

HUNGARY

**Report on the Implementation of the
Revised National Lisbon Action Programme Hungary**

October 2007

Contents

1. Introduction	3
2. Macroeconomy	6
Fiscal path supporting macroeconomic stability and the allocation of resources promoting growth and employment (Guideline 1 and 3)	6
Safeguard long term economic and fiscal sustainability (Guideline 2)	11
Wage developments contributing to macroeconomic stability and growth (GL 4)	19
Coherence between macroeconomic, structural and employment policies (GL 5).....	20
3. Microeconomy	21
To increase and improve investment in R&D, in particular by private business (GL 7). 22	
To facilitate all forms of innovation (Guideline 8)	23
To facilitate the spread and effective use of ICT and build a fully inclusive information society (Guideline 9)	24
To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth (Guideline 11)	25
To extend and deepen the Internal Market (Guideline 12)	28
To ensure open and competitive markets (Guideline 13)	29
To Create a more competitive business environment and encourage private initiative through better regulation (Guideline 14).....	30
To Promote a more entrepreneurial culture and create a supportive environment for SMEs (Guideline 15).....	33
To expand, improve and link up European infrastructure and compete priority cross- border projects (Guideline 16)	34
4. Employment	37
Attract and retain more people in employment and modernise social protection systems ..	38
Making work a real option for all - regardless gender or age (Guideline 18).....	38
Making work pay (Guideline 19).....	40
More and better assistance for job-seekers and disadvantaged people (Guideline 19)...	41
Modernisation of the Public Employment Service (Guideline 20).....	43
Management of migration in a labour market context (Guideline 20).....	44
Improvement of the adaptability of workers and businesses	45
Flexibility and security of employment (Guideline 21).....	45
Transform undeclared work into regular employment (Guideline 21)	46
Promoting geographical mobility (Guideline 21)	48
Wage setting mechanisms and employment-friendly labour costs (Guideline 22).....	48
Increasing investment in human capital through better education and training.....	49
Increasing and improving investments in human capital (Guideline 23).....	49
Adjusting education and training to meet labour market needs (Guideline 24).....	53
5. Harmonising cohesion policy and the lisbon objectives	56
6. Tables of measures	58

1. INTRODUCTION

Hungary's Revised National Lisbon Action Programme, setting out the priorities and actions for implementing the Lisbon Strategy in Hungary, was submitted to the European Commission in October 2006. An annual review of the National Lisbon Action Programme is prescribed by Government Decree 2155/2005. (VII. 27.), in line with Community law. The present report covers implementation of the Action Programme in the last year in the light of the priorities the Government drew up in 2006, taking account of the European Commission country report and its recommendations, and incorporating the outcome of broad-based consultation (partnership, parliamentary consultation, etc.)

The Revised National Action Programme identified as its principal goal the restoration of **macroeconomic balance**, a precondition of economic growth and employment. There has been considerable progress towards this goal in the last year: the adjustment, via the measures described in the Action Programme, has followed the deficit-reducing path mapped out in the Convergence Programme. In line with the Commission's recommendations, the deficit reduction has partly been implemented by reducing government expenditure (changes in the system of subsidies for gas, district heating and medicines, reform of the health care system, education and public administration measures, reform of transport subsidies, temporary freezing of public sector pay). The reforms now being implemented by the Government will be an important factor in maintaining the balance in the future. In the process of regaining its overall balance, the economy has been growing more slowly, but employment has expanded, if at a lesser pace than in previous years.

The reform of public administration, education, health care and pensions has continued in the last year, in pursuit of the principles of sustainability and quality of service and in line with the European Commission's recommendations.

In **public administration**, central government substantially decreased in size and internal complexity, duplicated functional areas have been centralised, central administrative bodies consolidated, and regional (deconcentrated) bodies reorganised.

In the area of **educational reform**, higher education is being adapted to changes in the structure of labour demand through a new structure of qualifications and a changeover to the multi-cycle degree system. In school education, the system of finance has changed to enable reorganisation of schools in a way that incorporates economies of scale.

In **health care**, a three-level system of care has been drawn up to make the social security-based provision stronger. Without insurance cover, eligibility is confined to basic-level services, and the level tied to insurance cover extends to a substantial proportion of therapeutic and preventive care. The third level is made up of supplementary services subject to charges. To reduce unnecessary doctor-patient interactions, visit charges and hospital day-charges have been introduced. On the supply side, underused or inefficiently operating active in-patient capacity has been closed or converted to chronic/nursing care capacity.

In pursuit of the long-term public sector sustainability, Parliament has passed laws to reduce future growth of **pensions** expenditure. The legislation focuses on raising the actual median retirement age, corrects some of the rules on early retirement, reduces the rate of substitution of new pensions which has risen in recent years and, by changing some calculation rules, reduces the inequalities among pensions which started at different times.

In **employment**, active labour market policies, employment support measures for disadvantaged groups, and modernisation of the social protection system have engendered some positive trends, including a perceptible “whitening” of the economy. Educational reform and adult and vocational training measures have led to the emergence of courses which better serve labour market demand.

The measures have helped school leavers find jobs, and helped long-term unemployed people and parents of young children return to the labour market. Changes in unemployment and social benefits to reduce discouragement are expected to have a significant effect in preserving labour market activity. Unemployment benefit has been replaced by job-seeking support, and social benefit by family benefit.

Implementation of the lifelong learning strategy is set to make major progress through the National Qualification Framework, which will be developed from 2008 onwards and fully launched in academic year 2012/2013.

The Government seeks to promote higher economic growth by reducing companies’ administrative burdens, stimulating competition in network industries and providing high-quality infrastructure. In addition, it has adopted a science, technology and innovation policy strategy to support research and development, and is producing a long-term strategy for the attainment of economic growth which is both energetically and environmentally sustainable.

Of key importance in implementing the Lisbon Strategy are developments being pursued under the umbrella of the New Hungary Development Plan (NHDP), some of which are already in progress and others are planned. Improving standards in state services, raising the quality of infrastructure and expanding business investment opportunities are important tools for accelerating economic growth. The NHDP’s human resources programmes ensure that economic growth will be paralleled by employment growth.

To meet the European Council action priorities, in addition to the R+D+I and employability improvement measures mentioned above, a comprehensive action pack to improve the business environment through reducing companies’ administrative burdens has resulted in:

- easier administration of energy and excise tax
- action on company debt gridlock
- expanded governmental company information services
- simplified tax administration and easier e-tax payment.

In addition, Hungary has started work on a National Climate Change Strategy in line with the European Council's energy policy and climate change action priorities. Based on the EC directives on energy efficiency and energy services, Hungary will draw up its first energy efficiency action plan in 2007, linked to the Energy Policy Concept.

Partnership

The Government has carried out social consultation on the Report with the National Interest Reconciliation Council and 150 sectoral partners.

Principal Comments Emerging from Social Consultation

The organisations involved in consultation were of the opinion that Hungary faces major economic policy challenges: unless it meets balance and growth criteria simultaneously, the economy will irrevocably lose ground and become unable to catch up with its EU competitors.

The consensus of opinion was that sustained budget balance can only be achieved by an economy which is capable of growing out of trouble, i.e. whose output can finance state duties at the level demanded in 21st century Europe. Accordingly, the organisations considered that insufficient action was being taken to stimulate the economy.

To counterbalance the negative effects of restoring macroeconomic stability, the social partners consider that more attention must be paid to supporting small and medium-sized enterprises, especially considering their crucial role in increasing employment. In addition, funds for proper implementation of the new Science, Technology and Innovation strategy. They pointed out that in order for EU funds to be properly used, national funds were essential and points of contact had to be established between the various financial sources.

As regards employment, there was criticism of the low level of funding for active labour market policy. Also, despite steps taken in the education field (mainly in the field of the vocational training), it was felt that there is a need for further restructuring to make the educational system capable of meeting the demands of the labour market.

The Parliamentary parties debated the Annual Report in the framework of the Committee for European Affairs of the Parliament, after that the document to be presented to the European Commission was approved by the Government on its session of 10 October, 2007.

2. MACROECONOMY

Macroeconomic background

In 2006, the economy developed along the path underlying the fiscal consolidation, outlined in the convergence programme. Available data indicate that similar development is also expected in 2007. Nevertheless, the temporary increase in inflation may be higher than projected in the convergence programme.

GDP growth was 2.7% in Q1 and 1.2% in Q2 2007, compared to the same period of previous year. Thus, in the first half of the year, GDP growth was 1.9%. The December 2006 convergence programme envisaged that despite the large fiscal consolidation and therefore the drop in domestic demand, the Hungarian economy would continue to dwell on a positive growth path, but its pace would temporarily decelerate. The actual forecast continues calculate with a growth of 2.2% as indicated in the convergence programme for 2007, whereas for 2008, a GDP growth of 2.8% is expected, 0.2 percentage point higher than in the convergence programme.

The change in the composition of the growth denotes the effect of the consolidation. The slowdown of the economy was caused by the significant halt-back of the demand of the general government sector and the drop in household consumption. On the other hand, exports expand and contribute more than expected to the growth, which shows the adaptability of the Hungarian economy.

From August-September last year, the inflation, primarily due to the effect of the consolidation measures on the price level, accelerated, and increased to 6.5% in December 2006. Average annual inflation was 3.9% last year. The convergence programme envisaged that part of the adjustment measures would have a direct price increasing effect, while the deterioration of the income positions (through weakening domestic demand) would appear as a disinflationary factor with time lag and in a restrained way. At the same time, food prices, because of global market development, increase above the average, which decelerate the disinflation. In consequence, the inflation projection alters to 7.5% for 2007 and 4.5% for 2008.

*Fiscal path supporting macroeconomic stability and the allocation of resources promoting growth and employment
(Guideline 1 and 3)*

Most important steps of last year

Fiscal consolidation

The fiscal consolidation develops in line with the path presented in the September 2006 convergence programme and the 2006 National Lisbon Action Programme, the implementation of the measures underlying the path took place as had been scheduled. The consolidation measures contributed already in the first year of the adjustment path to the budget deficit having turned out to be almost 1 percentage point lower than the target

indicated in the convergence programme. Better than targeted outturn is also expected in 2007.

From mid-2006 on, after the announcement of the fiscal adjustment path, the government gradually implemented the measures underlying the consolidation. Some immediate measures promoted a fast adjustment, whilst the various structural measures support the sustainability of the fiscal consolidation. The adjustment path is front-loaded, so it envisaged an ambitious deficit reduction in the first years of the programme. After the implementation of the fiscal consolidation programme, economic growth is expected to resume to a level of around 4%, prevailing over the past years. This, along with consequent implementation of the employment increasing measures, will contribute to the achievement of the Lisbon goals.

The consolidation strategy was based on the principle according to which sustainable fiscal adjustment could only be achieved by structural changes on the expenditure side, although the immediate improvement of the fiscal position required revenue increasing measures (increases in taxes and social security contributions) as well. The tax measures presented in the updated Lisbon action programme of 2006 were implemented in the Autumn 2006 and early 2007. The amendments concerned all major items of the tax system, but they mostly increase revenues through broadening the tax and contribution base and eliminating the possibility for tax evasion. The other part of the measures promoted the enforcement of principle of fairer taxation.

Both the revenue and expenditure side measures play a role in the improvement of the fiscal position in the years 2006-2007.

On the expenditure side

- cuts are underpinned by the structural reforms under way (changes in gas, district heating and pharmaceutical subsidy schemes, transformation of the system of health care institutions, measures affecting education and public administration, changes in transport subsidies), as well as
- salaries in the public sector were temporarily frozen (in 2007, the remuneration base of civil servants, the wage scale and supplement base for public servants remained unchanged).

Higher revenues are explained by the following factors:

- the effects of the tax changes of 2006, which were noticeable in that year only in the last quarter, will be present during 2007;
- furthermore, additional measures were implemented effective as of January (further broadening of the tax and contribution base and restriction of allowances, further increase of the contribution rate of employees, the extension of the obligation to pay the special tax by individuals, etc.)

Regarding the budgetary developments in 2007, the cash-based deficit (without local governments) was HUF 982 billion by the end of the first eight months, which is 30% less than one year before. The monthly cash deficits tended to turn out in line with or better than the monthly updated forecasts of the Ministry of Finance. In a consequence, an ESA95 deficit of 6.4% is expected versus the target of 6.8% included in the convergence programme.

Central public administration

The reform measures started in 2006 (re-organisations, staff cuts and the introduction of the performance measurement system) have all contributed to cutting costs and raising the efficiency of public administration. In 2006, the headcount of central budgetary institutions was reduced by 10,700 persons, partly as a result of the mandatory staff cuts and mainly through organisational measures. In 2007, the staff cuts will continue, so far affecting some 8,500 persons, and contributing, mainly in the period after 2007, to the decrease of the wage cost of the public sector as a proportion to GDP, as indicated in the Convergence Programme.

In the framework of the re-organisation of central public administration:

- in the course of the **significant reduction of the size and internal segmentation of central government**, the number of ministries was reduced to 11 in mid-2006, while the number of employees fell to 6,155 by the end of 2006, corresponding an approx. 30% reduction from the year 2005 staff numbers (8,705 persons).
- **in the framework of the centralisation of parallel functional areas**, in order to make the performance of tasks more effective and economical, the Government's Human Resource Services and Public Administration Training Centre, the Central Services Directorate General and the Central Office for Public Administration and Electronic Public Services were set up on 1 January 2007.
- in the course of the **consolidation and regional re-organisation of the central administration and its regional (decentralised) bodies**, a number of large networks were re-organised with a regional focus mostly as of 1 January 2007, in some cases later in the year. As a result of the re-organisation, instead of the 416 central budgetary institutions affected, only 176 will continue their operation after August 2007. The re-organisation affected, among others, the Tax Administration, the regional labour centres, the Budapest and country pension directorates, the Treasury, the public administration offices, the National Ambulance Service and the State Public Health and Medical Officer Service.

The quality improvement of public services may be promoted by the fact that the **definition and measurement of performance requirements will be introduced across the board** in the entire public administration. The Act on the registration, control and data management rules relating to performance assessment and the Government Decree on the new performance assessment procedure for civil servants working in state administration bodies (PA decree) has been effective since 1 January 2007. The PA system must be employed in respect of

- senior civil servants of ministries as of 1 January 2007,
- non-senior civil servants of ministries as of 1 July 2007,
- civil servants of central agencies and government offices as of 1 January 2008,
- civil servants working for the regional and local organs of any central public administration bodies as of 1 January 2009.

Local government

From 2007 on, the annual budget act has introduced financial incentives to promote economies of scale in the framework of micro-regional cooperation, which may be conducive to operational expenditure cuts in the public sector as a proportion of GDP, in line with the Convergence Programme.

- After 1 September 2007, **public education will be financed** by public education school year and according to new performance indicators, taking into account the class size and the number of lessons; this is expected to result in savings of almost HUF 8 billion this year.
- In 2007, based on the supplementary claim of July as provided in the act on public finances, HUF 22.5 billion will be available for funding the **performance of tasks in micro-regions**, as opposed to HUF 15.4 billion in 2006. The additional funding serves primarily the joint maintenance of public education and social institutions, providing special support to multi-purpose micro-regional associations if they take over the maintenance of institutions. Thus, in the short and medium term, more public education institutions will be merged, which goes hand in hand with the reduction of teaching and non-teaching staff alike. This process has already started in 2007; multi-purpose micro-regional associations took over a significant number of institutions. Joint maintenance of institutions brings about major savings in staff management (e.g., smaller number of heads of institutions, flexible forms of employment).

The MRES (Managed Regional Equalisation System, see Government Decree No. 239/2006. (XI. 30.)) on the managed regional equalisation system of social services, child welfare and child protection for 2007) was introduced in the field of social services, child welfare and child protection as of 1 January 2007, stating that in case of services maintained by parties other than the government, the existence of an operating license in itself does not guarantee financing. The expert committee operating at the Ministry of Social Affairs and Labour decides on the eligibility of new services or capacities for normative government grants.

As part of the reform of the **system of social services**, in June 2007 the Government submitted to Parliament the bill on the amendment of certain acts in the field of social services, which places more emphasis on enforcing the principle of means testing in social services. To this end, in the field of nursing services, nursing needs are surveyed and established by an independent body operating with the participation of the National Rehabilitation and Social Expert Institute. In the field of the normative financing of services, in view of the provision of Government Resolution No. 2116/ 2007 (VI. 25.) on the government measures relating to the financing of certain social services, as of 2008, a lower normative will be available in respect of persons in poorer wealth and income positions and higher normative in respect of higher income and wealth positions, and, in the field of the rules governing the fees payable for residential services, the new rules will take into account the income as well as the wealth of the beneficiaries.

The amendment of the Act on Public Finances, effective as of 1 January 2007, has strengthened the **financial discipline of local governments**. The purpose of the measure is to

increase the reliability of local government budgeting and to assure that only applications for funding complying with legal regulations are forwarded to decisions makers. In order to achieve those objectives and pursuant to legislative provisions:

- The regional directorate of the Treasury may, during the year, before the year-end accounts of local governments are submitted, examine the development of performance indicators, the soundness of the application for normative grants.
- In respect of normative grants disbursed illegitimately, the local government is obliged to pay a disbursement interest, provided that the sum of normative contributions and grants applied for and related to task indicators was at least 3% ,instead of 5% as earlier, in excess of the amount legitimately due to the local government
- The Treasury will not forward to decision making bodies any applications for grants that fail to comply with legal requirements unless the deficiency is corrected upon request.
- The settlement between local governments within associations may be promoted by the proposed amendment of the act on associations providing that the mandatory content requirements of association agreements would include the specification of the conditions of the performance of tasks (e.g., collection order).

Revision of the gas and district heating subsidy regime

By the reform of the energy price subsidy regime, subsidies formerly due to all direct or indirect household gas consumers have been replaced by income-dependent compensation. The purpose of the measure is on the one hand to make the subsidy structure fairer (so that person who can afford to pay the market price for the service are not subsidised), on the other hand to create an efficient subsidy system. The detailed rules of the new, socially oriented gas and district heating subsidy system are laid out in Government Decree No. 231/2006 (XI. 22.).

From 1 January 2007, 40% of households pay a market price for the gas or district heating service. The rate of subsidy decreased for 60% of subsidy recipients. The subsidy has remained unchanged only for the households with the lowest income, comprising 20% of all households. There are 3.8 million households in Hungary.

The subsidies are financed from an appropriation called “Contribution to the energy expenses of the households” amounting to HUF 112 billion. Based on preliminary calculations, the operational expenditure of the new system will be HUF 100 billion a year, while the cost requirement of the carry-over effects between years is HUF 12 billion.

