and HUF 206,250 per child in case of three or more children. In net terms it means HUF 10,000 monthly saving per child for families with one child or two children, and HUF 33,000 per month per child for families with three or more children. The allowance can be claimed by either of the parents, or can be split between the parents. As a result in the first half of 2011 the net income of parents with two children has been increased by 13.8 %, and that of parents with 3 children by 22 %.

This means the budget recognises the costs of child raising through the tax system and means also there is no rise in family support. In the case of family support pursuant to the 2011 and 2012 Budget, the amount of the family allowance, maternity support, child care allowance, child raising support, life-start support and the in-cash child protection benefit

does not increase in 2011 and in 2012, the nominal value of the support needs to be preserved.

The central element of the system is the universal *family allowance*. Every parent raising a child is entitled to family allowance irrespectively of his/her income situation or employment status. This benefit is provided from birth to the compulsory schooling age, then for secondary school education or vocational training, up to 20 years of age (up to 23 years in case of special educational needs, or without age limit in case of a seriously disabled person without regular income).

In order to ensure the children's regular school attendance, from August 30, 2010 the family allowance is paid as schooling benefit to families whose children are in the age of compulsory schooling. In case of a certain extent of unjustified absence (50 courses) of the child from school, the benefit is suspended. If the child is attending school again, the suspended amount of the schooling benefit has to be paid to the family in kind.

The other main part of the system is the *child care allowance*. From 1st January 2011 we restored the previous system of child care allowance, so, as a general rule, the benefit is provided until the age of 3 of the child, even in case of children born between 30th of April 2010 and 1st January 2011 (when the new law came to force). The rules on working besides child home care allowance and child raising support have changed as from 1st January 2011. In case of child home care allowance, under 1 year of age of the child, the parent cannot pursue a gainful activity.

Above 1 year of age of the child the parent can work no more than six hours a day that enables her/him to spend more time with the child or without time restriction at home. This measure is aiming to help mothers to better reconcile their child-raising responsibilities and work obligations. The parent of a sick child can pursue a gainful activity without time restriction above 1 year of age of the child.

The parent of twins above 1 year of age can decide to work full time, in this case (s)he receives only the general amount of the child home care allowance. In case (s)he chooses to work no more than six hours a day, (s)he is entitled to the higher amount dedicated to twins.

The grandparent cannot pursue a gainful activity under 3 years of age of the child, while above 3 years, the beneficiary can pursue a gainful activity no more than 6 hours a day, or without time restriction at home. In case of child raising support, the beneficiary can pursue a gainful activity no more than 6 hours a day, or without time restriction at home. These measures support the reconciliation of work and family life.

Amount of the family benefits in 2011 and in 2012

HUF

Family allowance	12,200-25,900 /month/child
Child tax allowance	1 child: 10,000/month 2 children: 20,000/month 3 or more children: 33,000/child/month
Regular child protection allowance	11,600/child/year+in kind benefits
Maternity support - in case of twins	64,125 85,500/child
Child care allowance - in case of twins	28,500/month 2 children: 57,000/month 3 children: 85,500 / month 4 children: 114,000 / month 5 children: 142,500 / month 6 children: 171,000 / month
Child raising support	28,500/month

TRANSFORMATION OF THE SYSTEM OF HEALTH DAMAGE BENEFITS

(The transformation of the system is attached with the so called “profile-cleaning” Pension Fund conversion. See in the relevant subsection)

The transformation of the system of health damage allowances affects recipients of temporary allowance, health damage allowance of miners and regular social allowance.

These cash benefits are for people with impaired health. The benefits provided to persons set out by Government Decree No. 387/2007, whose specifically determines health impairment developed at the time of the existence of occupational activity; as a result of which impairment said persons are no longer able to work – without rehabilitation – in their previous jobs, or other jobs that would be available to them based on their qualifications. The government submitted to Parliament the Bill no. T/5000 on the benefits of persons with altered employment capacity and the amendment of certain acts that overrules this government decree as of 1 January 2012.

