MINISTRY
FOR NATIONAL ECONOMY

UPDATE

on

MEASURES TAKEN IN RESPONSE TO COUNCIL RECOMMENDATION OF 7 JULY 2009 UNDER ARTICLE 126(7) OF THE TREATY

19 AUGUST 2011

On 25th July 2011 the Hungarian Government submitted its 8th report to the European Commission and the Council outlining the progress of measures taken to correct the excessive deficit, including structural reforms.

The Government is committed to correcting the excessive deficit in a sustainable manner. In this context it announced a structural reform programme (the Széll Kálmán Plan) which has been extended in the updated Convergence Programme, principally aimed at growth-friendly transformation of public expenditure. The schedule presented in the Széll Kálmán Plan defined measures for the first half of 2011 related to employment and the labour market, pension system, healthcare (pharmaceutical subsidies) as well as public and local government financing.

The main measures of the Széll Kálmán Plan adopted in the first half of 2011 are the following:

- **EMPLOYMENT AND LABOUR MARKET**

  The Parliament adopted the act on public employment and on the amendment of acts related to public employment and other acts, including the modification of unemployment benefits and certain social benefits. The measures created stricter conditions for job seekers' allowance, terminated job search benefits, launched a new public work scheme, transformed the wage substitute benefit, maximized various social and family support transfers, replaced expenditure planned by the Labour Market Fund for 2012 with EU funds, transformed the sick pay benefit system and fixed the nominal level of family allowance.

- **THE PENSION SYSTEM**

  Changes were enabled by the amendment of the Constitution, stating that any pension granted before reaching the retirement age may be reduced and transformed into a social benefit or even terminated in case of the ability to work. A comprehensive review of the disability pension system was discussed by the Government.It led to an estimated 120,000 individuals being recommended for employment or employment rehabilitation. Furthermore the Government decided to eliminate legal entitlement to retirement before reaching the retirement age.

- **HEALTHCARE (PHARMACEUTICAL SUBSIDY SYSTEM)**

  The Parliament adopted a healthcare reform bill which aims to improve the balance of the healthcare budget and create a more rational expenditure structure.

- **PUBLIC AND LOCAL GOVERNMENT FINANCING**

  The Parliament adopted the new public procurement act to simplify and streamline the procurement process and clearly set out the laws governing it.

In order to further improve budget balance, the **Convergence Programme** launched additional measures such as:

- **ELIMINATION OF THE STABILITY RESERVE**

  At the beginning of February the Government made a decision to establish a stability reserve in the amount of about HUF 250 billion, approaching 1% of GDP in order to ensure disciplined and cost-effective state financial management - reacting to emerging risks. After the review of economic developments during the year, the Government decided in June 2011 to prepare an amendment proposal to the 2011 budget act for the final elimination of the freezes. The amendment was passed by the Parliament.

- **MEASURES TO INCREASE REVENUES**

  The Parliament passed a modification bill on excise taxes. For the bioethanol component of E85 fuel, a tax rate of 40 HUF/litre was introduced as opposed to the earlier tax-exemption. Increased excise tax rates on tobacco products will be presented to the Parliament in the scope of the autumn tax package. The Parliament also passed a bill on taxing public healthcare products. The new tax is levied on the sales of products whose consumption is proved to bear risks of damage to health.

- **REDUCTION OF GOVERNMENT DEBT**

  By the end of the first quarter of 2011, gross debt was HUF 22 458 billion (81.9% of GDP of the year ending March 2011). In the second quarter, government bonds with a total nominal value of HUF 1 345 billion were withdrawn after the transfer of the funds of former private pension fund members, and this improved the debt ratio by almost 5 percentage points in a single step.

In order to reduce the social, real estate market and financial stability risks originating from the large-scale indebtedness of households in foreign currencies having occurred in recent years, **the Government established a Home Protection Action Plan** consisting of five pillars. The elements of this are as follows:

- introduction of exchange rate protection to secure monthly instalments
- an interest rate subsidy system
- establishment of the National Asset Management Company
- release of the eviction moratorium with a quota system

- enabling foreign currency-based mortgage loans again.

The detailed report is available at the following link:

http://www.kormany.hu/download/0/6d/40000/edp%20progress%20report_2011_07_-_en.pdf

Ministry for National Economy