Budgetary planning

Two new budgetary rules have been introduced by the amendment of the act on public finances and by the budget act 2007. According to one of the new rules, budgetary chapters must set up mandatory reserves, which can be used only if the quarterly report of the chapter concerned shows that the budgetary development of the chapter and the general government

will allow it. The other new rule sets out an obligation for the Government to submit to the Parliament a budget bill showing a surplus in the primary balance.

In addition to the measures described in the programme and already introduced, the Government is considering several rules to strengthen budgetary planning, implementation and control. The Ministry of Finance published the detailed plans in June 2007 as 'Concept for certain aspects of the reform of the fiscal system'. As some of the envisaged legislative amendments require broad political consensus (sometimes the support of two thirds of the votes in Parliament), professional and political discussion is ongoing with the participation of all parliamentary parties.

*Safeguard long term economic and fiscal sustainability
(Guideline 2)*

Structural measures promoting the sustainability of the adjustment

Health care

The implementation of the measures included in the Convergence Programme of December 2006 and their budgetary impacts developed as planned. In 2007, the curative-preventive expenditures of the Health Insurance Fund will be only HUF 5.5-6.0 billion (0.8%) more than in the previous year. The subsidies from the Health Insurance Fund have increased from HUF 713.9 billion – including revenues from the visit fee – to HUF 719,4 billion, by 0,8%. The co-payment obligation of households (visit fee, daily hospital charge) will contribute HUF 13.9 billion to expenditures.

The legislative background to the measures in the field of health care was provided by Act CXV of 2006 on the amendment of certain health care related acts in connection with the health care reform, effective as of 1 January 2007, and Act CXXXI of 2006 on the amendment of certain Acts to provide a basis for the year 2007 budget of the Republic of Hungary.

From the regulatory aspect, the **social insurance character of health care** has been **reinforced**. The new regulation specifies a three-tier benefit system. In the absence of an insurance relationship, only basic services such as ambulance, emergency, mother and child protection and epidemiology can be used. The level subject to an insurance relationship covers a large section of curative-preventative care. With some exceptions, the use of the benefits is subject to a visit fee and daily hospital charge. Tertiary care includes supplementary (extra) services which can be used for a fee. The system is expected to have a beneficial effect on the continued whitening of the economy and on the strengthening of the relationship between insurance and use. The new rules will be implemented in two stages:

- 1 April – 31 December 2007: verification of eligibility for care, payment and records, notification to persons not paying contributions, possibility for making up for arrears. Until year-end, “non-payers” will also receive services;
- As of 1 January 2008, persons not insured will be entitled to use only the services included in the “basic package”.

- In order to **limit demand**,
 - in case of primary care, outpatient care and the related diagnostic tests as well as specialised inpatient care, as of 15 February 2007, the patient must pay a visit fee (HUF 300, 600 or 1000) or a daily hospital charge (HUF 300).
 - In inpatient care as of 1 January 2007, and in outpatient care as of 1 January 2008, the service provider must give the patient an account statement about the service used.

Pursuant to the act on the professional and financing protocols (patient routes) and the streamlining of the use and provision of services, in case of the existing examination and therapeutic procedure, the provisions of the financing protocol must also be taken into account, as long as a procedure has been devised in that respect. The latter specifies, based on any given indication, what services an insured person can use to what extent to the debit of the Health Insurance Fund. The majority of examination and therapeutic protocols have been completed, while the development of financing protocols, taking into account cost efficiency and financing capability, is under way.

In the framework of the implementation of Act CXXXII of 2006 on the development of the health care benefit system, the number of active hospital beds has been reduced considerably by 26%, partly by transforming active beds into chronic or nursing capacities. The number of chronic beds increased by 35%, and outpatient care capacities have also been expanded. Thus, the structure of care has changed so that services are provided in fewer institutions, with greater economies of scale, in a more cost efficient structure and under relatively better financial conditions. The major reform process and adaptation to the altered conditions will take place gradually, but the first results of the reform are already apparent. One of the main objectives of the restructuring measures is to redirect patients to outpatient care from inpatient care.

The **health insurance supervision** was established at end-February 2007 in formal term as well, and it has started its operations. Its initial tasks consisted in the investigation of specific complaints of insured persons against the reform measures. The establishment of its organisation is under way.

Pharmaceutical subsidies

As a result of the measures affecting the pharmaceutical subsidy system and the pharmaceutical market, in 2007, in contrast with the tendency experienced so far, there is a realistic chance to stay within the budget appropriation. By end-September, HUF 244,4 billion was paid out as pharmaceutical subsidies, in contrast with the HUF 292,8 billion in the first nine months of 2006.

In 2007, gross pharmaceutical subsidies are expected to be HUF 330 billion (as opposed to HUF 368 billion in the previous year), which will consist of the balance of the HUF 25 billion manufacturer's contributions and traders' contributions and the approx. HUF 305 billion pharmaceutical-related balance of the Health Insurance Fund. The ratio of pharmaceutical subsidies to GDP is likely to decline by 0.3-0.4 percentage point.

Upon the entry into force of the provision of Act XCVIII of 2006 on the secure and efficient supply of pharmaceuticals and medical aids and on the general rules of pharmaceutical trade (hereinafter: Pharmaceutical Trade Act) concerning the contributions of pharmaceutical companies on 15 January 2007, framework rules were introduced promoting the achievement of a more rational consumption level and structure, the enhanced transparency of the subsidy and admission systems and the reduction of pharmaceutical expenditures. The Pharmaceutical Trade Act created a new system of the joint responsibility of pharmaceutical producers (the beneficiaries of the marketing license of pharmaceuticals), traders, prescribing physicians, patients and the health insurance system.

Decree No. 32/2004 (IV. 26.) ESZCSM on the criteria of eligibility for social security subsidies of registered pharmaceuticals and food preparations for special nutritional needs, and on the alteration of eligibility or of the rate of support, the most important implementation decree of the Pharmaceutical Trade Act, specifies the detailed rules of the formation of the fix therapeutic and active substance based groups and of their eligibility for subsidies.

Major changes affecting the pharmaceutical subsidy system and the pharmaceutical market implemented in 2007:

- Pharmaceutical producers are obliged to pay 12% in respect of products receiving public financing. According to National Health Insurance Fund (NHIF) figures, the owners of pharmaceutical marketing licenses paid HUF 13-15 billion to the tax authority by the end of July.
- A multi-tier risk sharing system, in the case of an appropriation overrun, has been introduced; however this year it will likely not be triggered due to the efficient operation of the instruments and programmes promoting savings.
- Furthermore, the Pharmaceutical Trade Act provides for the payments of producers in respect of medical representatives; in respect of this, there is no advance payment obligation, thus it is realised only at the end of the year.
- The Act obliges pharmaceutical wholesalers to pay 2.5% of the margin on the subsidised preparations sold by them.
- Pharmaceutical producers and traders are obliged to pay HUF 5 million in respect of their medical representatives.
- The restraints on the opening of pharmacies have been eased and the sale of certain non-prescription drugs outside pharmacies has been allowed.
- Early in 2007, the **rates of subsidy were reduced**; furthermore, patients must pay a co-payment of HUF 300 for previously free pharmaceuticals. In order to accelerate generic price competition and assure transparency, the rules of "fixing" of the subsidy have changed. Active-substance-based and therapeutic fix groups are continuously updated, the results are announced quarterly; in the course of this exercise, quotes for producer prices are public.

Based on the guidelines set out in the Pharmaceutical Trade Act, patients started to see the effects of the manufacturers' price reductions and the 'fixing' from 1 April 2007. At that time, the co-payment for almost 1000 preparations was reduced with effect from 1 July 2007. The co-payments for 548 preparations were lowered in the general category, and the prices of another 300 products in the increased and special categories were reduced. In the bidding procedure, the results of which came into effect on 1 October, the social insurance received another 300 bids for price cuts. In 2007, the 'fixing' procedure conducted quarterly, the public bidding procedure and the price cut offers are expected to yield savings of HUF 15-20 billion to the fund and HUF 8-10 billion for patients in aggregate.

The review of the eligibility rules, in line with the Pharmaceutical Trade Act, replaced the former subsidy categories (normative 50%, 70%, 90%, "Eü 90%" (indication-based)) with new ones (normative 25%, 55%, 85%, increased, indication-related subsidies 50%, 70%, 90%), and introduced a minimum co-payment (HUF 300) for the priority subsidy group. The reduction of the subsidy rates and the introduction of the minimum co-payment are expected to reduce social security expenditures by HUF 40-50 billion in 2007, which would have meant additional expenditures for patients if the consumption structure of 2006 had not changed.

As of 1 January 2007, the **rules of eligibility for remaining in the subsidised category have been tightened**. The National Health Insurance Fund (NHIF) declares a drug ineligible if, in case of the active substance based fixed subsidy regime, the daily therapeutic costs or price per unit of active substance of the drug exceeds the daily therapeutic cost of benchmark product by at least 20%. In case of therapeutic fix groups, the NHIF provides no subsidy if the daily therapeutic cost of the drug is at least 50% higher than the simple arithmetic average of the daily therapeutic cost of the pharmaceuticals in the group. As a result, a number of products will be removed from the subsidised category, while active substances will be available to patients at a lower price and at subsidised prices. The NHIF continuously reviews the scope of subsidised pharmaceuticals, and if any product fails to satisfy the legislative criteria, it will be, in a mandatory manner, removed from the subsidised category. As of 1 April 2007, more than 100 products were removed from the scope of subsidy.

The Government has set the **rules to promote high-quality and effective pharmaceutical and medical aid prescription**. The monitoring system in place is conducive to improving the quality of patient care and assessing, supporting and altering the prescription practices of physicians. In line with regulations, physicians receive regular feedback about how their prescription practice relates to the average. The alteration of the prescription habits of physicians may result in substantial savings both for patients and for the Health Insurance Fund. According to model calculations of the NHIF, the new rules of pharmaceutical prescription may lower the expenditures for patients by some HUF 30-40 billion annually.

As a result of the lowered subsidy rates, co-payments were increased at the beginning of the year; nevertheless, prices have declined gradually due to the price competition that emerged on the market of generic drugs.

Pension system

The future development of pension expenditures is of outstanding importance for the long term sustainability of public finances. More measures are called for despite the pension reform of 1998. Having realised this, the Government introduced measures, as of mid-2006,

which will reduce future pension expenditures and attenuate the inequities in the pension system.

The amended rules fundamentally aim to increase the mean age of actual retirement, modifying certain allowances facilitating early retirement, reducing the replacement ratio of initial pensions, which has increased in recent years, and amending certain calculation rules to mitigate disproportions depending on the time of retirement.

- In case of **early retirement**, the new rules clarify the relationship between pensioner status and active income earning activities. From 1 January 2008, the criteria of early retirement will be supplemented by the termination of active insurance relationship. The objective is to ensure that persons in early retirement engage only in occasional work, or else the disbursement of the pension must be suspended. According to the adopted rules, pension payment must be suspended as soon as the income earned exceeds the annual minimum wage. There is no such limitation above the retirement age. The new rule is applicable to persons retiring after 31 December 2007, while from 2010 onwards it will also be extended to all persons in early retirement, irrespective of the date of their retirement.
- After 1 April 2008, pension contributions in accordance with the general contribution rules must be paid also in respect of **income earning activities pursued by pensioners**. This contribution gives rise to eligibility for additional pension: pensioners receive a pension increase corresponding to 0.4% of their annual income for each year of contribution payment.
- The **main eligibility rules of the early retirement pension system** for persons working in jobs with potential health hazards have been laid down in an Act. Accordingly, employers of such jobs will have to pay contribution, gradually to increase to 13%, to the Pension Insurance Fund to cover the early retirement benefit. For four years, the budget will provide a gradually decreasing subsidy for such contributions (assuming 100% of the additional contribution in the first year, to be reduced to 75, 50 and 25% in successive years). From 2011 onwards, the total additional contribution will be payable by the employers affected. In case of positions removed from the preferential regime, accrued rights will remain to be enforceable.
- **Certain controversial elements of the pension calculation regime will be corrected** as of 1 January 2008. For incomes earned in previous years, instead of the current partial valorisation, full valorisation will be applicable (to the level of the year directly preceding retirement). This will eliminate the effects of one of the elements causing disproportions between pensions awarded in different years. Another correction is aimed at netting earnings, individual contributions as well as the calculated tax must be deducted from earnings for the purposes of defining the pension base. In order to give more recognition to long years of service, the pension will be increased by 2%, rather than 1.5%, per year for each year of service after the 40th year. The new calculation rules will be applicable after 1 January 2008; as an aggregate result, the replacement ratio and imbalances of future pensions will be substantively reduced.

As a follow-up to the reforms started in 2006, preparations are ongoing for the **parametric changes to be implemented in the short term**, which, in the 2015-2020 period, will balance the social insurance pension system (after adjustment for private pension funds). The proposed legislative amendments in the pipeline, similarly to the aim of the changes adopted in November 2006, mean the extension of active working years, in line with the longer life expectancy of pensioners.

Parallel with parametric changes, work is ongoing on the concept of a new long-term pension model. Modelling and professional discussions are ongoing, in the framework of the roundtable 'Pension and old age', on the changes necessary for a sustainable and adequate pension system.

Disability benefit

In June 2007, Parliament adopted Act LXXXIV of 2007 on the rehabilitation benefit, which added a new benefit category to supplement the present three-part pension system, for persons with altered working capacity who have significant health impairment and are deemed to be candidates for rehabilitation.

The Act contains rules in conformity with the principles set out in the Government Resolution No. 2192/2006. (XI. 15.) on the programme of the coordinated reform of the benefit subsystems for persons with altered working ability. The duration of the rehabilitation benefit is shorter than that of the disability pension; its purpose is to lead recipients back to the labour market; to that end, it provides not only passive cash benefits but also active, complex rehabilitation services. The new benefit system will start its operation on 1 January 2008.

The rehabilitation-centred transformation of the benefits of persons with altered working ability necessitates the modernisation of the system of expert assessment of altered working capacity; this is regulated in Government Decree NO. 213/2007. (VIII. 7.) on the National Rehabilitation and Social Expert Institute and the detailed rules of its procedure, issued pursuant the authorisation provided in Act LXXXIV of 2007. The National Institute of Medical Experts was transformed into the National Rehabilitation and Social Expert Institute as of 15 August 2007; the preparation of experts for their new functions is under way. From 2008 onwards, the expert institute will assesses the degree of health impairment, the professional working capacity and the possibility of rehabilitation and it will make a recommendation for rehabilitation; it is also expected to have social expert functions.

Education

Public education

In order to establish the organisational (institutional) framework of task performance, with a view to economies of scale, the approved legislative amendments (Act LXXI of 2006 on the amendment of Act LXXIX of 1993 on public education, and Act CXXI of 2006 on the amendment of certain Acts to provide a basis for the year 2007 budget of the Republic of Hungary) have changed the financing of public education.

- From September 2007 onwards, public education tasks will be financed based on new normatives depending on the number of students, the mandatory classroom hours of teachers and the time allocated to courses.
- Primary schools with fewer than 8 forms will gradually be merged, as member institutions, into 8- or 12-form schools.
- The performance of tasks in micro-regions is promoted by additional transfers in public education as well.

To promote more rational employment,

- The mandatory classroom hours of teachers will be increased by two units as of 1 September 2007.
- Employers could demand 2 hours overtime without extra compensation during the semesters 2006/2007.

The measure will increase the mandatory weekly teaching units of teachers by 8-10%, in a differentiated manner. Through the more streamlined work organisation and cut in overtime payments, these measures may lead to long-term savings; we reckon with savings of some HUF 7.8 billion already in 2007, which is to increase to HUF 34 billion in 2008.

As a result of the measures, the size of the system of public education institutions has been reduced and the performance of tasks has become more efficient. In the 2007/2008 school year, the number of institutions has fallen by some seven hundred (merger or close-down of institutions, other reorganisation measures), and the number of teaching positions has gone down by more than 8000. These measures concerned mainly institutions in the primary education.

In July 2007, Parliament adopted the bill to provide the foundations for future measures announced in the field of public education. Its key elements include the following:

- giving more discretionary powers to local governments (more possibilities for multi-purpose institutions and task performance on the micro-regional level)
- new system of employment of teachers (allowing for more efficient labour management, reallocation of workforce among institutions of the same maintainer (owner));
- increased efficiency of vocational training (creation of a regional organisational level, possibility of vocational training organising associations);
- regulatory framework for the career follow-up of students (regulation of data management, data supply tasks, data supply into career follow-up system.)

Similarly to the pension system, the elaboration of a new public education strategy has started in the framework of national roundtables, with the purpose of improving employment and competitiveness through targeted public education measures.

Higher education

The main purpose of the higher education reform is to improve the quality of education and to make it capable of adapting to the changing structure and level of labour demand. Under the reform, the following steps have been taken:

- The regulatory framework has been created for the introduction of the tuition fee; state-financed students who enrolled in 2007 will start to pay tuition fees from 2008 onwards. Institutions will be able to keep the tuition fees received, and they can be used towards investments or scholarships. From September 2008, according to the adopted legislation, state-financed students will pay a tuition fee of HUF 105 thousand in undergraduate studies and HUF 150 thousand when they work towards master degrees. In the 2008 fiscal year, the revenues of higher education institutions, which they can spend on institution development or on student grants, will increase by HUF 2-3 billion.
- The maximum state-financed student numbers have been reduced and their structure changed: in 2007, state-financed student numbers fell from 62,000 to 56,000 (to remain on the same level in 2008). The ceilings for lawyers, liberal arts students, teachers and economists being reduced, natural sciences, IT and technical student numbers being increased. Simultaneously with the cut, a multi-cycle (BA, BSc, MA, MSc.) education structure is being introduced in a bottom-up approach; as a result, the increase of state-financed total student numbers will come to halt, to be followed by a drop of approximately five thousand per year from 2008 onwards. According to the Government's decision and as a result of the new admission procedure, in September 2007 the number of students that can be admitted to state-financed BA education fell, over and above the planned 6 thousand drop, by another 5 thousand due to the unfilled post-secondary vocational training quotas, resulting in an aggregate reduction of 11 thousand, from the 62 thousand in 2006 to 51 thousand.

In order to switch to the multi-cycle education structure students could only apply for first cycle of the higher education, for the basic faculties instead of applying directly for the university faculties from September 2007, and the second cycle, the master degree, set off gradually in a bottom-up approach after the accreditation procedure, according to the new admission requirements. Act C of 2001 on recognition of certificates and degrees obtained abroad was amended according to the directive 2005/36/EC of the European Parliament and of the Council of 7 September 2005 on the recognition of professional qualifications and operational tasks due to the recognition are done by the Hungarian Equivalence and Information Centre which operates as part of the Educational Authority.