The main element of the restructuring is the review of the degree of the health damage. During the review the health damaged individual proves to be capable of working then the further disbursement of the allowance in its current form is no longer justified.

This change also leads to an amendment of the mentioned Government Decree and to the creation of a new law on health deterioration.

The stressed objective of this change is to increase the employment rate among the individuals concerned. These modifications are aimed at finding a better balance between health damage benefits and labour income and thus to motivate people to find a job in the primary labour market instead of relying on benefits.

REFORM OF SOCIAL BENEFITS PROVIDED BY LOCAL GOVERNMENTS

The Government's proposed budget for 2012 applies two main principles for the social aids provided by local governments:

- a more declared intention to promote employment; termination of the system where 'income compensation benefits' encourage beneficiaries not to take jobs;
- guaranteeing that people really in need of benefits continue to receive support from the social welfare system, but minimizing social benefits to people failing to meet the normative (statutory) conditions.

The first principle (promotion of employment) is enforced by changes proposed for the regulation and amount of the support provided for the active age population: reducing the amount of 'employment substitute benefit' (ESB) by 20 percent and maximizing regular social benefits.

- Replacing the so-called 'wage substitute benefit', ESB is a support granted to active working-age citizens for the period they cannot be involved in the public employment programme (Start Employment programme). Its amount in 2011 was equal to the minimum amount of old-age pension (HUF 28,500), in 2012 it will be reduced by 20 percent to HUF 22,800. Local governments' contribution to this amount remains to be 20 percent of ESB.

ESB beneficiaries are obliged to undertake any job offered by the local office (including jobs in the Start programme) irrespective of his or her level of qualification. Furthermore, they are obliged to participate in any training or labour market programme offered by the Employment Centre. As another important rule, ESB may only be granted to citizens who can prove at least 30 days of working every year, or who meet other requirements specified by the competent local government's decree, such as taking care of the immediate living environment.

- Maximizing the amount of regular social aids (RSA): whereas eligible persons could receive RSA up to 90 percent of the net minimum wage, this amount will be maximized in two ways in the future:

- = if beneficiaries in a family are only eligible for RSA, the amount of this aid may not exceed 90 percent of the net public employment wage;
- = if beneficiaries in a family are eligible both for ESB and RSA, the sum of these two aids may not exceed 90 percent of the net public employment wage.

The application of the second principle (strengthening the normative level of aids) is necessary because the number of persons eligible for normative and non-normative (based on equity or provided in local competence) benefits has been simultaneously rising in the past, which also significantly increased budget expenditures in this field.

The proposed budget for 2012 has a double objective: on the one hand it is a priority to provide social safety to people in the greatest need (i.e. people meeting the relevant statutory requirements), but on the other hand it is also desirable that local governments pursue a more conscious equity-based aiding policy. To this end, the proposed budget mitigates contribution to aids granted in local competence, and in one case it even terminates the opportunity of granting equity-based aids in excess of normative aids (e.g. housing support).

4. NEW GOVERNANCE OF PUBLIC FINANCES

The Parliament adopted the new Constitution on 18 April 2011. The Fundamental Law includes a separate chapter on the public finances, the budget, the public debt and the national wealth.

The new Constitution sets forth that balanced, transparent, and sustainable fiscal management is obligatory. It provides for the public availability of data pertaining to both national public property and public finances by holding such data to be of public interest.

The new Constitution sets strict requirements to fiscal management in order to ensure that excessive emphasis on current needs or interests do not impose an unbearable burden on future generations. It declares the permanent reduction of public debt as a fundamental value; accordingly, it defines a ceiling for the public debt ratio at 50% of GDP, a threshold below the reference value of the Treaty.

Since the present level of public debt is significantly higher than the target of 50%, the new Constitution sets forth that Parliament and the Government, primarily responsible for the implementation of the budget, are to decrease public debt until the target level is attained.

The Government is only authorised to refrain from adhering to the above fiscal rules if special circumstances arise and in a degree in line with such circumstances. Since it is necessary to unequivocally define both public debt and the gross domestic product, the new Constitution sets forth that the methods for calculating these figures is to be included in an act. (Detailed rules are included in the bill no. T/5130 on the financial stability of Hungary.) According to the new Constitution, the consent of the government may be required for the borrowing or other undertaking of obligations on behalf of local governments, as defined in relevant legislation.