- In 2007, a new admission procedure – based on the choice of the student – has been introduced, and the administrative allocation of state-financed student ceilings will be terminated. These measures require the institutions to adapt, and the smaller number of institutions is conducive to the evolution of a more efficient and competitive higher education structure. The admission results of 2007 show that competition is keen, and the concentration of institutions has started; the majority of students applied to larger universities and to institutions in cities and in Budapest. To promote the transformation of the system of higher education institutions, a state-run university and collage, and a church-financed university and college have been merged.

- From 2008 on, unjustified determinants in financing will be eliminated, and the quality requirements of training will be tightened.
 - Parliament adopted the Act on the amendment of Act CXXXIX of 2005 on higher education (Act CIV of 2007). The new Act eliminated the regulation that set out determining factors for the financing of higher education for the budget. While the fundamental principles of support are retained, from January 2008 onwards state-financed higher education institutions will receive their budget transfers pursuant to performance-indicator-based, three-year agreements with their maintainers (owners).
 - The quality of higher education may be improved by the new rule that restricts the possibility of the concurrent employment of lecturers by more than one institution.
 - Higher education institutions are now allowed to perform certain functions in the framework of business associations and, accordingly to employ staff under the rules of the Labour Code rather than under a public service relationship.

*Wage developments contributing to macroeconomic stability and growth
(Guideline 4)*

Most important steps of last year

The National Interest Reconciliation Council (OÉT) made a recommendation for 4-5% average gross pay rises in the private sector for 2006. The private sector's actual earnings rise was 9.3%, and with higher-than-expected inflation and the 2.5% increase in employees' social security contributions on 1 September, net real pay increased by 4.4%. The OÉT recommended average gross pay rises of 5.5-8% for 2007. Data for the first six months project a gross earnings rise of 10.5%, which with the further 1 percentage point increase in deductions and 8.6% inflation is equivalent to a 4.8% decrease in net real earnings. Gross private sector pay increases also reflect the effects of measures to whiten the economy, since the figures for pay increases now include some income which was previously not paid as salary.

In the public sector, partly owing to rises in accordance with the public sector wage agreement, there was a 6.4% gross earnings increase. Net real earnings increased by 2%. For 2007, owing to the strict pay restraint required by public spending adjustments, an agreement was only reached with the strike committee of public sector trade unions in February of this year. The only change for 2007 resulting from the agreement was that – with guaranteed pay items remaining in place – part of the “13th month” salary otherwise due on 16 January 2008 is being paid in advance: 1/12 of the amount monthly starting in July. This is equivalent to an 8% increase in monthly salary compared to the same period last year, but does not alter the 2007 public spending ESA balance. The remaining 6/12 of the 13th month salary for 2007 will be paid in the usual way in January 2008. The agreement also provides that the 13th month salary for 2008 will be paid as monthly advances over 12 months. The figures for the first half of 2007 show a 3.8% gross earnings rise in the public sector, equivalent to a 9.3% net real decrease, but with the 13th-month advance payments starting in July this is expected to moderate to 5-6%.

Most important steps of last year

The Government, following broad social consultation, has approved the National Sustainable Development Strategy, produced in line with the European Union's new Sustainable Development Strategy. Its main objective is to promote a changeover – with due heed to national features and wider conditions – in the socio-economic-environmental trends that make up Hungary's development, so that they find a sustainable course in the medium and long term. The Strategy provides a framework for strategies, programmes and plans aimed at particular sectors and other aspects of development, taking into account the interrelationships and interactions among them, thus to a large degree promoting coherence between different component policies.

3. MICROECONOMY

This chapter covers progress made in respect of measures envisaged in the revised national action plan for 2006, with due heed to the European Commission's country report and the European Council's guidelines of 23-24 March 2006. It also discusses the new government initiatives during the year for improving microeconomic conditions required to fulfil the Lisbon Objectives.

Situation Analysis

From the mid-1990s onwards, the Hungarian economy grew rapidly – considerably ahead of the European average. The closing of the gap in the real economy has slowed down considerably in the last two years, partly reflecting the immediate effects of budget adjustment measures, and partly deriving from the slowness of the positive effects of structural measures already taken. In order to re-establish a rate of economic growth sustainably higher than the EU average, it will be essential to raise productivity and maintain employment growth.

Together with maintaining macroeconomic stability, i.e. establishing a stable macroeconomic environment which stimulates investment in the long term, the Hungarian Government is convinced that major contributions to improving productivity will be achieved through regulatory reforms to stimulate competition in the network industries, incentives for economic R+D, innovation and environmental awareness, and government initiatives to improve the business environment.

The labour productivity gap continues to narrow: GDP per person employed was 72.6% of the EU average in 2006, and continues to outstrip the figures in new member states in similar situations. Despite a rise in unit labour costs over the last two years, Hungary has retained its competitive advantage in this respect. Hungary's total labour cost per unit of GDP produced was lowest in the Central-Eastern European region in 2006, and the figures for the first quarter of 2007 show no deterioration of this position.

Hungarian businesses had an average profit-to-capital ratio of more than 10% in the last cycle. However, corporate profitability figures vary widely when looked at by ownership structure and size. There are widening gaps in profitability between the SME and large company segments, and between the majority foreign-owned and domestically owned companies, indicating that the Hungarian economy is increasingly divided.

There appears to be a slowdown in the (partial) market opening of the network industries, in terms of structure and price indices, which started at the turn of the millennium. Further efforts are needed to achieve a full opening of the market, which will bring down service prices and decrease the dominant market share of certain operators.

Several new measures have been launched recently to raise the level of R+D expenditure, which is currently below the European average (1% in 2006), restructure R+D finances and increase the share of R+D in private business. However, there has not been a substantial improvement in the concentration of corporate R&D expenditure (in terms of the number of companies responsible for the majority of expenditure and the areas where it is spent), or in the innovation indicators of Hungarian companies.

Nonetheless, positive trends have recently emerged in the spread of the information society. Corporate PC and Internet penetration indicators approached the European average in 2007, and the numbers of both companies and households with broadband access show steady rates of increase (albeit from low starting levels). The relevant indicators demonstrate the advance of electronic services among both businesses and households. The proportion of companies' revenue from e-trading increased substantially in 2007 and now approaches the EU average. There have been breakthrough developments in the e-government area, improving Hungary's indicators by international comparison: the range of services accessible electronically has expanded, the number of users has increased, and the electronic accessibility of government bodies has improved. However, the indicators of digital literacy and the digital gap show a worrying lag behind the European average.

Intensive infrastructure development projects in the last cycle delivered improvements in the country's international accessibility and stimulated regionally-balanced economic development. Although the transport network is still highly Budapest-centred and there are severe differences between regions, in the recent past several developments have aimed at solving these problems (e.g. Danube bridges at Szekszárd and Dunaújváros, enlargement of M4 and M8). Future efforts will be directed at relieving narrow network cross-sections and implementing flexible (intermodal) solutions for transport service users.

The Hungarian business/investment environment is just as much affected by economic regulation, incidental costs of business transactions and administrative burdens as it is by macroeconomic conditions. The regulatory conditions for setting up and operating businesses have been considerably eased over the last year, although the macroeconomic situation is still inhibiting companies' propensity to invest, which has yet to show an improvement.

Overall, according to the latest international competitiveness surveys, the country's relative position (its ranking on various lists) has not deteriorated, but neither has it improved.

*To increase and improve investment in R&D, in particular by private business
(Guideline 7)*

Most important steps of last year

STI Strategy and Action Plan

In March 2007, the Government passed the science, technology and innovation policy strategy (hereinafter STI strategy). The principal objective of the STI strategy is to establish a supportive legal and economic environment for innovation and to encourage joint R&D&I activities in the private and public sectors. The document sets the target figure for the R&D intensity indicator at 1.8% by the end of the timescale of the strategy in 2013, and 45% of this must be attained in the private sector. The latest figures for these indicators are (2005): GERD/GDP = 0.95%, business share: 39.4%. In August 2007, the Government adopted a three-year action plan for the STI strategy. The action plan comprises revision of the academic research network management system and its rules of operation; application of the principle of performance; fine-tuning of the business-friendly and innovation-encouraging legislative environment; implementation of a common public finance system for R&D&I; coordinated execution of domestic and EU co-finance aid programmes, and reorganisation of the related institutional system. These initiatives will be coordinated at government level.

Envisaged measures

Public R&D finance and management

The cornerstone of state R&D finance reform is a new common system of government finance for the area, involving coordination of the Research and Technological Innovation Fund (The Fund), the Economic Development OP (EDOP), the Social Infrastructure OP (SIOP), the Social Renewal OP (SROP) and other domestic sources of funds. The government concept laying down the principles and policies for setting up the common financing system is expected to be passed in autumn 2007. A related review of state R&D&I funding and its institutions, aimed at simplifying and unifying execution of the STI strategy, is already under way.

The performance-based pay model and project-based financing framework for government-funded research sites will be complete by the end of 2007. This will enable the reorganisation of government-funded research sites to start in 2008.

*To facilitate all forms of innovation
(Guideline 8)*

Most important steps of last year

Review and simplification of legislation to encourage business R&D&I

A legislative review aimed at integrating the conditions for public finance for businesses is due to be laid before the Government in the final quarter of 2007. The legislative proposals cover simplification of the conditions and administrative requirements of government funding schemes and a revised method for valuing intellectual property. The Government's working plan envisages that the legislative amendments should be introduced in the first half of 2008.

Government funding schemes to encourage corporate R&D&I and collaboration between business and academia

Four new government schemes were launched in 2007. The Albert Apponyi Programme, with a budget of HUF 3.7 billion and covering the period up to 2010, is aimed at improving conditions for technological innovation and evaluating the social conditions for R&D activities. The Ányos Jedlik Programme, with a budget of HUF 8 billion, is aimed at financing joint projects by the R&D sector and industry to create marketable products and services. In 2007, HUF 1.28 billion will be allocated from the budget. A separate scheme will encourage the setting up of national technological platforms. The 2007 budget for the National Technological Platform Programme was HUF 500 million. Another scheme is assisting research centres to connect into the major European research networks. Most of its funds come from ERDF, although there is also substantial involvement of private capital.

The Hungarian Government places particular priority on achieving intensive participation in international R&D projects. Our national aim as regards the European Technology Institute is that its centre should be located in Hungary. The Government is expected to take decisions preparatory to securing this position, and decisions relating to the international tender, in October 2007.

Most important steps of last year

Measures to stimulate the e-economy and e-business

Considerable simplifications to the legal framework of e-business will result from amendments made to the Electronic Business Act and related laws in June 2007. These will come into effect on 31 March 2008, and include the abolition of the obligation to maintain an independent business for Internet mail order operations, and provisions to enable more effective action against unsolicited advertisements.

In December 2006, the Ministry of Economy and Transport launched an electronic business information website (elker.hu) enabling businesses to find out about the legislative background and the conditions and circumstances of setting up a business operation.

A review of e-billing rules started this year, covering accounting rules, tax inspection and electronic archiving rules, and drawing up proposals for simplification. An investigation into legal and administrative obstacles has identified some necessary legislative amendments.

The measures will enable businesses and consumers to make better use of information technology and accelerate the business application of electronic billing and electronic signatures.

Development of infocommunication infrastructure, ICT use and digital literacy

For members of the public without Internet access, there is a need for community e-service access points which also provide help and advice. Following a review, the e-Hungary 2.0 Programme has been launched this year with the purpose of providing improved public access to Internet access points through a coherently-managed, supervised, transparent, nationwide public infocommunication network. By setting up e-Hungary points, an ever wider section of the Hungarian public is being targeted for involvement in the information society, thereby closing the digital gap.

Modern business IT solutions are being made available to small and medium-sized enterprises through a grant scheme launched in July 2007 under the Economic Development Operational Programme. The grants are aimed at encouraging the spread of corporate process management applications, e-business operations and e-services, thereby raising the level of computerization in internal and external corporate affairs.

Envisaged measures

Measures to stimulate the e-economy and e-business

A comprehensive government study to identify factors obstructing the spread of e-signatures is planned to start in the final quarter of 2007.

Development of infocommunication infrastructure, ICT use and digital literacy

The Digital Literacy Action Plan is being drawn up in collaboration with industry partners. The purpose of the initiative is to reduce the number of digital illiterates by segmentation of the public on a new basis. Launch of the action programme is planned for early 2008.

Also planned for launch is the NET Ready Programme, aimed at raising social openness to infocommunication tools, applications and content, expanding Internet coverage and use, and

stimulating the market for infocommunication products and services through coordinated action from the business and government sectors.

Installation of broadband Internet infrastructure in economically lagging, less commercially attractive small regions is planned to continue in the final quarter of 2007, as part of the Economic Development Operational Programme. The purpose of the grant scheme is to support the provision of broadband telecommunications infrastructure and services in places where broadband network access is unavailable to both households and businesses because of insufficient commercial incentive for broadband investment.

*To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth
(Guideline 11)*

Most important steps of last year

The Environment and Energy Operational Programme (KEOP), produced as part of National Strategic Reference Framework and approved on 1 August 2007, comprises several measures designed to contribute directly or indirectly towards prevention and reduction of environmental pollution and damage, and towards preparation for climate change.

The Kyoto Protocol was ratified by Act IV of 2007, and Parliament subsequently has also adopted the execution framework for the Protocol in Act LX of 2007.

Another major step was the regulation, via a government decree, of eco-design obligations for energy-using products and the general conditions for distribution of products and assessment of conformance.

Green public procurement

In line with Community objectives, an industry working group coordinated by the Ministry of Environmental Protection and Water, after a multi-round social consultation, has produced the final draft of the Action Plan for green public procurement. The proposal is planned to be laid before Government before the end of the year.

Environmental technology, trade development and innovation programme

The Ministry of Environmental Protection and Water and its partners have launched the “KEXPORT” foreign trade framework programme, as part of the Hungarian Environmental Technology Action Plan, in 2007. The programme is aimed at promoting international trade of Hungarian “greenovative” products and services.

The KEXPORT programme is built on joint and coordinated action in on four areas: government, industry, trade development and innovative technology. A joint information and knowledge base will enable EU and other financial resources to be used more effectively, and a separate website will provide guidance for highly-capitalised businesses (<http://www.kexport.hu/index.php>).

Energy saving and energy efficiency

Raising energy efficiency and reducing the energy intensity of the economy are key priorities of the Hungarian Government’s energy policy. Several financial schemes have been launched in pursuit of these goals. The National Energy Saving Programme (NEP), charged with raising the efficiency of energy use among the public, received some 13,000 grant

applications in 2006-2007. The programme provides cheap credit for projects involving the public.

A grant scheme operates under the NEP, passed by Government Decree 1107/1999. (X. 8.), and its related Action Programme. One scheme, to support household energy saving, was launched under the NEP in 2007: the total non-returnable funding for 2007 is HUF 2.4 billion, and the associated credit amounts to HUF 16 billion. The 2007 grants will bring energy improvements to 17,000-18,000 homes.

KEOP will support energy-saving and efficiency projects for businesses and households from a planned budget of HUF 110 billion over the 2007-2013 period. A nationally-financed government programme called “Light of Our Eyes” for the co-financing of heating and lighting modernisation in state and local authority buildings was passed in summer 2007.

Promotion of environmental technologies and eco-innovations

As a Competent Body, we are continuously involved in the work of the EU’s Eco-Labeling Committee and Regulatory Committee; we are continuously active in the national environmentally-friendly rating committee assessing applications and judging trade marks; and we also, together with the interested organisations, examine Hungarian compliance with new and revised eco-labelling criteria.

Efficient use of non-renewable resources; use of resources within renewable capabilities

All measures under the National Rural Development Plan (NVT) are tested against environmental sustainability criteria so that they comply with the relevant EU legislation and Hungarian environmental and nature conservation legislation. Environmental sustainability is one of the objectives of the NVT, under which “agro-environmental management,” “support for deprived areas,” “support for conformance to EU agricultural, animal welfare and hygiene regulations,” and “support for afforestation of agricultural areas” are specifically environmental measures, i.e. their environmental effects are directly measurable; the other measures have indirect environmental effects, but they also prescribe the application of environmentally-friendly solutions and technology.

By the adoption of Government Decree 275/2004. (X. 8.) on “Nature conservation areas of EU significance,” Hungary has satisfied its member-state obligation to designate NATURA 2000 areas. The decree defines areas significant for preservation of animal and plant species and habitats listed in Council Directive 79/409/EEC of 2 April 1979 on the conservation of wild birds and Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora. The areas designated, or proposed for designation, as Natura 2000 areas cover some 1.9 million hectares, 20.6% of the area of the country. The European ecological network has designated 468 special nature conservation areas – a total of 1.41 million hectares – on the territory of Hungary, and 55 special bird protection areas covering 1.29 million hectares. The two types of area have a 41% overlap. The Natura 2000 network affects 483,400 hectares of pasture and 522,600 hectares of arable land.

Envisaged measures

Energy saving and energy efficiency

Hungary will draw up its first energy efficiency action plan (EEAP) under Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use

efficiency and energy services and repealing Council Directive 93/76/EEC and submit it to the European Commission by October 2007. Economic consultation has taken place, and social consultation is in progress.

The plans for the Environmental and Energy Operational Programme (KEOP) provide for a total of HUF 42 billion to be available in support of energy efficiency improvement projects between 2007 and 2013.

Use of renewable energy sources

Work on drawing up the government strategy to expand the use of renewable energy sources started in spring 2007. The draft strategy is ready and partner consultations are currently in progress. The Government is due to pass it in 2007. The target figures for 2010 envisaged in the technical background document for the strategy are: 6.5% of electricity from “green generation” and 8% of energy from renewable sources. Assuming consistent implementation of the strategy, the target figures for 2013 are: green generation producing 11-11.5% of Hungary’s total electricity and renewable sources 14% of its energy.

Government Decree 2058/2006. (III. 27.) on Development of biofuel production and incentives for its use in transport, has the aim of raising the proportion of biofuels among fuels distributed for transport use to at least 5.75% by 2010, thus ensuring compliance with EU Directive 2003/30/EC. The Government passed a package of measures in pursuit of this in late 2006. A draft ministerial decree on quality requirements for vehicle and machine fuels is currently going through the EU notification procedure. It will promote sale of biodiesel and E85 ethanol fuel on the Hungarian market by defining the quality specifications of these fuels in line with EU standards and prescribing the conditions of distribution, including the requirement to inform consumers.

A differentiated excise duty rate has been introduced on 1 July 2007, and will be introduced for biodiesel on 1 January 2008, under the 2005 amendment to Act CXXVII of 2003 on Excise duty and special rules for sale of products subject to excise duty.

A total of approximately HUF 68 billion is available under the KEOP programme to support projects to expand the use of renewable energy sources in the period 2007-2013.

Climate change strategy

Hungary has started to draw up a National Climate Change Strategy (NCCS) under Act LX of 2007. The social consultation on the draft strategy took place in summer 2007, and after processing of opinions and government consultation, Government approval is planned for the final quarter of 2007. Execution of the strategy may begin following parliamentary approval in early 2008. The Government will adopt a National Climate Change Programme to execute the NCCS, which will operate over two-year periods.

Through the NCCS, Hungary aims to reduce its emissions to the levels undertaken in the Kyoto Protocol by 2012 and to reduce them subsequently in accordance with agreements among EU member states. This must be accompanied by the transformation of the energy sector and energy use. In the frame of sustainable energy management Hungary aims at avoiding the increase of energy utilization by intensifying energy efficiency and increasing the utilization of renewable sources to a proportion as high as possible. The two fundamental

strategic priorities of NCCS up to 2025 are prevention of environmental pollution, including the reduction of emissions, and adaptation to climate change. In addition to emission prevention and reduction, the NCCS puts particular stress on adaptation to climate change.

In addition to the government programmes mentioned above, a Green Investments System is also envisaged measures, aimed at promoting energy efficiency and energy saving in the household and public sectors and facilitating other climate change-related tasks.

*To extend and deepen the Internal Market
(Guideline 12)*

Adoption of internal market directives, enforcement of internal market rules

Full implementation of the single internal market (the free flow of labour, goods, services and capital) and full enforcement of internal market rules are of prime importance to the Hungarian Government, as is its ongoing commitment to transposing internal market directives with appropriate content and in proper time. The Government has adopted the legal harmonization proposal for transposition into Hungarian law of Directive 2006/123/EC on services in the internal market, and has surveyed the legislative tasks required for transposition. This Hungarian legislation which will have to be amended or repealed is now being identified in detail, and other executive measures are in progress to adapt administrative procedures.

The Internal Market Results Table published by the European Union Directorate-General for the Internal Market on 2 July 2007 shows Hungary's adoption deficit to be 1.2%. Although this figure is not as good as in previous years, when together with Hungary's results to date it fits in with a consistently creditable performance. Transposition delays have shortened considerably: there is no directive for which Hungary is in arrears of transposition of longer than two years, and the average transposition delay time is among the shortest (4 months). The number of procedures for breach of obligations is also small relative to the other member states, and the average time for completion of these is also among the shortest. In respect of adoption of the Commission's Recommendation of 12 July 2004 on the transposition into national law of directives affecting the internal market, Hungary is among those in second place, according to the February 2007 results table. This demonstrates that the government system for coordinating legal harmonization legislation is capable of ensuring that commitments are met in proper time and with appropriate content, with effective controls on the process and, where there are deficiencies, proper handling of breach procedures.

To improve the national law transposition and practical implementation of internal market rules, Hungary has made further adjustments to its coordination and control of the associated government tasks, including the assignment of a minister without portfolio to take charge of these. As part of this, and to ensure full and prompt compliance with the requirement formulated in the European Council's conclusions of March 2007 to reduce the transposition deficit to 1% by 2009, the Government conducts a monthly review of the performance of legal harmonisation legislation tasks and where necessary takes specific action to eliminate shortcomings.

Operation of SOLVIT centre

The Solvit Centre in Hungary, set up to assist settlement of internal market disputes, is operating very effectively and thus promoting the operation of the internal market. The

Ministry of Foreign Affairs ran intensive media campaigns in November 2006 and January 2007 to publicise the SOLVIT centre. The campaign has resulted in an increase in the number of enquiries received: the Hungarian SOLVIT centre acted in 62 enquiries between 1 January and 1 July 2007, a 30% increase on the same period the year before.

Electronic public procurement

The 2006 amendment to the Public Procurement Act provides the legal basis for applying electronic auctions and operating a dynamic procurement system. The introduction of the electronic auction into public procurement procedures enables major savings to be achieved in government procurements. The measure contributes to greater transparency of public procurements and thus raises competition on the public procurement market. The ability to participate electronically is also expected to reduce the administrative burden for companies in public procurement procedures.

The government decree setting the executive rules for electronic auction and other electronic means in public procurements was passed in September 2007 and will come into effect on 1 January 2008. The decree was preceded by an economic impact assessment, which found that public procurement should be developed through market service providers instead of state monopoly service providers.

*To ensure open and competitive markets
(Guideline 13)*

Most important steps of last year

Stimulating market competition in the energy sector

In June 2007, Parliament adopted a new system of regulation for the electricity market, based on a “full market opening” regulatory model. Most of the provisions of the new Act come into effect on 1 January 2008. Hungary has thereby met its legal harmonization commitments for the electricity market.

The new Electricity Act sets out to raise the competitiveness of the economy by establishing full competition while guaranteeing long-term security of supply. The present double – public enterprise and free market – model and the fixed supply chain will give way to a purely competitive market model. The Act defines a restricted category of household consumers and small businesses which will be entitled to a universal service. The Act provides detailed rules on the universal service. In addition, the Act places a high priority on strengthening consumer protection, and to this end firstly transfers consumer protection functions from the Hungarian Energy Office to the Consumer Protection Directorate and secondly specifies new directions for subsidies in this area (renewable energy sources, waste, cogeneration). The Act also sets the basic rules for institutions to protect the consumer. Central to the new system of subsidies is that the Government will define different compulsory purchase prices for each technology and energy source. The period and amount of subsidy will take account of the other subsidies provided to each project.

In parallel with the regulatory review of the industry, the social price support system for household gas and district heating supplies was revised at the end of 2006. The new system of price support, involving socially differentiated subsidies based on household means testing and fairness criteria, was introduced on 1 January 2007.

State aids

Preliminary figures show that subsidies subject to state aid regulation have not increased as a proportion of GDP, in fact they slightly decreased from the 2005-2006 period. In the present circumstances, the goal of reducing state subsidies as a proportion of GDP must be considered in the light of several special factors. Firstly, use of aid from the structural funds induces national financing, which appears among state subsidy figures. Maximising use of EU funds naturally enjoys priority over reducing subsidies. Secondly, a prominent component of subsidies in Hungary is “investment tax relief.” This has been inherited from the pre-accession period, and cannot be directly changed by subsidy policy, because the beneficiaries’ right is established and the amount of subsidy claimed depends on the state of the economy and corporate decisions. Horizontal support goals (especially R+D and employment subsidies) represent a larger proportion in programmes launched recently, but this can only gradually have the effect of rearranging the internal structure of subsidies.

Envisaged measures

Stimulating competition in the energy sector

The new regulatory model for natural gas and the proposed legislation for the sector is planned to be adopted in the final quarter of 2007, and its provisions should come into effect in mid-2008.

Similarly to the Electricity Act, the new law on natural gas will set out to raise the competitiveness of the economy by establishing full competition while guaranteeing long-term security of supply. The present double – public enterprise and free market – model and the fixed supply chain will give way to a purely competitive market model.

With the promulgation of the new Acts governing these sectors, full market opening will be implemented in mid-2008, i.e. consumers will be classed as authorised consumers in all market segments and may freely choose their gas and electricity suppliers.

Opening of the postal services market

With a view to opening up the postal services market in 2009, work has begun on a government postal strategy (preliminary market impact report, basic government strategy concept). The government strategy is planned to come out in the first quarter of 2008.

*To Create a more competitive business environment
and encourage private initiative through better regulation
(Guideline 14)*

Most important steps of last year

Government programmes to reduce administrative burdens

In April 2007, the Government adopted a comprehensive package of measures to reduce administrative burdens, involving the government deregulation programme and the “Tuned for Business” programme for improving the business environment.

The “Tuned for Business” programme aims to create an optimal business environment and raise competitiveness by minimising the incidental burdens associated with running businesses, paying of taxes and statutory charges and fulfilling administrative and data-

provision obligations. Its principal themes are: simplifying company and tax administration, raising the legal security of businesses, improving financial operation conditions and making competition fairer and more transparent. In 2007, facilitating measures were introduced via legislation in the following areas:

- Simplification of conditions for entering the market (Act LXI of 2007: more details under the heading “Review and simplification of the legal environment for business start-ups”).
- Relief of business debt gridlock. (Act LXXVII of 2007: Accelerating payments in public procurements for the benefit of subcontractors.)
- Raising the limit for compulsory auditing. (Act LXXV of 2007 reduces company accounting expenses by raising the limit from HUF 50 million to HUF 100 million, so that in future fewer businesses will be subject to this obligation.)
- Simplification the conditions for e-business. (Act XCIV of 2007: more details under the heading “Measures to stimulate the e-economy and e-business.”)
- Extending electronic tax administration (Act LIV of 2007: new electronic tax payment facilities, and Act XLIII of 2007: permitting excise duty and energy tax returns and reclaims by means.)

Further major simplifications have resulted from the following decrees:

- Government Decree 133/2007. (VI. 13.) on Rules for operation of shops. (Clear, transparent rules set into a coherent system. Includes acceleration of the procedure by permitting a joint inspection involving all parties involved.)
- Ministerial Decree 25/2007 (II.28.) GKM on Trade activities subject to mandatory record-keeping. (The decree ended record-keeping obligations for certain activities, such as mail order trade, vehicle trade, etc.)
- Joint Ministerial Decree 67/2007. (VII. 10.) GKM-EüM-FVM-SZMM on Conditions for production of catering products. (Clear, specific and simplified definition of requirements for products produced, stored and sold in the catering industry, particularly food safety and consumer protection requirements.)

Adopted in April 2007, the programme identifies 10 priority areas for comprehensive legislative revision. Work started in 2007 on reviewing legislation and on drawing up proposals for accelerating administrative procedures in the following areas:

- vehicle administration,
- administration concerning birth, marriage, death and personal documents,
- administration related to pensions and health insurance,
- property administration,
- employment-related administration,
- consumer protection (primarily matters related to bank and insurance services),
- public health authority (ÁNTSZ) procedures,
- administration related to the licensing of premises.

In addition, the Deregulation Programme is concerned with improving the quality of legislation.

Review and simplification of the legal environment for business start-ups

The 2007 amendment of the Companies Act has considerably simplified and speeded up the procedures for setting up businesses. Company procedures became exclusively electronic on 1 July 2008. In future, the compliance and legality of the company’s registered address will be the responsibility of a solicitor or notary public providing legal services, instead of the

companies court. The simplified company procedure minimises the number of documents to be submitted to the companies court, and the companies court administration time limit will be reduced from 2 working days to 1 working hour from 1 July 2008. The simplified company procedure rules will also be applicable in the procedure for registering changes, so that on 1 July 2008 the time limit for registering changes will also shorten to 1 working hour.

On 1 September 2007, the expenses involved in the procedure will also decrease (procedural duty, minimum initial capital). Foundation of a company by the simplified procedure will be free of charge.

Certificates of incorporation (in authenticated translation) for foreign company members will be required only if such an obligation is specified in a separate statute. For a change of member of a limited company (Kft.), there will be no need to submit the contract of sale of shares. Activity licences will in future not be published in the register of companies and company documents. A company may, at its own discretion, announce its activity licences either in the Companies Gazette or on its own website. The rules of electronic delivery will be provided in a separate law, with appropriate guarantees. Electronic issue of documents will be introduced, speeding up and simplifying court affairs.

Envisaged measures

Measures to raise the quality of regulation

To improve the quality of regulation, it is particularly important to produce advance regulatory impact assessments (RIA), integrate the comments of stakeholders, ensure the effectiveness of legislation through an appropriate monitoring system, and confine the administrative burden caused by legislation to the minimum necessary. Quality of regulation projects are executed under the State Reform Operational Programme.

Measures in progress to improve the business environment

IT developments to implement compulsory electronic company procedures are being implemented as part of “Modernization of company court systems,” funded from the 2007-2008 EKOP. Free, searchable Internet access to company announcements and information in the Companies Gazette will be provided, without registration, starting from the revised date of 1 January 2008. Work has begun on specifying the IT and operational requirements. The decree on free company information and the act of parliament on publication of creditor-protection information in the register of companies and publication of annual reports will also be drafted this year.

Legislation to simplify licensing procedures is closely linked to execution of the deregulation programme and coincides with the start of work on transposing Directive 2006/123/EC on Internal market services into Hungarian law. As part of the implementation of the directive, the relevant ministries reviewed the legislation within their areas of responsibility and identified the provisions requiring amendment. This is being followed by systematic preparation of legislative amendments.

To consolidate and simplify companies’ tax and contribution returns, a working group led by the tax authority (APEH) has since April been inquiring into the number, structure and content of returns and forms to be filled, and is aiming to draw up proposals for simplification by the end of 2007. A concept for simplifying state claims (speeding up court procedures and reviewing the regulation and system of interests of court execution), and the resulting legislation is due to be adopted in late 2007 or early 2008.

A working group on reduction of debt gridlock has been continuing its work in the second half of 2007 and is expected to make proposals for further legislative amendments. The Government debated a concept for combating the black economy in July 2007 and decided to tighten controls. There are plans to set up an Anti-Counterfeiting National Body to combat breaches of intellectual property rights. The Anti-Corruption Coordination Body was set up in August 2007 to combat and prevent the spread of corruption. By the end of 2007, it will produce a strategy and action plan for substantial reduction of corruption. A review is starting of market supervision authorities and their scope of activities and is due to produce a market supervision strategy by mid-2008.

Extension of Internet information services include the setting up of a one-stop business portal to make available at a single point up-to-date information needed for business operation. Documents which are the subject of interest will be accessed either directly or by clicking on a link. The portal is due to open in January 2008.

*To Promote a more entrepreneurial culture and create a supportive environment for SMEs
(Guideline 15)*

Most important steps of last year

Production of government strategy to for development of small and medium-sized enterprises

In February 2007, the Government adopted a small and medium-sized enterprises development concept which recognises the important role played by small and medium-sized enterprises in achieving economic competitiveness and providing employment. This was followed by production of the Government's medium-term SME strategy, which is due to be adopted in the final quarter of 2007.

The current draft sets the main objectives of SME development policy for the 2007-2013 period as:

- raising the revenue generation of small and medium-sized enterprises to approach the level of advanced EU states;
- expanding the workforces and improving the quality of human capital in small and medium-sized enterprises.

Review of business financing systems

In 2007, the institutional system of SME finance was completely overhauled (see government funding intermediate organisations). In line with the government programme, the Hungarian Development Bank (hereinafter MFB Zrt.), under a decision by Parliament in summer 2006, took control of the credit institutions Hitelgarancia Zrt., Regionális Fejlesztési Holding Zrt. and Kisvállalkozás-fejlesztő Pénzügyi Zrt. By Government decision, MFB Zrt. set up the Hungarian Economic Development Centre in September 2006, which fulfils funding intermediation functions for enterprise development grants funded from domestic sources, GVOP and the Economic Development Operational Programme (starting in 2007).

The main purpose of overhauling the system of institutions was to increase transparency and establish the framework of one-stop funding intermediation. Under the one-stop procedure set up by the National Development Agency and the Economics Ministry, new schemes

announced since 1 January 2007 are managed via this integrated funding intermediation network.

MFB Zrt. has also overhauled its system of development capital finance. The single-channel state capital finance model has taken shape by integrating the capital activity of Corvinus Nemzetközi Befektetési Zrt. and the development and capital investment funds of MFB Zrt. It has also allowed the creation of venture capital funds capable of linking additional private investment funding to state capital funding.

Financing schemes for small and medium-sized enterprises

The JEREMIE programme will be implemented under priority 4 of the Economic Development Operational Programme (EDOP), part of the New Hungary Development Plan. The micro-credit, guarantees and venture capital made available by the programme will close some gaps on the financial markets and improve small and medium-sized enterprises' chances of involving external funds. The EDOP objectives are planned to be implemented with by lending, via the new financial programme, HUF 170 billion out of the total available EU and national funds of HUF 800 billion.

By setting up a single-channel state capital finance system, the existing capital funds of the MFB Group, the planned funding under the JEREMIE programme and the 30-40% private capital linked to these is expected to provide between 2007-2013 more than HUF 100 billion in development and venture capital for economic development purposes, thus potentially strengthening the capital position of several hundred companies.

*To expand, improve and link up European infrastructure and compete priority cross-border projects
(Guideline 16)*

Most important steps of last year

Reform of the road toll system

The first major package of measures for road toll reform was adopted on 1 April 2007. This expanded the categories of motorways and trunk roads on which tolls may be charged and the categories of users subject to pay tolls. The basis of the measures was the 2006 amendment to Act I of 1988, enabling the introduction of tolls for commercial vehicles on *autóút* – higher-category trunk roads – and certain sections of main highways. The Government adopted the principles of the new tolls policy by a decision of February 2007. This was followed by executive decrees of various levels.

The fundamental purposes of extending tolls to high-speed roads and certain national highways were firstly to channel commercial vehicle traffic on to high-speed roads and secondly to internalise maintenance costs among users, thus reducing the burden on public funds. The essence of the measures is that only the M0 ring motorway and high-speed roads within it may be used free of charge. No further charges have been introduced for private cars, i.e. roads which could be used free of charge before remain free of charge.

In line with European guidelines, the next stage of modernising the toll system is the introduction of an electronic toll system proportional to road use. The Government decided in

June 2007 to introduce the European electronic toll system service for vehicles of gross weight greater than 3.5 tonnes on 1 January 2009.

Public transport reform, community transport

The government timetable for long-distance public transport reform was adopted in December 2006. The main objectives of the reform are regional reorganisation of public transport, coordination of bus and rail transport within regions, establishment of a coherent tariff and concession system, and reorganisation of Hungarian Railways (MÁV Zrt.).

A network of regional transport organising offices is being set up, starting in 2007. These offices arrange consultations and use accumulated industry knowledge and information and figures on the local area of operation to produce sound proposals for solving public transport problems and coordinating timetables between buses and rail transport in their region. The offices maintain contacts with local authorities, trade unions, employers' organisation and service providers in the region. This network of offices will gradually take over transport organisation functions in their respective regions from 1 June 2007 onwards.

A coherent tariff and concession system is a precondition for coordinating publicly-supported long-distance passenger transport. A comprehensive set of government proposals for overhauling the concessions system was drawn up in November 2006, basically covering reduction of the burden on public funds, simplification of the concessions system and abolition of unwarranted concessions. The coherent tariff system (including coherent fare zones) will be fully ready by the end of 2007.