In addition, the Fundamental Law also includes the principles pertaining to the protection of public finances and national wealth. It also sets requirements for the sale of public property by stipulating that it can only be carried out in the interests set forth by an act and declares that – with the exceptions defined by law – the transactions should be based on the principle of fair value. Regarding the transfer or utilisation of national public wealth it is only possible to conclude agreements with organisations whose proprietary background and activities are transparent.

Furthermore, the new Constitution includes the fundamental provisions with regard to the Magyar Nemzeti Bank, the State Audit Office and uniquely to the Fiscal Council.

THE RENEWED FISCAL COUNCIL

According to the new Constitution, the members of the Fiscal Council are the President of Magyar Nemzeti Bank and the President of the State Audit Office and its president appointed by the President of the Republic. In light of the new regulation, the Fiscal Council supports the legislative work of the Parliament and inspects the well founded nature of the budget, furthermore delivers its opinion on any proposal with financial impact or affecting the financial system. In addition, the new Constitution gives a special right to the Fiscal Council. The adoption of the budget is subject to the preliminary admission of the Fiscal Council, without which the Parliament cannot adopt the act.

Detailed rules on tasks and operation of the Fiscal Council are included in the bill no. T/5130 on the financial stability of Hungary

NEW ACT ON PUBLIC FINANCES

In addition to the implementing act on debt reduction rules included in the new Constitution, the 20-year old Public Finance Act has been fully revised. The new Act on Public Finances to be submitted to the Parliament soon will have a more transparent structure, will

be more readable, will introduce more detailed rules of budgetary planning, and will ensure even in medium term a well based planning of the budgetary resources, the sustainability of public finances, and will lead to the debt reduction required by the new Constitution.

Structural Reform Programme (Széll Kálmán Plan)

455*

Billion HUF

158

Legal status of decision

1. EMPLOYMENT AND LABOUR MARKET

Reduction of passive labour market provisions	Termination of job seeking assistance	27,2	Act CVI of 2011 on the modification of the Acts on public employment and related to public employment and other Acts
	Overhaul of the wage supplement system	0,0	
	Tightening the conditions of job seeking benefits	50,0	Act CVI of 2011 on the modification of the Acts on public employment and related to public employment and other Acts
Reduction of active labour market and vocational training provisions	Replacement of part of the active labour market and vocational training provisions by EU funds serving the same purpose	40,5	2012 Budget Bill; Bill number T/4365
	Reduction of sick pay expenditures	10,0	Amendment of Act LXXXIII of 1997 on the benefits provided by the mandatory health insurance system
Capping social benefits	Capping the total amount of social and family benefits which can be granted on various grounds	11,9	Act CVI of 2011 on the amendment of the Acts on public employment and related to public employment and other Acts (social assistance); Budget bill for 2012, annex 3, item 10 (nursing and specific child care subsidies granted by local governments; Amendment of the Act III of 1993 on social management and provisions 69(8) (abandon local home maintenance subsidies)

Family benefits

Nominal freeze of family benefits

18,0

2012 Budget Bill; Bill number T/4365

2. PENSION SYSTEM REFORM

42

Pension system	Changing the rules of the pension increase at the beginning of the year, pension increase based on CPI	0,0	Act CLXVI of 2011 on the modification of certain acts underlying the Budget
	Review of the schedule of professions eligible for retirement earlier than the statutory retirement age	8,0	Act CLXVII of 2011 on "Old age pensions under retirement age, provisions for those under retirement age, and professions eligible for retirement earlier than the statutory retirement age"
	Termination of special pension rules for members of the armed forces	8,0	Act CLXVII of 2011 on "Old age pensions under retirement age, provisions for those under retirement age, and professions eligible for retirement earlier than the statutory retirement age"
Overhaul of the allowances related to disability status and health status	Review of the qualification conditions of granting disability pensions, overhaul of the allowances	25,9	Bill no. T/5000 on the benefits of persons with altered employment capacity and the amendment of certain acts