As part of the reorganisation of the railways, the passenger transport division of MÁV has been operating as a separate company since 1 July 2007. A privatisation tender for the rail freight company MÁV Cargo Zrt. was announced in spring 2007. A review of 28 low-traffic railway lines led to passenger transport being closed on 14+5 lines on 4 March 2007.

The system of transport authorities was reorganised and simplified under Government Decree 2118/2006. (VI. 30.). By merging the Budapest and county transport supervisory bodies, the Ministry of Economy and Transport set up the National Transport Authority on 1 January 2007. The new organisation, set up on a regional basis, is designed to be a pure, transparent body which concentrates industry expertise. It will primarily fulfil supervisory and control functions. The model also envisages the integration of other official transport-sector functions, currently fulfilled by separate bodies, into a single organisation.

Development of transport infrastructure

Intensive developments in recent years have extended the length of high-speed roads to over 1000 km in 2007 (881 km motorways and 161 km other high-speed roads). Major high-speed road projects are still in progress, and the following sections are expected to be opened in 2008: the gaps in the M7 motorway, new sections of the eastern and northern sectors of the M0 ring road, and the Budapest and region approach section of the M6 motorway.

In August 2007, the Government decided on projects to be launched under Transport Operational Programme by the end of 2008, within the framework of the New Hungary Development Plan. Under the plans, some HUF 600 billion will be spent on high-speed roads, bypasses, resurfacing, railway modernisation and urban-suburban transport development projects in the first two years of programme implementation. The most intensively-funded transport objectives of the Regional Operational Programmes (ROP), also adopted this year, include projects to develop and improve subsidiary roads. ROP projects planned or already

adopted for 2007-2008 include road improvements costing some HUF 26 billion and new road construction costing HUF 13 billion. In addition to centrally-funded national link roads, local authority roads, cycle paths, community transport, regional transport associations and industrial park transport infrastructure are eligible for funding through a competitive grant system.

Through another Government decision taken this year, a total of some HUF 56 billion from domestic and international sources will be allocated to implementation of the “Cycling Hungary Programme” between 2007 and 2013. This will involve construction of cycle paths and lanes.

In addition to the efficient use of domestic public funds and EU co-financing, the Hungarian Government remains committed to the channelling of private-sector investment finance. The PPP construction, under which the M6, M44 and M3 motorways have been financed, will be extended.

To achieve coherent handling of diverse transport infrastructure, the system of government bodies is being overhauled in 2007. In future, developments in both road and rail transport will be managed by the national infrastructure development company Nemzeti Infrastruktúra Fejlesztő Zrt.

Envisaged measures

Reform of road tolls

Domestic legislation passed in April 2007 incorporates the provisions of the EU directive on interoperability of electronic road toll systems within the Community. Accordingly, the Government plans to introduce an advanced electronic system for collecting tolls proportional to road use, first of all for heavy commercial vehicles, on 1 January 2008. An international public procurement tender for the implementation of this was announced in summer 2007.

Public transport reform, rail transport

The first railway legislation adopted by the EU in 2001, the legal framework for a multi-operator rail sector, was transposed into Hungarian law by the 2005 Railways Act. Under the authorisation provided in this Act, regulation of open access to the rail track system is currently being drafted. The draft legislation setting out the basic rules of applying and setting track use charges has been drawn up with the involvement of potential national carriers and private railway companies. Finance of the Hungarian rail infrastructure will be based on payment of track access charges.

The purpose of the comprehensive regulation of track capacity distribution is to create transparency and to speed up and simplify the capacity distribution procedure, thus raising the efficiency of railway transport service providers. The new regulation is due to be announced at the end of 2007.

Review of the government strategy for the transport sector

A comprehensive government strategy for developing the transport sector started in early 2007. The Coherent Transport Development Strategy (hereinafter EKFS) is currently going through Green Paper partnership consultations. The Green Paper is planned for adoption in the final quarter of 2007.

4. EMPLOYMENT

Since the 2005 national action programme was submitted, it has been the basis for several government measures to increase employment and labour market participation by encouraging job-seeking, improving the labour market position of disadvantaged people, combating undeclared work and improving access to education and training.

In 2006, the Revised National Lisbon Action Programme added new measures (not included in the 2005 action programme) related to certain guidelines. Some of these form part of structural reforms, and others became necessary in the wake of action to restore macroeconomic balance. The results of a significant number of the measures announced in 2005 and 2006 are already visible, in particular the slight improvement in employment despite the macroeconomic conditions, and the signs of a reduction in undeclared work.

Situation Analysis

The effects of adjustments have not yet shown up in the main labour market indicators for 2006. There was some increase in employment in 2006 in spite of the negative employment effects of the reforms introduced to restore and stabilise macro-economic balance: the rate of employment increased by 0.4 percentage points to 57.3 per cent, accompanied by an increase in unemployment of 0.3 percentage points (to 7.5%, very close to the EU27 average). The increase in employment last year was mainly among men (by a total of 0.7 percentage points), while the rise of unemployment was typical especially regarding women. (by 0.4 percentage points to 7.9 per cent).

It follows from the above that inactivity decreased further in 2006: the number of inactive people in the 15-64 age group was nearly 40,000 lower than the year before, while the population in the same age group did not decrease, in fact it increased slightly from the year before. However, the labour market conditions accounting for the downward trend of inactivity last year was different to that behind the similar trend the year before. In 2005, the decrease of the number of inactive people arose primarily from the sharp increase in unemployment, with the level of employment remained unchanged. In that year, economically inactive people, perceiving an improvement in the labour market and better chances of finding a job, started to actively look for work in greater numbers than in previous years, and thus were classed as unemployed. At the same time, a similar proportion of employed people also became unemployed. By contrast, the decrease of the number of inactive people in 2006 was accompanied by a smaller increase in unemployment than the year before (+13,400) and by a relatively more significant increase in employment (+27,400).

The newly-employed people were principally drawn from the 30-34 age group and the older section of the working population (50-59 year olds). The rate of employment of young people remained low: employment among 20-24 year olds decreased slightly because the time spent in education and the labour market transition period is steadily increasing, and regular work alongside study is still not typical in Hungary.

The major explanation for the relatively low rate of employment in Hungary is the very high rate of inactivity among people of low educational level. This applies to both sexes and the middle age group, which is the most active on the labour market. In addition, there are other groups of people with labour market disadvantages: Romas, disabled people, and people in regions lagging behind. Creating employment opportunities for people in these groups is currently one of the major objectives of Hungarian employment policy.

There has been little change in the sectoral structure of employment in recent years. The employment has further declined in agriculture and manufacturing industry, but as a new aspect in 2006 the commerce has become another sector where employment is shrinking. Employment is also becoming increasingly concentrated within this sector.

As regards atypical forms of work, there has been no change in the rate of part-time working. Fewer than 4% of employees worked part-time in 2006, most of them older women (characteristically working after retirement). The proportion of self-employed and entrepreneurial partnerships was 12.7% in 2006, and 6.7% of employees worked with fixed-term contracts.

The main labour market indicators improved further in the second quarter of 2007: the employment rate rose by 0.3 percentage points and the unemployment rate fell by 0.2 percentage points from last year. The participation rate remained approximately at the same level.

Attract and retain more people in employment and modernise social protection systems

*Making work a real option for all - regardless gender or age
(Guideline 18)*

Certain groups of employees – in connection also with their life cycle – are in a special situation regarding participation in the labour market. Career-starters face the difficulties of entering into the labour market, older age groups have problems with remaining at work or – following shorter or longer absences –re-entering employment. Women’s disadvantages are mainly connected to maternity leave (lasting in the majority of the cases several years owing to the wide scope of child care benefits), after which returning to the world of work is especially difficult. The national action programme included measures for each target group. The implementation of these measures had been started in 2005, and decisions were made on further measures during 2006. In addition, measures to improve health conditions have been also continued, which means an important factor for increasing labour market participation (taking into consideration the state of health of the Hungarian population).

The Revised National Action Programme also included quantified objectives regarding the increase of employment of women and older workers. There was a slight improvement in both indicators in 2006: the activity rate for women increased from 51.1 to 51.8%, the employment rate for the over-55 age group increased from 33.0 to 33.6%.

Most important steps of last year

Assistance to career starters

In order to promote the employment of career starters, the Government launched the START Programme at the end of 2005. The programme aims at helping young people entering into the labour market by providing essential work experience. Nearly 41,000 young people found jobs with the support of the programme between 1 October 2005 and 1 August 2007.

Extension of the START Programme

Based on the promising outcome of the START Programme, the Government has prompted to extend it – with the support of the ESF – in order to raise the labour demand for disadvantaged workers and aid them in finding jobs.

- ‘START Plus’ support aims at assisting long-term unemployed, following care of small children or other dependant family members, to take up work after the end of child care benefit or while receiving such benefit.
- ‘START Extra’ support assists long-term unemployed over the age of 50 or with low educational level to find employment.

Supporting employment of older workers

To improve the employability of older workers, the Public Employment Service (PES) has launched a labour market programme that provided tailor-made services for the long-term unemployed matching also to the local labour market needs. 43 000 people took part in the programme in 2005, of which 27,000 found a job. PES has re-announced the programme in 2006 with 22,500 participants, of whom 13,000 found jobs.

Increasing the labour market participation of women

The Government has launched several measures to assist parents with small children to return to the labour market:

- Either parent may receive the child care benefits on the same terms. Child care benefit may also be transferred to grandparents after the child’s first birthday.
- Inactive persons on child care benefit are entitled to participate in vocational training or in higher education free of charge and since 2007 they receive extra scores at the higher-education entrance process.
- Persons on maternity leave can also join labour market training courses.
- The restrictive rules regarding the employment of persons receiving child care benefit has been abolished since 1 January 2006.
- About 800 new places at day care services for children (chrèches) are being established between 2006 and 2008 financed by EU resources (HRDOP).

Improving health conditions

Screenings in the field of tumorous diseases has achieved substantial results (nationwide introduction of breast and cervical cancer screening, model programme for cervix screening, bowel screening). Communication campaigns have been launched to promote screening. Other prevention efforts are the “on the scene” programmes that had been announced in the themes of health-friendly towns, healthy workplaces and nutrition-sport activity. One result of these, e.g. the significant increase in the proportion of school canteens selling healthy food. In line with the EU Green Paper, the law on protection of non-smokers and the rules of consumption and sale of tobacco products has been tightened (making education and health establishments, sports facilities and catering establishments smoke-free). Smoking prevention schemes have been launched for various target groups.

Envisaged measures

Transformation of disability benefits and improving the rehabilitation system

The new disability benefit system – which will have an important role in reducing early retirement – comes into effect on 1 January 2008. The purpose of the new rehabilitation system is that those disabled persons –who can be rehabilitated – could return to the labour

market and only those persons should remain on disability benefit who are not able to perform their work fully effectively.

For people with partial disabilities, a transitional benefit will replace the recent benefit. This transitional benefit will be accompanied by appropriate rehabilitation that assists and incites the return into the labour market. From 2008, disabled persons, who – regarding their state of health, skills, and age – could be rehabilitated with a good chance will receive rehabilitation benefit instead of the recent disability pension.

- The net amount of the rehabilitation benefit is equal to the recent 3rd class disability pension. However, those receiving the benefit are also eligible for rehabilitation services and are obliged to cooperate with the labour organisation.
- Rehabilitation benefit can be granted for the period of the rehabilitation, at most for three years.

In parallel with changes in disability benefits, a new rehabilitation system is being established that focuses on the individuals and their remaining abilities and makes the necessary services available for disabled people in order to maintain and develop their abilities and skills. ESF and ERDF funds will contribute to the development of rehabilitation between 2007 and 2013.

Improving health conditions

The National Public Health Programme has been continued. The implementation of the ongoing infrastructural developments (HRDOP 4.3) and the National Anti-Cancer Programme are in progress. Programmes funded by ESF and ERDF will also have an important role in health promotion and prevention from 2008.

Making work pay (Guideline 19)

One of the major instruments for encouraging work and maintaining labour market participation identified in the action plan is transforming unemployment benefit and social benefit systems in order to diminish disincentives to working. To implement this, unemployment benefits and some social benefits were transformed in 2005 and 2006. The Revised National Action Programme has set the objective, that actions designed to address negative labour market effects of macro-economic adjustment should preserve activity and assist transition rather than increase inactivity. The effect of such measures shows up in the figures concerning labour market participation, which have increased from 61.3 to 62.0% overall (67.9% to 68.7% for men and 55.1% to 55.5% for women).

Most important steps of last year

Transformation of the unemployment benefit system

At the end of 2005, to meet the requirements defined in the Action Programme, unemployment benefit was replaced by job-search benefit, which has two components: job search benefit and job-search allowance. The incentive-to-work effect of the job search benefit support system shows up in the fact that more than 33% of recipients of job-search allowance found jobs in 2006 before their entitlement to the allowance expired, compared with around 25% in previous years.

Changes in the system of social benefits

The new rules for social assistance aim to uphold social equity while providing incentives to work. Social assistance was transformed in 2006, since when it has been based on families

instead of individuals. The amendments in 2007 have also given further incentives for the recipient to work:

- the total regular social benefit granted to one family cannot be higher than the net minimum salary;
- it is possible to cross over from assistance to public work, i.e. if a local authority employs the recipient of assistance, it may draw the amount of benefit from the state budget and convert it to wages.
- people in public work may receive the difference of their wage and the amount of the previous assistance, if the latter is lower.

Changes in the pensions system

Preparations are in progress for the reform of the pensions system to guarantee long-term sustainability and security. In addition to preparations for the long-term changes, the Government has decided on several modifications making the present rules fairer and long-term finance more sustainable. The changes will not reduce current government expenditure, because pension rises prescribed by law and the implementation of the four-year pension-correction programme will result in rapid increase in pensions expenditure in the coming years. By adjusting the present retirement rules, which are excessively permissive and generous, the changes set out to promote labour market participation, provide long-term sustainability of the pensions system, and improve the financial security of those who will be retiring in future. By raising the median retirement age, the planned amendments will greatly support the extension of working lives and raise the labour market participation of older workers. (*More details in the macroeconomic chapter.*)

Envisaged measures

The establishment of the integrated employment and social provision system will play a key role in encouraging work. For details, see the chapter “*Modernisation of the Public Employment Service*”.

More and better assistance for job-seekers and disadvantaged people (Guideline 19)

The active labour market policy has a determinative role in improving employability and assisting job-seeking of the unemployed and disadvantaged people. With regard to the possible impact on employment of the adjustment period, the services granting assistance in job-seeking and the supports have to be strengthened. Experiences of the last fifteen years have namely demonstrated that it is difficult to reverse durable inactivity. Therefore, endeavours have to be made for avoiding that losing a job results in long-term withdrawal from the labour market. It is especially important that people facing particular difficulties in entering to the labour market (including Roma and disabled people) are granted tailor-made assistance to overcome such disadvantages, to improve their employability and chances of finding a job.

Most important steps of last year

Active labour market policies

In 2006, the average number of job-seekers, registered by the Public Employment Service amounted to 393,4 thousand representing a decrease of 4.4% (16,500) compared to the previous year (the decrease amounted to 9,5 thousand men and 7 thousand women.). The

decrease among school-leavers was 5.3% (2 thousand people). The decrease characterizes mainly the younger age groups and those who receive regular social assistance. In 2006, 235 thousand persons participated in active labour market measures financed by Labour Market Fund. Within the framework of HRDOP 1.1 nearly 35,000 persons were involved into complex labour market programmes between 2004 and 2006.

The support system has been transformed. The primary aim during the transformation was to abolish the overlapping forms of support and to make the system more simple and transparent. The legal amendments also aimed further harmonisation of employment-promotion support rules with the EU law, improving the efficiency of employment support and clarified the rules for performing tasks related to job-seeking.

Reducing regional labour market disparities

A significant share of the sources of active labour market measures has been spent decentralised, that way regions lagging behind receive a higher proportion of funds. Therefore, ALMPs have a significant role in reducing regional labour market disparities.

Within the framework of the New Hungary Development Plan a comprehensive development programme for the most disadvantaged small regions – aimed at breaking the geographically concentrated generation-to-generation cycle of poverty – has been launched. Overall, the programme has a budget of HUF 120 billion to spend on launching social/economic/infrastructural developments in some 30 small regions lagging behind.

Assistance for job-seekers' employment at micro, small and medium-sized enterprises and NGOs.

The SME+ programme has been started in January 2006. Within its framework, micro, small and medium size enterprises and NGOs that increase staff through employing job-seekers registered for at least three months as an unemployed, are entitled for support. The entry period lasted until 31 December 2006 and the programme will continue until the end of 2008. 11,471 companies joined to the programme and 14,142 registered job-seekers has found a job in its framework in 2006.

Programmes assisting employment of Roma people

The Decade of Roma Inclusion Programme (DRIP) – to a large extent financed by European Union funds – covers enhancing equal opportunities in education, eliminating school segregation, increasing the employment of Roma people, improving health condition and the level of available health care and substantive improvement of housing conditions. The Hungarian Strategic Plan¹ for the DRIP defines comprehensive aims and concrete tasks in four priority areas, namely education, employment, housing and health, and also for equal opportunities, culture, media and sport.

Actions to improve the employment position of Romas mainly comprises integrated programmes aimed at addressing labour market disadvantages. Such programmes are currently being supported by national resources (programmes of employment centres, National Employment Public Foundation programmes) and by ESF resources. According to recent estimates, the active labour market services provided by Public Employment Service (PES) (including central and regional programmes financed by Labour Market Fund and HRDOP 1.1) have assisted in improving the employability of 30,000 Roma people in 2006. Cooperation with Roma organisations (Roma minority municipalities and NGOs) and their

¹ Parliamentary Resolution 68/2007 (VI.28.) OGY. on the Decade of Roma Inclusion Strategic Plan was adopted by the Hungarian Parliament on 25 June 2007.

involvement in the implementation are important features of such programmes. Besides comprehensive programmes (covering not only Roma people), “targeted” Roma programmes also have an important role (including the Roma employment-management network operating within the PES, or the Roma ‘Janitor’ and ‘Telepes’ programmes supported by the National Public Employment Foundation, and the Roma business support programme).

Labour market integration of disabled people

The support system of organisations employing disabled people has been gradually transformed since 1 January 2006. New rules have been introduced regarding the accreditation of rehabilitative employers and their support. Some HUF 2 billion has been provided for investments generating rehabilitative jobs via competition and a further HUF 2 billion for retention of rehabilitative jobs.

Since the end of 2006, a government decree – based on the authority of the Public Procurement Act – has permitted a special public procurement procedure for employers hiring people with at least 50% reduced working capability (protected workshops). Therefore, the tenderer has the right for reservation for protected workshops in order to participate in public procurement procedure.

Envisaged measures

Job-seeking assistance for people on rehabilitation benefit

The Government has decided to transform the disability benefit system (for details *see Guideline 18*). Public Employment Service (PES) has to extend active labour market services to people on disability benefit. A complex programme (supported by ESF – SROP 1.1.1) starts at the end of 2007 providing tailor-made services and rehabilitation to disabled people in order to promote their employability. In this framework, PES has to ensure employment services and aids for people on disability benefit, which support remaining or returning to a recent job, taking up a new job, and inciting employers to hire disabled people.

Modernisation of the Public Employment Service (Guideline 20)

In order to increase labour market participation, the matching of labour market demand and supply has to be improved. It is the responsibility of the state to assist the operation of the labour market through maintaining a mediation and information service, allowing job-seekers to find the most suitable job among the vacancies and the enterprises to find the labour force to their successful operation. Continuous changes of the labour market require new types of services from PES. Therefore, PES has to be provided with sufficient information on the local, regional, and national labour markets and its services have to reach a wider scope both of job-seekers and employers.

Most important steps of last year

Integrated employment and social provision system

The development of the integrated employment and social provision system has been started. The first stage was to set up a joint management system. Due to the integration of the ministries responsible for social affairs and employment policy, the Ministry of Social Affairs and Labour has been established. Since January 2007, the former Employment Office has been operating as the Employment and Social Office. The new institution has additional coordination and management functions in the social, rehabilitation, child protection and

youth services areas. At the same time, the county-based employment centres have been replaced by regional employment centres, in accordance with the reorganisation of government-funded bodies to achieve higher efficiency. The transformation of the management system has been accompanied by a pilot programme in local cooperation among social and employment services (HRDOP 2.2) that should lead to the establishment of an institutional framework for local cooperation by the end of 2008.).

New services for people under redundancy

To diminish the negative consequences of public sector reorganisation, Service Centres have been set up in Budapest and 19 counties to provide tailor-made assistance for people dismissed from the public sector, in order to remain active on the labour market and find new jobs or retrain. The ‘New Career’ programme – supported by ESF – has been started in September 2007. The programme is aimed at supporting finding new jobs for workers dismissed from the public sector (including teachers and health workers).

Modernisation of the Public Employment Service (PES)

The PES development programme supported by EU structural funds (within the framework of HRDOP 1.2.) has been continued in 2007. The aim of the developments is to improve the quality, efficiency of services. As a part of the new service model, the project includes e.g. developments for the new job brokering system and improvement of the infrastructural and IT system for some employment centres and local employment centres. The projects have so far modernised 60 of the 174 local employment centres and completed the system previously established by Phare projects in 21 centres.

Envisaged measures

Further developments regarding the integrated employment and social provision system

As a next step of the establishment of the integrated system, a new rehabilitation system will be set up in 2008. PES will provide employment rehabilitation and job-brokering services for people on rehabilitation benefit. Therefore, the PES services will cover such groups of the inactive population who didn't belong to the clients of PES till now. The ESF resources will play an important role in financing rehabilitation services and establishing the necessary facilities of the services.

Management of migration in a labour market context (Guideline 20)

Hungary has a low proportion of immigrants, who represent about 1.5% of the total population. The major proportion of immigrants comes from neighbouring countries. The participation rate of the active aged Hungarian population is rather low, therefore Hungary has a significant labour reverse. However, labour shortages already present in certain regions and sectors coupled with the medium- and long-term demographic trends might strengthen the role of the economic migration in maintaining the competitiveness of the Hungarian economy.

Most important steps of last year

Legal amendments

With regard to the migration objectives that form part of the EU's sustainable development strategy, Hungary simplified its work permit system and shortened processing time in 2006, in

order to promote foreign direct investment and the migration it involves. The validity duration of the permission has increased from one to two years in some cases of work permits without labour market test. Amendments have come into force in order to ensure further harmonisation with EU legislation. One of these obligations was the harmonisation of Council Directive 2005/71/EC on a specific procedure for admitting third-country nationals for the purposes of scientific research.

Promotion of social and cultural integration of refugees

In order to substantiate the policy schemes regarding the social and cultural integration of refugees, a twinning programme had been implemented. Based on its outcomes a white paper on the social and cultural integration of refugees has been prepared .

Envisaged measures

Migration database of the National Statistic Office

The developments to establish the register of migrant workers are in progress with the support of ESF. These developments will pursue three directions:

- I. switch to the electronic exchange of social security data on migrant workers,
- II. drawing up the legal basis for data that have to be reported obligatory to Eurostat
- III. identify areas where statistical records of third-country nationals working in Hungary are deficient.

Improvement of the adaptability of workers and businesses

Flexibility and security of employment (Guideline 21)

Creating a balance between flexibility and security of employment might be implemented with the cooperation of the social partners. Even more people are working in non-standard forms of employment, which have established conditions of flexible employment for the employers in a manner failing to grant at the same time proper level of security and the opportunity for representation of interest. It is a common responsibility of the government and the social partners to review the labour law in order to ensure the adaptability to restructuring, taking into consideration both the respects of flexibility and security. The aim is to establish a differentiated law, which takes into account the diversity of employment forms. During the amendment of labour law, flexible employment has to be combined with new forms of employment security.

However, it has to be taken into consideration that in Hungary a significant proportion of the active age population is not present on the labour market and that there are ongoing restructuring processes. Assistance to enter into the labour market, pursuing active labour market policies which assist job mobility, and combating undeclared work have therefore key importance relating the labour market flexibility and security. Measures being taken in these areas are covered in chapters on other guidelines. This section presents only the legal issues.

Most important steps of last year

Amendment of the Labour Code

In recent years, labour law has gone through several changes that removed legal obstacles to flexibility (see the 2006 Revised Action Plan). There has also been progress regarding employment security. From 1 January 2006, the dismissal protection during the child care benefit period till the child's third birthday is valid also in the case, if the parent takes up (or resumes) work.

Clarifications to the rules concerning temporary agency work have strengthened application of the principle of equal wage for equal work. An important element of the amendment of the Labour Code was a revision of provisions relating to the granting of leave.

Amended provisions defining the length of working hours now comply with the working time directive, and it has been made clear that employers are obliged to provide "unbroken" rest times.

Temporary work

The amendment of the regulation on temporary employment enhances the employment security of those doing temporary work for private persons. There has been a steep rise in casual work: 418,7 thousand people took up such work in 2006, a fifty per cent rise from the year before. The value of tax and contribution stamps sold in 2006 more than doubled than the previous year.

Safety at work

In December 2006, substantial changes to the legal regulation of health and safety supervision resulted in the formation of a coherent supervisory system. The professional and organisational standardisation, in addition to the rationalisation of staff and material demands also contributes to healthier and safer workplaces with the coordination of the technical and medical work and completing prevention. The integrated employment organisation has drawn up a comprehensive prevention strategy and implements the inspections on a more concentrated way. In 2006, an additional 100 labour inspectors joined to the integrated employment authority.

Envisaged measures

Review of temporary work regulation

The rapid expansion of temporary work in recent years has called for an evaluation and transformation of the system in the first half of 2008. The main point of the transformation is to exchange the traditional paper-based documentation to modern, centralised electronic records, while retaining the concessionary contributions-payment scheme and simplified administration.

Transform undeclared work into regular employment (Guideline 21)

The relatively high rate of undeclared employment constitutes one of the reasons of the high inactivity rate characterising the Hungarian labour market. Undeclared work implies serious consequences both for the individual and for society. Though it might result in higher wages for the individual on the short term, it makes workers more vulnerable and does not create a

legal basis for social protection. As regards its broader social impact, undeclared work creates unfair competition, puts constraints on effort to reduce taxes and/or improving public services. During the recent period, the Government has taken several measures for restricting undeclared work. Such measures are principally targeted to sanctioning infringing behaviours. Decreasing the tax burdens on labour that might contribute to the promotion of regular employment will only be possible on the long run.

Most important steps of last year

Special rules apply to contributions payable on low income

Since September 2006, contributions have to be paid on the basis of at least twice the minimum wage except for people whose actual income is lower than this amount and report as such to the State Tax Authority (APEH). The new law is aimed at combating “grey employment”, where the declared wage is low and contributions are not paid on some actual income. The tax authority estimated that this measure has raised the tax and contribution base of some 110,000 taxpayers from around the minimum wage level to HUF 131,000. More than one and a half million people have exercised the option of reporting lower wages.

The transformation of the Standardised Employment Register

Since 1 January 2007, when the Standardised Employment Register (EMMA) was abolished, employers have had to provide employment data to the new “one-stop” registration system set up by the State Tax Authority (APEH). The new arrangement considerably facilitates the registration procedure for employers, because it has eliminated the previous requirement to report to several different authorities at different times. The Public Employment Service receives the data registered by the State Tax Authority and makes it available for the Hungarian Labour Inspectorate via the former EMMA infrastructure. The continuous data link between the two institutions ensures that data provided by the employers appears within a short time in the PES database.

Developing individual health insurance accounts and contributions records

Under the health care system reforms, health care will be provided through an insurance arrangement from 1 January 2008. Reporting and declaring each person’s individual contributions base and the contributions payable will be registered electronically. The State Tax Authority will keep an individual health insurance account for every insured party on the basis of monthly returns, and will pass on this data to the National Health Insurance Fund, which will use the data to keep its insurance records up to date. Health insurance services will be provided only to persons in full benefit, and the system will immediately inform a citizen claiming health services if he or she does not have a regulated and declared working status. In the long term, this should raise the awareness of employees of the conditions of using public services, and thus contribute to combating undeclared work.

Control of labour relations' ordered character, changes of the regulation

In 2005, a new regulation entered into force, providing that exclusively companies with ordered labour relations may be awarded orders to be applied for under public procurement proceedings; in 2006, this provision has been completed by similar aggravations in respect of awarding – non-normative – state subsidies. Since 1 January 2007, the Hungarian Labour Inspectorate has been publishing the identity of all employers who have violated labour or health-and-safety laws on its website, thus the exposed infringements are public and the compliance with the law is much simpler to control during the above-mentioned procedures.

Envisaged measures

Further strengthening of labour inspection

The Government has decided to increase the staff capacity of control bodies to combat the informal economy. As a result, the staff of the State Tax Authority will be reinforced by an additional 1700 employees, while the Hungarian Customs and Finance Guard, the Hungarian Treasury and the Government Control Office will be expanded by an additional 500 employees. In order to make labour inspections more effective and to combat undeclared work, the Hungarian Labour Inspectorate's staff capacity will be also expanded by 20 per cent: 50 new staff will join in September and a further 100 on 1 January 2008. The expansion of inspection staff – parallel to many staff reductions in the public sector due to budgetary consolidation – will give new job opportunities to some people made redundant in other departments of civil service.

Promoting geographical mobility (Guideline 21)

Geographical mobility of the labour force is an important tool for increasing employment and reducing regional disparities. Transportation is a factor that directly influences geographical mobility of the labour force and is extremely important for granting suitable labour supply especially for those living in disadvantaged settlements lacking jobs. The quality of public transport networks is crucial for mobility. Women and employees with lower incomes are more inclined to use public transport; therefore all progress in this field may contribute to the increase of their labour supply.

Most important steps of last year

Encouraging mobility within the health care system

The Mobility Programme launched by the Government as part of health care reform aims to support resettlement of highly-qualified workers (doctors and other care staff) who are released in the course of reforms. The Programme offers one-time financial support to health workers who resettle to a region suffering from a shortage of people with relevant skills. The Programme intends to promote better matching of labour supply and demand as well as higher standards of health care in disadvantaged areas.

Development of transport and improvement of accessibility

Transport developments co-financed by the EU are Envisaged measures for the period 2007-2013. These investments shall improve accessibility of regions lagging behind, thus enabling them to connect into the economic system and create job opportunities for people living there.

Wage setting mechanisms and employment-friendly labour costs (Guideline 22)

Most important steps of last year

Multi-annual wage agreements

In 2005, with the aim of putting wage policy and wage levels on a more predictable basis in the medium term, the Government and the social partners accepted a tripartite agreement in

the framework of National Reconciliation Council defining the level of the national minimum wage in the 2006-2008 period and introducing the new system of “guaranteed minimum wage.” Concerning 2006 and 2007, the agreement has been implemented as specified and in accordance with the legislation adopted previously. Accordingly, the national minimum wage increased by 9.6% on 1 January 2006 and by 4.8% on 1 January 2007. The guaranteed minimum wage for jobs requiring at least secondary school qualifications or vocational qualifications was made mandatory on 1 July 2006 and increased in accordance with the agreement on 1 January 2007.

The purpose of introducing the guaranteed minimum wage in 2006 was to reduce informal economy, raise the legal earnings of skilled workers, and consequently boost the supply of skilled labour. Recent experience shows that the introduction of guaranteed minimum wage has not reduced employment. Actually, this provision has made visible at least a part of previously hidden income (~ envelope wages), however other measures have also contributed to this process (e.g. the rule concerning employer’s contribution payable on presumed double amount of minimum wage; for details see Guideline 21). The rapid increase of earnings in certain sectors (construction, trade and catering) in 2007 compared to previous years is a good indication of this phenomenon. It should be noted that in the construction sector, which is particularly characterised by underreporting of incomes, the sector-specific collective agreement set wages for skilled workers even higher than the guaranteed minimum wage. The effects of guaranteed minimum wage on the supply of skilled workers and skills training will be considerable only in the long run.

Owing to the suspension of the tax reduction programme, employers’ labour costs were not reduced in 2007. Employees’ social security contributions actually grew slightly in 2007.

Downsizing and rationalization of public sector in the framework of state reform is in process. The wage structure will be transformed gradually into a performance-based system.

Increasing investment in human capital through better education and training

Increasing and improving investments in human capital (Guideline 23)

One of the most important prerequisites for improving the quality of human resources consists of the continuous and comprehensive modernisation of the education and training systems in compliance with the triple requirement of improving quality, equal access and efficiency. Particular attention is to be paid to granting availability of the training possibilities for all, regardless of gender, age, residence and living conditions. It is important that employers consider training of their employees as a rewarding investment, while the individuals have to recognise the importance of the continuous development of their knowledge and skills for the improvement of their own life quality and chances on the labour market.

Most important steps of last year

Measures to improve the effectiveness of education

- By September 2008, primary schools (ISCED 1,2) operating with less than 6 classes will establish so called school associations with neighbouring schools that function with 8 classes. Such associations will serve as a basis for raising the standard of education, prepare children for further study and reduce administrative costs.
- Schools are obliged to participate and cooperate in measuring and assessing students' performance and the results have to be made public. If the evaluation reveals deficiencies, the school maintainers (local governments) are obliged to take action to address them. The assessment and comparison of the performance of individual teachers will also be introduced; higher performance will be rewarded. In the framework of the New Hungary Development Plan (SROP, SIOP), a new performance assessment system for individual students, teachers and schools will be introduced, furthermore a new infrastructure will be installed based on fundamental developments and assisting adaptation.
- Performance requirements for teachers are being raised. As of September 2007, the weekly statutory teaching time in public education has been increased from 20 to 22 hours.
- As of September 2007, the normative support of public education institutions (ISCED 0,1, 2, 3) has changed. The volume of state subsidies of schools shall be calculated on the basis of a new composite performance index. This index, beyond the number of admitted pupils, shall take into consideration to a greater extent the effective performance of the institutions (the minimum number of pupils per class and the criteria of teaching needs according to age and educational level will be also taken into account). The new support system will encourage the concentration of educational resources (instruments and skills) and raise educational standards.
- The revised National Core Curriculum (NCC) shall enter into force in the current school year and will focus on the delivery and acquisition of key competencies at all levels of pre-school and school based education and training (ISCED 0,1,2,3). These developments have been also supported by HRDOP (in the framework of National Development Plan) and SROP/SIOP (in the New Hungary Development Plan) and are aimed primarily at the establishment of competence based education at all levels and forms of public education by 2013. According to the amended Public Education Act, as of September 2007 the length of the period focusing on the teaching of key competencies (literacy, numeracy) has been extended from the first four grades up to the sixth grade. Thus, children with learning difficulties due to their social background can also acquire the key competencies, vital for their future life.

Measures to improve equal opportunities

- The "Viaticum" scholarship programme has been continued. It currently provides financial support to more than 16,000 disadvantaged students and nearly 9000 mentor teachers.
- Schools providing both primary and secondary education may not set admission requirements for their own students advancing to the secondary stage.
- The classification of students with special educational needs will change in 2008. The purpose of this measure is to prevent schools from increasing the number of such students purely to receive extra funding.

- From 1 September 2007, in order to restrict targeted selection of students by educational institutions, while maintaining the principle of free choice of school by the parents, school zone boundaries must be determined so that the proportion of students with multiple disadvantages in adjacent zones may not differ by more than 25%. This rule will prevent the evaluation of huge differences on local levels such as having a proportion of multiply disadvantaged students of 10% in one school zone and 98% in the neighbouring zone.
- An amendment with a similar purpose requires non-state – church and foundation – schools to admit at least 25% of their students from applicants residing in the local settlement or district, and to give preference during selection process to multiply disadvantaged children.
- Adverse family circumstances can be alleviated most effectively in early childhood. Accordingly, a new policy decision requires every municipality to find nursery places for all multiply disadvantaged children from the age of 3 by January 2008 and to satisfy every demand for nursery education by August 2010.
- In order to foster the existing programmes supporting inclusive pre-school and school based education (ISCED 0,1,2,3) of children with multiple social disadvantages, the central budget as of September 2007 shall grant public education institutions additional per capita financial support for the development and implementation of specially designed pedagogical programmes facilitating catching up and inclusion. An extensive in service teacher’s training programme spread over several years (2008-2013) and funded by the SROP shall underpin the wide scale establishment of these special pedagogical programmes and thus shall contribute to develop school achievement of multiply disadvantaged children.
- In pursuit of Article 89 of Public Education Act 1993/LXXIX, it is a basic condition of projects applying for grants under the New Hungary Development Plan for educational developments that applicants draw up an Equal Opportunities Action Plan for the school, town or region based on a detailed situation analysis, and commit themselves to implement it. The Equal Opportunities Action Plan shall set as an objective the reduction of school segregation and increase the proportion of multiply disadvantaged and Roma students in nursery school, the elimination of unwarranted classification of students as disabled, and the improvement of access to high-quality education. The methodology programme concerning integration started under National Development Plan will be taken further under the New Hungary Development Plan, and the achievements of programmes implemented in the framework of HRDOP 2.1 will be extended to nurseries and secondary schools.