26

3. PUBLIC TRANSPORT

Setting-up of the National Transport Holding Company

Integration of MÁV and Volán, setting-up of an integrated management company, more efficient governance structure

Re-structuring of MÁV and improvement of its cost-efficiency

Improving the operational conditions of MÁV

Budget bill for 2012, annex 1, chapter XVII, item 21-1-3, Transfer for the costs of interlocal public transportation

Review of the the preferential tariff system

Reduction of price subsidies

16,0

Budget bill for 2012, annex 1, chapter XLII, item 31. *Consumer price subsidy*

4. HIGHER EDUCATION

12

Reduction of the number of students

Reducing the enrolment in both state-subsidised and tuition fee based higher education, changing the composition of curricula by giving preference to natural sciences and technology

5,4

Government decisions

Structural measures: reduction of institutional and other organisational capacities and determinations

Elimination of capacities not utilised, termination of statutory financing needs

6,6

	Billion HUF	Legal status of decision
5. HEALTH	83*	Government decision 1226/2011. (VI. 30.) contains restructuring of drug subsidies in accordance with SZKT
Revenue increase: raising the payment by pharmaceutical companies	15,5*	Amendment of Act XCVIII of 2006 on the general rules of safe and effective supply and distribution of pharmaceuticals
Generic program (system of preferred reference price range, encouraging the use of generic products)	25,0	Amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs
a) in case of expired patents - replacement by generic products and b) encouraging the use of first generics	5,0	a) Amendment of Act XCVIII of 2006 on the general rules of safe and effective supply and distribution of pharmaceuticals and amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs b) Needs amendment of ESZCSM decree of 32/2004 and EÜM Decree of 41/2007 (in relation to pharmacies operating in health care institutions) with effect from January 1, 2012.
a) subsidy scheme for bio-like drugs and b) subsidies based on therapy results	4,0	
Revision of the therapies	7	Amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs
Subsidies conditional on the cooperative behaviour of patients	2,0	Amendment of Act XCVIII of 2006 and ESZCSM decree of 32/2004. to be effective from January 1, 2012. Further, amendment of NEFMI Decree of 11/2011 (III.30.) on the performance review of family doctors; Government decree of 364/2010 (XII.30) on pharmaceutical supply for health care providers, and NEFMI decree of 11/2011 (III.30). Savings show up on the appropriation titled expenditures on pharmaceutical subsidies.
a) international reference pricing and b) review and price fixing of composite drugs	5,0	a) Amendment of Act XCVIII of 2006 implemented in 2009. Needs amendment of ESZCSM decree of 32/2004, to be effective from January 1. b) XXX on the amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs
Reduction of subsidies on drugs which decrease the level of cholesterol	9	Amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs
Savings through re-shuffling of financing	5,0	The list of newly categorised pharmaceuticals and the professional conditions of their application need to be published in NM decree of 9/1993 (IV. 2) on the financing of health care provision, from January 1, 2012.
Overhaul of the principles applied for equity consideration in individual cases	3	
Overhaul of the special public subsidy system for the poor	2,5	Act LXXXI of 2011 on the amendment of certain acts related to health care and amendment of Act XCVIII of 2006 (transformation of the public curative provision system)
Further long-term measures regarding the enhancement of the effectiveness of the subsidy system	0,0	

	Billion HUF	Legal status of decision
6. STATE AND MUNICIPAL FINANCING		
	44	
Organisational development of local governments	15,0	2012 Budget Bill; Bill number T/4365
Re-shuffling compulsory tasks performed by local government based on economies of scale		
Strengthening the tax authority		
Strengthening the tax authority, simplification of taxation procedures	0,0	
Rationalisation in central public administration		
Rationalisation of the functioning of central and background institutions, prohibition of outsourcing	28,9	Decision on the elimination of 7043 positions
7. CONTRIBUTIONS TO THE FUND ESTABLISHED TO REDUCE PUBLIC DEBT		
Electronic toll system	0,0	
Bank tax	90,0	Compared to the base line (that from 2012 contain 50%) all the tax income appear in 2012 (the difference is the 50% of the current amount). From 2013 onwards, the bank tax will be levied at the level harmonised within the European Union.
Corporate income tax	0,0	The standard corporate income tax rate will not be reduced to 10% from 2013.

MEASURES OF CONVERGENCE PROGRAMME

305

	Billion HUF	Legal status of decision
Freezing wages with the compensation of low income employees for the elimination of tax credit	42,8	Budget bill for 2012 57-59
Freezing social benefits other than family benefits	8,3	no legal obligation to increase
Elimination of spending included in the "stability reserve"	241,2	
X. Ministry of Public Administration and Justice	15,8	
X. Government Control Office	0,1	
XI. Prime Minister's Office	0,4	
XII. Ministry of Rural Development	18,7	
XIII. Ministry of Defence	26,3	
XIV. Ministry of Interior	35,0	
XV. Ministry for National Economy	5,9	
XVI. National Tax and Custom Administration (NAV)	13,3	
XVII. Ministry of National Development	20,6	
XVII. Ministry of National Development - with subsidy of KTI/A	9,0	Act CXIV of 2011 on modification of the Act CLXIX of 2010 on the budget of Hungary
XVIII. Ministry of Foreign Affairs	7,6	for 2011
XIX. European Union Developments	0,6	
XX. Ministry of National Resources	38,0	
XXXI. Hungarian Central Statistical Office	1,0	
XLII. Direct income and expenditure of the budget	0,5	
XLIII. Income and expenditure with the state asset	10,0	
XLIV. Income and expenditure with the Found of National Land (NFA)	0,5	
LXIII. Fund of labor market	25,3	
LXVII. National Cultural Fund	1,6	
LXIX. National Innovation Fund	9,0	
LXXI. Pension Insurance Fund	1,1	
LXXII. Health Insurance Fund	1,1	
Freezing of chapter reserves of Constitutional Chapters	7,7	
Freezing of reserves of MTVA (Media Service and Asset Fund)	5,0	

2012 Budget Bill

653

	Billion HUF	Legal status of decision
EXPENDITURES		
Cut in chapter administered appropriations	4,4	Budget bill for 2012, annex 1
Abandon budget transfers to Road Fund (replacement by fees)	30,8	Budget bill for 2012, annex 1, (termination of state transfers to the Road Fund); 2012 Budget Bill chapter XVII, item 8 (introduction of a new fee)
Reduction and abolishment of state tasks	109,6	Budget bill for 2012, annex 1
Reduction of expenditures related to state assets	5,0	Budget bill for 2012, annex 1
Restructuring social assistance provided by local governments	18,4	Bill on the amendment of the Act III of 1993 on social management and provisions (decrease in the level of employment substitute benefit)
REVENUES		
Increase of standard VAT rate from 25% to 27% (not calculating with expenditure side compensation)	150,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
End of prohibition of the deduction of lease of passenger cars	-10,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of alcohol excise duty by 5% (in certain cases with 50%)	3,0	Act CXXV of 2011 on amendment of some taxes of law for stabilizing government
Increase of tobacco tax amounts (2011 nov-zot-zmoy; cigarette: 8%-7%-4%, other tobacco: 11,8%-10,6%-7,4%)	23,5	Act CXXV of 2011 on amendment of some taxes of law for stabilizing government
Increase of excise duty on diesel oil with the increase of amount claimed by transporters and the increase of refund ratio for agricultural use	16,0	Act CXXV of 2011 on amendment of some taxes of law for stabilizing government
Representation and business gift from corporate tax to personal income tax, effect on PIT	6,6	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Stricter carry-forward rules of losses in CIT	31,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Representation and business gift from corporate tax to personal income tax, effect on CIT	-1,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Representation and business gift from corporate tax to personal income tax, effect on Health Insurance Contribution	9,4	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Taxation of online gambling and increase of tax of money gainer machines	32,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Widening the base of health SSC (full time individual and associations)	29,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase in employee's health contribution by 1 percentage point	83,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
New tax (linking with the compulsory insurance of vehicles)	24,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Widening the base and increasing the degree of Tax on Unhealthy Food	10,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase the corporate car tax level by 40%, based on kW, considering the environmental classes (at the moment the tax based in cm3)	20,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Alteration of the base of fee of motor-vehicle asset (in place of the engine of vehicle the fee depend on the age of vehicle and the power)	6,5	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of fee of general item	1,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of certain judicial process fees	3,2	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of product fees	36,0	
Change of licence plate	12,0	
Total adjustment measures	1413*	