Besides the dysfunctions of the education system, several other problems exist that can not be handled – or not effectively – through the instruments of public education, there is a need for comprehensive and complex developments that have a simultaneous effect on the conditions of multiply disadvantaged children (housing, social situation, parents’ employment, etc).

In order to reach children with multiple disadvantages, 28-35 statistically small regions have been identified in which their proportion is relatively high (most of these settlements are in the eastern and north-eastern regions of the country and in South Transdanubia). These small regions receive enhanced treatment in the regional distribution of EU funds (territorial targeting), including education development funds.

Lifelong learning strategy

After adopting the lifelong learning strategy, the Government specified the actions required to implement the lifelong learning policy in practice. Execution of the tasks specified in the Government Decree on the strategy has started and took place according to schedule up to the end of 2006. In September of 2007, the Government approved the reports of the respective authorities on the outcomes of implementation and specified the tasks for the following period. A major aspect of implementing the strategy will be the development of the Hungarian National Qualifications Framework (HNQF) in 2008, to be fully launched in academic year 2012/2013.

The Social Infrastructure and Social Renewal Operative Programmes for the 2007-2013 period also have priorities and actions which will contribute to implement the lifelong learning strategy. These comprise coordinated development of vocational and adult training, support of trainings that improve adaptability of workers, broad modernisation of education and training systems as well as the development of cultural services in order to interlink and establish cooperation among formal, non-formal and informal education systems.

Supporting employee's training

From 2005 on, enterprises could apply for non-reimbursable aid for the training of their employees (Measure 3.4 HRDOP). This measure provided training opportunities for nearly 47,000 people. The vast majority of the 1000 successful applicants were small and medium-sized enterprises. The first ESF-financed grant scheme for the 2007-2013 period, announced in February 2007, provides support for training of employees of small and medium-sized enterprises.

In 2007, a legislative amendment has enabled small and medium-sized enterprises to spend 60 per cent of their training contribution payments on training their own workers.

Training of adults with a low-education, disabled people and older age groups

The ESF-funded “One Step Forward” programme has increased the participation of workers with low levels of education in training. 15,600 low-skilled people participated in the programme by mid-2007.

Envisaged measures

Continuation of the “One Step Forward” programme

The “One Step Forward” programme is planned to be continued. It will also be extended to people with obsolete skills, enabling them to obtain a qualification that matches the requirements of the economy. Training for a further 21,200 people will be possible under the scheme in the period up to July 2009.

Developing key labour market competences

In accordance with the national lifelong learning strategy, a comprehensive training programme will be initiated, which will include the development of key labour market competences (knowledge of foreign languages, digital competences, entrepreneurial skills, etc.). The purpose of the programme is to help people to find or retain jobs by developing their competences.

It is indispensable both for improving economic competitiveness and increasing labour market participation that employees and enterprises are able to meet the expectations raised by the changing economic environment and by continuous technological innovation and have competitive and up-to-date skills. This requires an education and training system whose structure and content is flexibly adaptable to the continuously changing needs of the economy. The National Action Programme included several measures serving this purpose and their implementation is now in progress. Starting in 2007, we intend to continue the transformation of the structure of trainings available and the institutional framework by using EU funds.

Most important steps of last year

Development of the institutions of vocational and adult training

In order to grant greater cost-efficiency within the institutional system of the vocational training, a total of 16 regional integrated vocational training centres (TISZK) have been established using EU funds. Fitting of training facilities with cutting edge technological instruments is now in progress, practical training is expected to start in most of them from September 2007.

An amendment in 2007 to the Vocational Training Act provides for the setting up of a management, regulatory, financial, decision-making, interest-reconciliation and information system to help training institutions adapt to the labour market and react to labour market demands.

Developments in the content of vocational and adult training

For the sake of renewing the content and structure of the vocational training, the new, modular National List of Qualifications (OKJ) has been prepared (Measure 3.2.1 of HRDOP). It incorporates a new set of modular, competence-based professional and examination requirements. Qualifications in the new system result in a new examination system; a recent examination decree provides for the reform of the related control of examinations.

Phase II of the Vocational School Development Programme is in progress, implementing educational and infrastructural improvements for 70 vocational schools involving some thirty thousand students. The programme is improving the responsiveness of vocational school training to the changes of the labour market (the content and structure of the training will be adjusted to labour market needs), the quality of education and efficiency will be improved and drop-out rates will decrease. The programme offers new opportunities for disadvantaged students and students requiring special educational needs to obtain valuable skills that will assure them a living.

Act CI of 2001 on Adult Training has been amended twice since October 2006. Several national councils for making appraisals, proposals and preparing decisions and the support institution for adult training have been merged, and the rules concerning practising adult training have been tightened in the interests of adults attending training courses.

Measures affecting higher education

In the framework of the New Hungary Development Plan (SRDP, SIOP, CHOP, EDOP), the structure and content of training will be reformed, R+D+I activities will be developed and European higher education cooperation programmes and mobility will be promoted. Quality improvement will involve setting up a higher education quality management system, rewarding and encouraging of better-than-average achievements, strengthening links between higher education and the economy, and activating knowledge in society. Regarding higher education, the freedom of governance and financial management will be raised and the infrastructure of universities and colleges shall be radically improved. In the context of introducing a multi-cycle study structure, the obligatory establishment of the three cycle structure (BSc, Master, PhD) and the mandatory use of the credit system (ECTS) have been implemented.

From September 2007, in order to better respond to labour market needs, the Government redefined for each field of studies the possible specializations, the number of students to be admitted into higher education whose studies are funded by the State and their distribution in universities and colleges.

- Following the enormous rise in the numbers of students in higher education (they quadrupled in a decade and a half, the admission target numbers growing from year to year at the same time as the number of secondary school leavers was declining), a new rule lays down the number of students who may be admitted to state funded courses each year.
- The distribution of admissions among subjects and specializations has changed to meet the demands of society and the economy. More may be admitted to science, mathematics, information science and engineering courses, and fewer to law, humanities, teaching and economics.
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Envisaged measures

Development of the vocational and adult training structure

The restructuring of vocational training will primarily involve setting up new TISZKs. This will result in a nationwide TISZK network – a reorganised system of vocational training centres which use resources more rationally and opens up new opportunities regarding adult training and lifelong learning. The training functions of the new system of maintaining bodies and their institutions will be subject to regional coordination and control as regards both training structure and student numbers. The principal priorities of the training system reform are the improvement of the quality and effectiveness of training, the reinforcement of links between training and the labour market as well as the development of employability and adaptability of the Hungarian workforce.

Development of quality and content in vocational and adult training

A comprehensive new programme to develop the quality and content of adult and vocational training is to start up within the SRDP framework. It will lay the foundations of quality assurance in vocational training that complies with the European Quality Assurance Framework. New developments in the examination system will include supervision of examinations according to a standardised methodology. In addition to the development of the new measurement and assessment system, teaching materials for modular teaching and

examination requirements will be produced and a national teaching material database will be established.

The information system of career guidance is being improved. The new system is being designed to enable people (young people and adults) and all parties involved in choice of career (schools, labour market centres, training institutions) to make better founded decisions. A framework is being drawn up for a coherent career tracking system for vocational and adult training students, to fit into the new vocational training system.

5. HARMONISING COHESION POLICY AND THE LISBON OBJECTIVES

Hungary has brought together the principal recommendations of development policy over the last year into an overall strategy called the New Hungary Development Plan. This strategy is the National Strategy Reference Framework for use of aid from the European Union's Structural Funds and Cohesion Fund between 2007 and 2013, and was accepted by the Commission in resolution C(2007)1982 of 7 May 2007. In line with the European Union's Lisbon Objectives, the New Hungary Development Plan defines as its overall objective the expansion of employment and promotion of sustained growth, and so it is also a direct contribution to implementing the reforms and measures undertaken in the Hungarian Revised National Lisbon Action Programme.

In the Revised National Lisbon Action Programme, the consistent execution of reform measures defined for the macro- and microeconomy and for employment, together with the measures set out in the New Hungary Development Plan, contributes to implementation of the convergence programme by ensuring long-term growth of employment and the economy. The objectives of the New Hungary Development Plan and the structure of the operative programmes have been defined in line with the priorities defined in the National Lisbon Action Programme. Consequently the New Hungary Development Plan is coordinated with the NAP strategy and has matching areas of action.

Measures to be taken to expand employment include broadening the labour supply and setting up an employment environment which promotes greater individual employability, job creation, and matching of supply and demand on the labour market.

Hungary will attain sustained growth by improving competitiveness, broadening the base of its economy and developing its business environment. Objectives designed to improve competitiveness include strengthening the knowledge economy, promoting innovation, and raising productivity. Broadening the base of the economy will involve regional development, increasing attractiveness to capital, expanding markets, connecting to a higher level of market integration and broadening the adoption of advanced technologies. The complex task of improving the business environment embraces facilitating access, improving the regulatory environment, and making state services and operations more efficient.

To attain the above goals the New Hungary Development Plan concentrates development efforts on six priorities:

- economic development,
- transport development,
- environmental and energy development,
- social renewal,
- regional development,
- state reform.

The actions planned for developing the economy directly contribute to the fulfilment of the Lisbon Objectives:

- Operations directly serving the building of an innovative, knowledge-based economy are those designed to support market-oriented R+D activities, encourage companies' innovation activities, encourage creation of technology-intensive (spin-off) small

businesses, encourage innovation collaborations and technology transfer, and boost bridge-building and incubation activities.

- Improvement of small and medium-sized enterprises' revenue-generating ability will be achieved by raising the capitalisation of SMEs, broadening entrepreneurial culture, organisational development, technological modernisation, and encouragement of collaboration between SMEs.
- In addition, there are plans for a wide-ranging development of business infrastructure and services. Regarded as particularly important in this area is the improvement of ICT and physical infrastructure.

To improve the environmental conditions for investment and employment growth, Hungary plans to take action in the transport and environmental protection areas and promote environmentally-friendly energy developments, including renewable energy.

Social renewal is the objective of planned measures to improve employability and adaptability, modernise vocational and adult training and match training to economic needs. In addition, there will be support for school, higher education and health care reforms, new regional knowledge centres and university research operations.

To increase the competitiveness of the regions, there will be separate regional programmes with region-specific objectives, including competitiveness poles centred in larger towns and designed to spread innovation- regional development through the surrounding regions.

State reform is the objective of work towards putting public administration on new foundations, and the actions directed at modernising public services.

Hungary supports the European Commission's recommendation that the member states should, in the 2007-2013 period, direct as high a proportion of cohesion-policy spending on implementing the Lisbon Objectives, assigning central priority to economic growth and employment. Hungary also sees promotion of employment and growth as the main challenge, and plans its programmes to bring the current target value of 53% for the cost categories in the schedule to the relevant decree up to 60%. Hungary is committed to surpass its efforts of the 2004-2006 period in supporting activities corresponding to the Lisbon Objectives. Expenditure on categories corresponding to the Lisbon Objectives will rise by nearly 10%. Overall, therefore, Hungary – in line with the decision of the European Council – will surpass the prescribed level and spend a major part of EU funds on implementing the Lisbon Objectives.

In implementing the New Hungary Development Plan, the outcome will be continuously compared with Hungary's Lisbon Objectives. In this respect, meetings of the Monitoring Committees will devote particularly close attention to progress on competitiveness and innovation.

6. TABLES OF MEASURES

MACROECONOMY					
KEY CHALLENGE: REDUCING THE FISCAL DEFICIT					
INTEGRATED GUIDELINE: SAFEGUARD LONG TERM ECONOMIC AND FISCAL SUSTAINABILITY (GUIDELINE 2)					
	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
1.	Significant reduction of the size and internal segmentation of central government, reduction of the number of ministries from 14 to 11. The number of employees fell from 8,705 to 6,155 persons.	Supporting the deficit reduction on longer term through establishing a more transparent and effective structure requiring lower cost.	2006 Q3/ 2007 Q2/ completed		
2.	Centralisation of parallel functional areas in public administration, setting-up of the Government's Human Resource Services and Public Administration Training Centre, the Central Services Directorate General and the Central Office for Public Administration and Electronic Public Services.	Supporting the reduction of the budget deficit in a sustainable manner through the reduction of the operational costs of public administration.	2006 Q3/ 2007 Q1/ completed		
3.	Consolidation and regional re-organisation of large networks (ex. Tax Administration, Treasury, State Public Health and Medical Officer Service). In the course of the consolidation, instead of the earlier 400, only 173 institutions continue their function.	Supporting the reduction of the budget deficit in a sustainable manner, reduction of the operational costs through more effective functioning.	2006 Q3/ 2007 Q1/ completed		

MACROECONOMY

KEY CHALLENGE: REDUCING THE FISCAL DEFICIT

INTEGRATED GUIDELINE: SAFEGUARD LONG TERM ECONOMIC AND FISCAL SUSTAINABILITY (GUIDELINE 2)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
4.	Practice of a performance assessment system in the entire public administration, which specifies the main allotted tasks of the civil servant for the concerned period, taking also into account the objectives of the employer body. The assessment becomes the basis of the remuneration of the civil servant.	The increase of the quality of the work in the public administration through creating a remuneration system referring to performance.	2006 Q3/ 2009 Q1/ ongoing		
5.	In the framework of the reform of pharmaceutical subsidies: reduction of the rates of subsidy, more rigorous conditions to stay in the subsidised group, legal determination of joint responsibility of producers and health insurance, introduction of an online controlling system in the field of prescriptions and expenditures.	Contribution to the improvement of the fiscal balance taking also into account the longer term financing requirements through rationalising the subsidy system and the enhancement of the cost sensitivity of the population and doctors.	2006 Q3/ 2007 Q1/ completed		
6.	Reinforcing the social insurance character of health care, the new regulation specifies a three-tier benefit system: in the absence of an insurance relationship, only basic services can be used, the level subject to an insurance relationship covers a large section of curative-preventative care, tertiary care including supplementary (extra) services can be used for a fee.	The reformed system is, through the whitening of the economy, a significant contribution to the necessary broadening of the tax base, furthermore, through strengthening relation between the insurance and the strain, also to the increase in the efficiency of the supplier-system.	2006 Q3/ 2008 Q1/ ongoing		

MACROECONOMY

KEY CHALLENGE: REDUCING THE FISCAL DEFICIT

INTEGRATED GUIDELINE: SAFEGUARD LONG TERM ECONOMIC AND FISCAL SUSTAINABILITY (GUIDELINE 2)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
7.	In the framework of restructuring financing of hospitals, close-down of the under-utilised or unreasonably maintained excess active in-patient capacities or their transformation into chronic/nursing capacities. Thus, the number of institutions can decline. Contract clarifies the financing of the new structure.	More economic functioning of the structurally renewed supplier-system, smaller burden on Health Insurance Fund.	2006 Q3/ 2007 Q2/ completed		
8.	In order to correct certain controversial elements of the pension calculation regime, instead of the current partial valorisation, for incomes earned in previous years, full valorisation will be applicable, furthermore the calculated tax must be deducted from earnings net of individual contributions.	The level of initial pensions decreases somewhat from 2008, the disproportionalities between future pensions moderate.	2006 Q3/ 2007 Q2/ completed		
9.	Introduction of a tuition fee in higher education. State-financed students will start to pay tuition fees in every semester. Simultaneously, the structure of student subsidy system alters, the performance requirements are strengthened.	By the enhancement of the consciousness of responsibility of students, and by the improvement of the infrastructure of education from the revenue from the tuition fee, the level of higher education can be raised, the efficiency of the functioning can be enhanced.	2006 Q3/ 2007 Q3/ completed		

MACROECONOMY

KEY CHALLENGE: REDUCING THE FISCAL DEFICIT

INTEGRATED GUIDELINE: FISCAL PATH SUPPORTING MACROECONOMIC STABILITY (GUIDELINE 1)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
10.	Measures envisaging the whitening of the economy: amendments of certain elements of the tax system, review of fictitious contracts, stricter labour surveillance, extension of the competence and reinforcement of the organisation of the Customs and Finance Guard, the Tax Administration and the Consumer Protection.	Higher budget revenues through broader tax base in a consequence of the smaller latitude of the black economy.	2006 Q3/ 2008 Q2/ ongoing		
11.	Reform of the energy price subsidy regime: subsidies formerly due to all household gas consumers have been replaced by means-testing compensation. In the field of public transport, the lump-sum subsidy scheme was introduced to replace the former percentage subsidy, the unjustified allowances have been eliminated.	Creation of a more effective, economic and fair subsidy structure that takes better into account the capacity of the budget.	2006 Q3/ 2007 Q1/ completed		

MICROECONOMY

KEY CHALLENGE: R&D AND INNOVATION

INTEGRATED GUIDELINE: R&D (GUIDELINE 7)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
12.	Draw up the Government's coherent medium term science, technology and innovation policy strategy and its action plan (STI Strategy and action plan)	Coordination of government strategic goals and actions. Setting up coherent public finance system, simplifying funding system	Q1 2005/ Q3 2007/ completed		ir010 Spending on Human Resources
13.	Set up coherent public finance system for R+D+I: - Completely overhaul of state R+D+I funding and institutions; set up single management system. - Prepare for launch of scientific performance-based pay model and project-based finance in government research centres.	Overhaul of state research system, making management and operational framework more transparent. Establishing the principle of performance.	2006/ Q4 2007/ ongoing		ir041 Science and technology graduates - total
14.	Deregulation process: - Comprehensively review, simplify and merge laws governing state R+D+I funding (deregulation package) - Provide incentives for exploiting intellectual property at government research centres (coordinated amendment innovation law, budget laws and state assets laws to promote spin-off process)	Establishment of legal environment which is enterprise friendly and stimulates R+D+I	2006/ Q3 2008/ in progress		ir051 Patent applications to the European Patent Office (EPO)

MICROECONOMY

KEY CHALLENGE: IMPROVING THE BUSINESS ENVIRONMENT

INTEGRATED GUIDELINE: ICT (GUIDELINE 9)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
15.	<p>Actions to stimulate electronic economy and business</p> <p>1. Develop information-based economy and e-business, and provide grant incentives</p> <p>2. Introduce comprehensive legislative amendment package and launch government campaigns (e-business, e-billing, e-signature)</p>	<p>1. Need to extend the use of IT systems in Hungarian companies</p> <p>2. Need for uncomplicated and consistent regulation to satisfy the demands of businesses and consumers so as to stimulate e-business</p>	<p>Q1 2007/ Q4 2008/ ongoing</p>	<p>2007-2008: GOP 2.2.1: HUF 3.8 billion GOP 2.2.3: HUF 2.7 billion KMOP 1.2.5 HUF 690 million KMOP 1.2.7 HUF 690 million</p>	<p>ir080 E-commerce via Internet</p>