*: Due to the amendment adopted after the submission of the budget bill the allowance related to R&D expenditures would reduce revenues from manufacturers by HUF 7 billion. Therefore figures for savings in the health care system is modified to HUF 76 billion, for the budgetary effect of Széll Kálmán Plan to HUF 448 billion and for the total effect of the measures underpinning the 2012 deficit target to HUF 1406 billion.

Total		541	Legal status of decision
		Billion HUF	
Increase of standard VAT rate from 25% to 27% (not calculating with expenditure side compensation)		150,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
End of prohibition of the deduction of lease of passenger cars		-10,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of alcohol excise duty by 5% (in certain cases with 50%)		3,0	Act CXXV of 2011 on amendment of some taxes of law for stabilizing government
Increase of tobacco tax amounts (2011nov-2012may-2012nov): cigarette: 8%-7%-4%, other smoking tobacco: 11,8%-10,6%-7,4%		23,5	Act CXXV of 2011 on amendment of some taxes of law for stabilizing government
Increase of excise duty of diesel oil with 13Ft/l with the increase of amount claimed by transporters and the increase of refund ratio for agricultural use		16,0	Act CXXV of 2011 on amendment of some taxes of law for stabilizing government
Reduction of the registration tax		-25,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of simplified entrepreneur tax rate to 37%, increase of upper limit to HUF 30 billion		46,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
10% health care contribution of non-wage payments		40,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Representation and business gift from corporate tax to personal income tax, effect on PIT		6,6	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Stricter carry-forward rules of losses in CIT		31,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Representation and business gift from corporate tax to personal income tax, effect on CIT		-1,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Representation and business gift from corporate tax to personal income tax, effect on Health Insurance Contribution		9,4	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Taxation of online gambling and increase of tax of money gainer machines		32,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Widening the base of health SSC (full time individual and associations)		29,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase in employee's health contribution by 1 percentage point		83,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
New tax (linking with the compulsory insurance of vehicles)		24,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Widening the base and increasing the degree of Tax on Unhealthy Food		5,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase the corporate car tax level by 40%, based on kW, considering the environmental classes (at the moment the tax based in cm ³)		20,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Alteration of the base of fee of motor-vehicle asset (in place of the engine of vehicle the fee depend on the age of vehicle and the power)		6,5	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of fee of general item		1,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of certain judicial process fees		3,2	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws
Increase of product fees		36,0	
Change of licence plate		12,0	