KEY CHALLENGE: IMPROVING THE BUSINESS ENVIRONMENT

INTEGRATED GUIDELINE: DEEPENING THE INTERNAL MARKET (GUIDELINE 12)

16.	<p>Produce regulatory framework for electronic public procurement: create facilities for electronic auction and electronic support of public procurement procedures</p>	<p>Reducing electronic prices will make it possible for Hungarian public procurement regulation to provide faster and more cost-effective procedures, and better use of funds, for bodies putting out tenders.</p>	<p>Before 2004 / Q4 2007/ ongoing</p>		<p>er040 Public procurement</p>
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MICROECONOMY

KEY CHALLENGE: INFRASTRUCTURE

INTEGRATED GUIDELINE: ICT (GUIDELINE 9)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
17.	<p>Develop ICT infrastructure, increase ICT use and improve digital literacy</p> <ol style="list-style-type: none"> 1. Continue provision of broadband telecommunications infrastructure in lagging regions 2. eHungary Programme to improve community Internet access rates 3. Digital Literacy Action Plan, “Net Ready” programme to propagate digital literacy and encourage public PC and Internet use. 	<ol style="list-style-type: none"> 1. For members of the public without broadband Internet access, installation of the telecommunications network is a major factor improving quality of life and competitive position. 2. If the programme is fully implemented, eInclusion can be provided for all inhabitants of Hungary. 3. The action could substantially reduce the 57% digital illiteracy rate. 	<p>Q1 2007/ Q4 2011/ ongoing</p>	<ol style="list-style-type: none"> 1. 2007-2008: GOP 3.1.1: HUF 16.9 billion 2. eHungary: 2007-2011: HUF 20 billion (planned) 3. “Net Ready” planned budget for 2007: HUF 275 million (+ matching private funds) 	<p>ir031 Level of Internet access - households</p>

MICROECONOMY

KEY CHALLENGE: BUSINESS ENVIRONMENT

INTEGRATED GUIDELINE: COMPETITIVE BUSINESS ENVIRONMENT (GUIDELINE 14)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
18.	<p>Government programmes to reduce administrative burdens: Government adoption, and commencement of execution, of “Tuned for Business” programme</p> <ul style="list-style-type: none"> - simplify tax administration, facilitate e-tax payments - facilitate energy and excise duty administration - handle business debt gridlock (amend bankruptcy law, public procurement law and legislative drafting law) - prepare new bankruptcy law - expand company information facilities (display creditor protection data, free company information system) <p>Government adoption of deregulation programme and start implementation:</p> <ul style="list-style-type: none"> - Start analyses in 10 priority areas identified in programme and start review of statutes (vehicle administration procedures, birth, death, marriage and personal document processing, public health (ÁNTSZ) procedures and premises licensing procedures). 	<p>Reduction of administrative burdens on businesses and citizens</p> <p>Improvement of business environment</p> <p>Increasing financial and legal security of companies</p>	2007/ 2010/ agreed		<p>Structural: er082</p> <p>Business demography - Survival rate</p> <p>Output: DOING BUSINESS index</p>

MICROECONOMY

KEY CHALLENGE: BUSINESS ENVIRONMENT

INTEGRATED GUIDELINE: COMPETITIVE BUSINESS ENVIRONMENT (GUIDELINE 14)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
19.	Package of measures to improve the quality of regulation. Relevant ÁROP measures: - Deregulation and simplification of procedures - 3.1.1.1. - Simplification of statutes relating to technical matters - 3.1.1.3.	Reduction of administrative burden, faster and more productive procedures, raising the standard of services	Q2 2007/ 2010/ planned		
20.	Review and simplify legal environment governing company startup: make company registration procedures simpler and electronic: - reduce company registration time to 1 working hour via simplified electronic procedure (from 1 July 2008) - make electronic company registration compulsory (for every business from 1 June 2008) - further simplify administration obligations (introduce simplified electronic procedure) - reduce administrative costs and minimum capital requirements (from 1 Sep 2007)	Reduced administrative burdens, faster and cheaper business startup	Q2 2006 / Q2 2008/ ongoing		er081 Business demography - Birth rate

MICROECONOMY

KEY CHALLENGE: INFRASTRUCTURE

INTEGRATED GUIDELINE: EU INFRASTRUCTURE (GUIDELINE 16)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
21.	<p>Infrastructure - public transport reform:</p> <ul style="list-style-type: none"> - Reorganise long-distance transport management along regional lines, coordinate road and rail passenger transport timetables and network structures, overhaul public service contracts (Set up Regional Transport Organising Offices). - Set up coherent tariff and concessions system (Government Decree 85/2007. IV. 25), prepare electronic ticketing system, draw up regulation of transport alliances. - Set up bus reconstruction programme and joint grant scheme. - Reorganise Hungarian Railways (divide MÁV Zrt. into MÁV Zrt., MÁV Start Zrt. and MÁV Cargo Zrt.); privatise MÁV Cargo. - Overhaul the railway network access charge system; regulate track network access. 	<p>Raising efficiency of community transport service providers, regional and organisational rationalisation Setting up more demand-responsive services Diversification of financing options, cutting public expenditure Liberalisation of railway services</p>	<p>Q1 2006/ Q4 2007/ ongoing</p>		<p>en032 Volume of passenger transport relative to GDP</p>
22.	<p>Execution of the first package of measures for road toll reform:</p> <ul style="list-style-type: none"> - extend the toll system to further roads; - introduce electronic proportional-to-road-use toll systems. 	<p>Internalisation of road upkeep costs (involving a broader section of road users) Rerouting transit traffic to high-speed roads</p>	<p>Q1 2007/ Q4 2009/ ongoing</p>		<p>Amount of tolls paid</p>

MICROECONOMY

KEY CHALLENGE: INFRASTRUCTURE

INTEGRATED GUIDELINE: EU INFRASTRUCTURE (GUIDELINE 16)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
23.	<p>Review government strategy for transport sector: produce Green Paper on Coherent Transport Development Strategy</p> <p>Draw up medium-term transport safety action plan – review government functions and overhaul coordination, execution and monitoring systems</p>	Strategic review of government actions in line with EU review	Q4 2006/ Q4 2007/ ongoing		

KEY CHALLENGE: COMPETITION

INTEGRATED GUIDELINE: DEEPENING THE INTERNAL MARKET (GUIDELINE 12)

24.	<p>Open up the market for postal services:</p> <ul style="list-style-type: none"> - Produce impact assessment as basis of government postal strategy, draw up government postal strategy - Amend Act CI of 2003 on the Post Office 	<ul style="list-style-type: none"> - Heightened consumer protection - Reduction of administrative burdens on service providers - Market opening 	Q2 2007/ Q3 2008/ ongoing		
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KEY CHALLENGE: ENERGY AND ENVIRONMENT

INTEGRATED GUIDELINE: COMPETITIVE INDUSTRY (GUIDELINE 10)

25.	<p>Stimulate competition in the energy sector:</p> <ul style="list-style-type: none"> - New government energy policy concept - New Electricity Act - New Gas Act 	Full liberalisation of energy market	Q1 2007/ Q4 2007/ ongoing		
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KEY CHALLENGE: ENERGY AND ENVIRONMENT

INTEGRATED GUIDELINE: SUSTAINABLE USE OF RESOURCES (GUIDELINE 11)

26.	Adoption of government climate change strategy and two-year action plan	Developing adaptation to the consequences of climate change	Q1 2007/ Q1 2008/ ongoing		en010 Total greenhouse gas emissions
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EMPLOYMENT

KEY CHALLENGE: IMPROVING THE LABOUR MARKET SITUATION OF THE DISADVANTAGED

INTEGRATED GUIDELINE: LIFE-CYCLE APPROACH TO WORK (GUIDELINE 18)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
27.	Development of day-care services - childcare centers	Promoting the labour market participation of women through developing day-care services for children	Q2 2006/ Q4 2008/ ongoing	HRDOP 4.2. HUF 3,3 billion	800 new and 300 renewed places in crèches
28.	Programmes for the reintegration of women into the labour market (HRDOP 1.3; PES)	Tailor-made services and trainings for women in order to return to the labour market as an employee or a female entrepreneur.	Q1 2006/ Q1 2008/ ongoing	HRDOP 1.3.1 and 1.3.2: HUF 2,576 billion	based on HRDOP and PES monitoring reports
29.	Contribution allowance for people with labour market disadvantages to promote their employment (START Programme)	Employers hiring young people entering their first job can benefit a certain % reduction on social contribution for 2 years	Q3 2005/ Not available/ ongoing	Labour Market Fund: HUF 958,9 million	more than 65 000 claimant, 41 000 of them has found a job
30.	Promoting the employment of people over 50 - PES programme	2 PES programmes in order to promote the labour market participation of people over 50. These include tailor-made services and differentiated support in the local labour market context with a view to fostering the employment and interrupting the long-term unemployment period of people aged over 50.	Q1 2006/ Q4 2007/ ongoing	Labour Market Fund: HUF 754,8 million	more than 22 500 entrants, 13 000 has found a job
31.	Transformation of the disability benefit system	Fostering labour market participation of disabled people.	Q1 2008/ Not available/ agreed		

EMPLOYMENT

KEY CHALLENGE: RAISING THE EMPLOYMENT AND ACTIVITY RATE

INTEGRATED GUIDELINE: LIFE-CYCLE APPROACH TO WORK (GUIDELINE 18)

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
32.	"Decade of Health" Public Health Programme	The programme contributes to promote health condition and working abilities of the population through primary and secondary prevention (screening).	Q1 2006/ 2012/ ongoing		Increasing life expectancy by 3 years until 2013
33.	Improving quality and accessibility of healthcare services - HRDOP 4.3	Improving the health condition and working abilities of the active aged population through developing health care infrastructure in the regions lagging behind.	Q4 2004/ Q3 2007/ ongoing	HRDOP 4.3: HUF 9,837 billion	Establishing 4 regional diagnostic centers and 4 rehabilitation centers (667 new rehabilitation places) until 2008

KEY CHALLENGE: RAISING THE EMPLOYMENT AND ACTIVITY RATE

INTEGRATED GUIDELINE: INCLUSIVE LABOUR MARKETS AND MAKE WORK PAY (GUIDELINE 19)

34.	Reform of unemployment benefit system and improving the rehabilitation system	Encouraging job seeking and promoting employment	Q4 2005/ Not available/ ongoing	Direct budget: HUF 84,6 billion	Average number of people receiving unemployment benefit: 95 500
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KEY CHALLENGE: IMPROVING THE LABOUR MARKET SITUATION OF THE DISADVANTAGED					
INTEGRATED GUIDELINE: INCLUSIVE LABOUR MARKETS AND MAKE WORK PAY (GUIDELINE 19)					
	Description of measure	Rationale of measure	Timeline start/end/ status	Budget resource	Indicator
35.	Reform of social allowance system	Encouraging job seeking and promoting employment	Q3 2006/ Not available/ ongoing		
36.	Public work programmes for disadvantaged people	Ensuring transitional employment to maintain the employability of disadvantaged people	Q1 2006/ Q4 2006/ completed		
KEY CHALLENGE: ACTIVE LABOUR MARKET POLICIES					
INTEGRATED GUIDELINE: INCLUSIVE LABOUR MARKETS AND MAKE WORK PAY (GUIDELINE 19)					
37.	Active labour market policies (including PES programmes, civil labour market programmes, SME+)	Prevention of long-term unemployment and exclusion of labour market. Improve the labour market situation of disadvantaged people	Before 2004/ Not available/ ongoing	Labour Market Fund: HUF 53,4 billion in 2006; HRDOP 1.1: HUF 29,8 billion 2004-2007 (75% ESF)	Based on PES indicators and monitoring reports
38.	Programmes for the promotion of employment of Roma population	The employment gap between the Roma and non-Roma population is significant. In order to foster their labour market activity, their participation in employment programmes have to be promoted and targeted Roma Programmes have to be initiated.	Before 2004/ Not available/ ongoing		cca. 30 000 Roma participants in active measures

KEY CHALLENGE: RAISING THE EMPLOYMENT AND ACTIVITY RATE					
INTEGRATED GUIDELINE: MATCHING (GUIDELINE 20)					
	Description of measure	Rationale of measure	Timeline start/end/ status	Budget resource	Indicator
39.	Modernistaion of the Public Employment Service (HRDOP 1.2)	Improvement of the quality of employment services and job brokering services. Development of effective employment analysis system and labour market information system.	Q4 2004/ Q1 2008/ ongoing	2004-2008: HUF 8,439 billion (75%ESF)	Number of local offices operating in line with a new service model: 80.
40.	Establishment of integrated empolyment and social service system	Extension of PES services to inactive population of working age (new rehabilitation system will be established for peolpe with disabilities or on a long-lasting sickness)	Q1 2007/ Q4 2012/ ongoing		
KEY CHALLENGE: RAISING THE EMPLOYMENT AND ACTIVITY RATE					
INTEGRATED GUIDELINE: FLEXIBILITY AND SECURITY (GUIDELINE 21)					
41.	Developing legal conditions of temporary employment book (TE)	Due to the dynamic growth of temporary work the electronic registration of temporary employment books is required.	Q1 2008/ Not available/ planned		Claimants of TEs in 2006: 418 700 persons; total number of valid Tes: 613 900
42.	Promoting safety at work	The legal framework of health and safety at work has been established on a common basis to serve as a basis to the organisational integration, which is an ongoing issue. A compehensive prevention strategy has also been worked out concerning health and safety at work.	Q4 2006/ Not available/ ongoing		

KEY CHALLENGE: ENSURING SUSTAINABLE PUBLIC FINANCES					
INTEGRATED GUIDELINE: FLEXIBILITY AND SECURITY (GUIDELINE 21)					
	Description of measure	Rationale of measure	Timeline start/end/ status	Budget resource	Indicator
43.	Establishing the conditions of individual contribution records and individual health care accounts registry (including the transformation of Standardised Employment Register (EMMA))	Increasing the Health Insurance Fund incomes and transforming undeclared work into formal employment	Q1 2007/ Not available/ agreed		
KEY CHALLENGE: ENHANCING HUMAN CAPITAL THROUGH EDUCATION & TRAINING					
INTEGRATED GUIDELINE: HUMAN CAPITAL (GUIDELINE 23)					
44.	Support of adult training: -promotion of trainings concerning job-creation and the development of entrepreneurial skills (HRDOP 3.4) - trainings for adults with a low-education (Take a step forward!; HRDOP 3.5) - normative support of adult training in accredited institutions - support of region-specific vocational trainings (RDOP 3.4)	Strengthening the competitiveness of companies, the qualification of employees and improve adaptability to the needs of the labour market	Q3 2004/ Q2 2008/ ongoing	HRDOP 3.4: HUF 12 billion; HRDOP 3.5.3: HUF 3,9 billion; RDOP 3.4: HUF 2.3 billion	Input: Number of people participating in adult training. HRDOP 47 000 people; HRDOP 3.5.3 14 500 people Output: Number of people completed the training. HRDOP 45 000 people; HRDOP 3.5.3 13 000 people RDOP 3.4 18 000 people

KEY CHALLENGE: RESPONSIVENESS OF EDUCATION AND TRAINING TO LABOUR MARKET NEEDS					
INTEGRATED GUIDELINE: EDUCATION AND TRAINING (GUIDELINE 24)					
	Description of measure	Rationale of measure	Timeline start/end/ status	Budget resource	Indicator
45.	Development of adult training system: -improve accessibility -development of methods and teaching materials, training of trainers and professionals - development of e-learning methods	Improvement of the quality of adult training	Q3 2004/ Q2 2008/ ongoing	HRDOP 3.5: HUF 6 billion (without 3.5.3)	Output: Developed training programmes
46.	Development of the vocational training system (creating new vocational training structure, establishment of regional integrated vocational training centres (TISZK), introduction of quality assurance and management, development of the system of examinations)	Establishing a more cost-efficient vocational training system, which is able to adapt flexibly to the labour market needs	Q2 2004/ Q4 2008/ ongoing	HRDOP 3.2.2; SROP 2	
47.	Equal opportunities in the public education system (“Viaticum” Scholarship Programme for disadvantaged pupils, HRDOP 2.1)	Decreasing early school leaving, preventing the reproduction of disadvantages	Q3 2004/ Q4 2007/ ongoing		
KEY CHALLENGE: ENHANCING HUMAN CAPITAL THROUGH EDUCATION & TRAINING					
INTEGRATED GUIDELINE: EDUCATION AND TRAINING (GUIDELINE 24)					
48.	Infrastructural developments of educational/training institutions, reduction of regional quality differences in education, improve accessibility (ROP 2.3)	The Regional Operational Programme (ROP) funds the renovation of public education buildings and/or the upgrading the equipment of kindergartens and primary schools. The operations are focussed on regions and settlements lagging behind.	Q3 2004/ Q4 2008/ ongoing	2004-2008: HUF 13.8 billion (85% ERDF)	61 kindergartens and 92 primary schools (ISCED 0,1,2)

KEY CHALLENGE: ENHANCING HUMAN CAPITAL THROUGH EDUCATION & TRAINING

INTEGRATED GUIDELINE: EDUCATION AND TRAINING (GUIDELINE 24)

	Description of measure	Rationale of measure	Timeline start/end/ status	Budget resource	Indicator
49.	Dissemination of competence-based education in public education (HRDOP 3.1)	The HRDOP supports the development of training programmes for teacher's training institutions, fostering the dissemination of the methodology of competence based education	Q3 2004/ Q4 2008/ ongoing	2004-2008: HUF 18.15 billion (75% ESF)	Output: About 10% of schools have adopted and introduced competence based curricula, and about 15.000 teachers participated in training programmes on competence based education.
50.	Quality-oriented higher education (HEFOP 3.3)	Promotion of adaptability of higher education to labour market needs	Q3 2004/ Q4 2008/ ongoing	2004-2008: HUF 7.3 billion (75% ESF)	Based on programme indicators

KEY CHALLENGE: ENHANCING HUMAN CAPITAL THROUGH EDUCATION & TRAINING**INTEGRATED GUIDELINE: EDUCATION AND TRAINING (GUIDELINE 24)**

	Description of measure	Rationale of measure	Timeline start/ end/ status	Budget resource	Indicator
51.	Enforcing the principle of positive discrimination in higher education regarding the admission of socially disadvantaged young people, young people living with disabilities and young mothers on child care	By introducing special admission provisions and facilitating the access to higher education for these categories of young people, the principle of equal opportunities will apply. This shall compensate them for their disadvantages and improve their chances on the labour market.	Q4 2006/ Not available/ ongoing		