Annex 1c BUDGETARY IMPACT OF APPROPRIATIONS PUT INTO RESERVES

Billion HUF	2012	2013
Constitutional chapters (not under the control of the Government)		
3% charge of appropriations (without exception)	5,0	5,0
I. Parliament		
Subsidies to media with public service purpose	3,0	3,0
IX. Subsidies to local governments and personal income tax left at local governments		
Subsidies to local governments and their associations to complement share of the local governments in the financing of EU development applications	2,0	2,0
Developments of task provision by local governments	5,5	5,5
Cover roads with solid overlay	1,5	1,5
Renovation of the Széll Kálmán square and surrounding public transport connections, development of railway in Káposztásmegyér and other public transportation in the capital	2,0	0,0
Maintenance of parts in the capital of national roads with one and two digits	0,5	0,5
Subsidy for a flood protection facility at Római bankside	0,5	0,5
X. Ministry of Public Administration and Justice		
Arrangement of proprietary status of real estates formerly owned by the Church	2,5	0,0
XII. Ministry of Rural Development		
Costs of measuring land for subdivision	2,5	2,5
Operational expenditures and income subsidies (TOP-UP)	3,0	3,0
XIII. Ministry of Defence		
Subsidies to non profit oriented limited corporation	1,0	1,0
XIV. Ministry of Interior		
Investment expenditures of institutions	3,0	3,0
XV. Ministry for National Economy		
Subsidies to the Hungarian Chamber of Commerce & Industry	1,0	1,0
Reorganisation Fund	2,0	2,0
XVII. Ministry of National Development		
Renovation of railway bridges and steel constructions	2,0	2,0
IT communication services, consolidation	2,0	2,0
XLIII. Income and expenditure with the state asset		
Financing environment protection tasks related to state ownership	4,0	4,0
Stadium development	6,0	6,0
Expenditures related to proprietary rights of the Hungarian State Holding Company	2,0	2,0
Measurement of state owned real estates	1,0	1,0
Total	52,0	47,5

Structural Reform Programme (2013)		787	Legal status of decision
1. EMPLOYMENT AND LABOUR MARKET		176	
		Billion HUF	
Reduction of passive labour market provisions	Termination of job seeking assistance	27,2	Act CVI of 2011 on the modification of the Acts on public employment and related to public employment and other Acts
	Overhaul of the wage supplement system	0,0	
	Tightening the conditions of job seeking benefits	50,0	Act CVI of 2011 on the modification of the Acts on public employment and related to public employment and other Acts
Reduction of active labour market and vocational training provisions	Replacement of part of the active labour market and vocational training provisions by EU funds serving the same purpose	40,5	
Reduction of sick pay expenditures	Review and modification of the conditions of granting sick pay	10,0	Amendment of Act LXXXIII of 1997 on the benefits provided by the mandatory health insurance system
Capping social benefits	Capping the total amount of social and family benefits which can be granted on various grounds	11,9	Act CVI of 2011 on the amendment of the Acts on public employment and related to public employment and other Acts (social assistance); Budget bill for 2012, annex 3, item 10 (nursing and specific child care subsidies granted by local governments; Amendment of the Act III of 1993 on social management and provisions 69(8) (abandon local home maintenance subsidies)
Family benefits	Nominal freeze of family benefits	36,0	No legal amendment necessary
2. PENSION SYSTEM REFORM		68	
	Changing the rules of the pension increase at the beginning of the year, pension increase based on CPI	0,0	Act CLXVI of 2011 on the modification of certain acts underlying the Budget
Pension system	Review of the schedule of professions eligible for retirement earlier than the statutory retirement age	12,9	Act CLXVII of 2011 on "Old age pensions under retirement age, provisions for those under retirement age, and professions eligible for retirement earlier than the statutory retirement age"
	Termination of special pension rules for members of the armed forces	10,0	Act CLXVII of 2011 on "Old age pensions under retirement age, provisions for those under retirement age, and professions eligible for retirement earlier than the statutory retirement age"
Overhaul of the allowances related to disability status and health status	Review of the qualification conditions of granting disability pensions, overhaul of the allowances	44,8	Bill no. T/5000 on the benefits of persons with altered employment capacity and the amendment of certain acts

	Billion HUF	Legal status of decision
3. PUBLIC TRANSPORT	60	
Setting-up of the National Transport Holding Company	15,0	
Integration of MÁV and Volán, setting-up of an integrated management company, more efficient governance structure		
Re-structuring of MÁV and improvement of its cost-efficiency	29,0	Budget bill for 2012. Baross Gábor Programme (to be adopted soon)
Improving the operational conditions of MÁV		
Review of the the preferential tariff system	16,0	Budget bill for 2012
Reduction of price subsidies		
4. HIGHER EDUCATION	22	
Reduction of the number of students	15,5	
Reducing the enrolment in both state-subsidised and tuition fee based higher education, changing the composition of curricula by giving preference to natural sciences and technology		Government decisions
Structural measures: reduction of institutional and other organisational capacities and determinations	6,6	
Elimination of capacities not utilised, termination of statutory financing needs		

5. HEALTH	Billion HUF	Legal status of decision	
		Government decision 1226/2011. (VI. 30.) contains restructuring of drug subsidies in accordance with SZKT	
Revenue increase: raising the payment by pharmaceutical companies	113	8,5	Amendment of Act XCVIII of 2006 on the general rules of safe and effective supply and distribution of pharmaceuticals
Generic program (system of preferred reference price range, encouraging the use of generic products)		25,0	Amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs
a) in case of expired patents - replacement by generic products and b) encouraging the use of first generics		7,0	a) Amendment of Act XCVIII of 2006 on the general rules of safe and effective supply and distribution of pharmaceuticals and amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs b) Needs amendment of ESZCSM decree of 32/2004 and EUM Decree of 41/2007 (in relation to pharmacies operating in health care institutions) with effect from January 1, 2012.
a) subsidy scheme for bio-like drugs and b) subsidies based on therapy results		5,0	
Revision of the therapies		7,0	Amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs
Subsidies conditional on the cooperative behaviour of patients		4,0	Amendment of Act XCVIII of 2006 and ESZCSM decree of 32/2004. to be effective from January 1, 2012. Further, amendment of NEFMI Decree of 11/2011 (III.30.) on the performance review of family doctors; Government decree of 364/2010 (XII.30) on pharmaceutical supply for health care providers, and NEFMI decree of 11/2011 (III.30). Savings show up on the appropriation titled expenditures on pharmaceutical subsidies.
a) international reference pricing and b) review and price fixing of composite drugs		5,0	a) Amendment of Act XCVIII of 2006 implemented in 2009. Needs amendment of ESZCSM decree of 32/2004, to be effective from January 1, 2012. b) XXX on the amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs
Reduction of subsidies on drugs which decrease the level of cholesterol		14,0	Amendment of the Decree of the Minister of Health (ESZCSM) 32 of 2004 on rules of social security subsidies to registered drugs and nutrition meeting special dietary needs
Savings through re-shuffling of financing		5,0	The list of newly categorised pharmaceuticals and the professional conditions of their application need to be published in NM decree of 9/1993 (IV. 2) on the financing of health care provision, from January 1, 2012.
Overhaul of the principles applied for equity consideration in individual cases		5,0	
Overhaul of the special public subsidy system for the poor		2,5	Act LXXXI of 2011 on the amendment of certain acts related to health care and amendment of Act XCVIII of 2006 (transformation of the public curative provision system)
Further long-term measures regarding the enhancement of the effectiveness of the subsidy system		25,0	Amendment of Act XCVIII of 2006, ESZCSM decree of 32/2004, ESZCSM decree of 1/2003 on medicines possibly subject to social security subsidy and on the amount of the subsidy and ESZCSM decree of 44/2004 yet necessary to be effective as from 1 January 2013. If necessary, government decision is expected in September 2012.

	Billion HUF	Legal status of decision
6. STATE AND MUNICIPAL FINANCING		
	129	
Organisational development of local governments		
Re-shuffling compulsory tasks performed by local government based on economies of scale	100,0	Budget bill for 2012, for 2013: efficiency gain stemming from the takeover by the state of provision of some public services; decrease in debt of the local government sector due to borrowing upon government's approval. Reduction of tasks stemming from legislation; cuts in certain development subsidies.
Prohibition of deficit of current operations, introducing Government control on taking loans for investments		Legislative work ongoing
Strengthening the tax authority	0,0	
Strengthening the tax authority, simplification of taxation procedures		
Rationalisation in central public administration	28,9	Decision on the elimination of 7043 positions
7. CONTRIBUTIONS TO THE FUND ESTABLISHED TO REDUCE PUBLIC DEBT		
	220	
Electronic toll system	100,0	Decision on the introduction of an electronic road toll system and on achieving of HUF 100 billion extra revenues in 2013. Ministry of National Development analysing several alternatives.
Bank tax		
Corporate income tax	120,0	Act CLVI of 2011 on amendment of respective laws on taxes and on connected laws reduced to 10% from 2013.