

**NATIONAL ACTION PROGRAMME
FOR GROWTH AND EMPLOYMENT –
2008-2010**

**Compiled for the European Union
Lisbon Strategy**



HUNGARY

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INTRODUCTION

The Lisbon Strategy that has set the target of enhancing the competitiveness of the EU, as well as increasing growth and employment operates on the basis of a coordination mechanism reviewed and revised since 2005. The 2005-2010-period has been divided into two 3-year cycles, at the beginning of which member states, as well as the Commission - on behalf of the Community - compile programmes for the given cycle. Member states submit reports on the implementation of these in interim years (twice per cycle). In 2008, the European Council (EC) summit held in March launched the second cycle of the revised Lisbon Strategy, immediately following which member states and the Commission compile a 3-year programme based on the conclusions drawn at the EC summit of March:

„Member States should set out detailed and concrete actions addressing their specific policy response to the Integrated Guidelines, country-specific recommendations and “points to watch” in their National Reform Programmes and the subsequent annual implementation reports.” -Presidency Conclusions – Brussels, 13/14 March 2008

ASSESSMENT AND OUTLOOK

According to the Commission’s assessment adopted by the Council in March 2008, Hungary made limited progress as regards the National Action Programme during the previous Lisbon Strategy cycle and some progress in the area of the four priorities (R+D and innovation, dynamic business environment, employability and job creation, energy and climate policy) defined at the European Council meeting held in March 2006. Consequently, the Council adopted the following country-specific recommendations for Hungary:

In accordance with the conclusions adopted by the European Council on 13-14 March 2008, Hungary needs to address the following country-specific recommendations within the framework of the Hungary’s National Action Programme:

1. Continue to implement the necessary measures to ensure a durable reduction of the government deficit and of the public debt ratio ;
2. Continue to reform the public administration, health care, pension and education systems with a view to ensuring long-term fiscal sustainability and improving economic efficiency;
3. Strengthen active labour market policies to improve the employment situation of disadvantaged social groups; reduce permanent regional disparities experienced in employment;
4. Ensure access to high standard education and training for everyone, raising the standard of skills and better adjustment of education and training to labour market needs.

MACROECONOMY

In the Hungarian economy, the efforts made by governments between 2001 and 2006, aiming at raising wages and modernising the economy's infrastructure, exceeded the country's economic performance and resulted in deteriorating in the budget balances. The main reason was that the considerable increase in expenditures ensuing from the above-mentioned measures could not be offset, due to the lack of decisions on structural changes in the various subsystems of public finance. In the period of 2001-2003, the catching-up in wages substantially exceeded that in economic performance. It became evident that this solution causes problems despite the fact that wages were not raised in line with the growth performance during the preceding period; there was indeed room for compensation.

From mid-2006, the Government – in full awareness of potential interest conflicts ensuing – opted for combining the reduction of the budget deficit with the implementation of structural reforms in various areas. The stabilisation programme launched in 2006 projected sizable reduction in the budget deficit by 2008, and assumed that the ensuing smaller financing need of the government sector will pave the path by 2009-2010 for sustainable economic growth characterised by improving competitiveness and increasing employment . This objective was

in part reached, since the deficit reduction between 2006 and 2008 exceeded the adjustment set out in the convergence programme and the general government deficit decreased by 5.9 percentage point (in terms of GDP). Nonetheless, the Hungarian economy could not remain intact from the financial turbulences stemming from the US subprime mortgage market, and evolving into a global turmoil by October 2008. Though the direct exposure of the Hungarian financial system to the so-called toxic assets is negligible, the worsening market conditions and sentiment affected adversely Hungarian financial markets. In this context, the primary goal of the Government is to restore market stability and confidence, as well as to correct the excessive deficit. In addition, in order to enhance competitiveness and employment, the Government's measures are aimed at improving the business environment, creating incentives to work (through social and employment policies), increasing the education system's responsiveness to labour market demands (in particular, improving the vocational training system) and – if conditions make the reforms backing these objectives possible – promoting job creation.

The fiscal deficit has decreased significantly over the past two years, which is coupled by a projected deceleration in growth. This slowdown was primarily attributable to efficiency enhancing measures introduced in the public sector (public administration, education, health care) and the decrease in public investment expenditures, furthermore initially the weak agricultural performance due to unfavourable weather conditions experienced in the entire region had also its negative effect. Measures aimed at reducing the fiscal deficit affected the overall performance of the private sector only to a limited extent; according to estimates, in 2007 the growth rate nearly reached 3% in this sector.

Since the bulk of the measures underpinning the large-scale fiscal adjustment were already implemented, there were signs of accelerating economic growth in the first half of 2008.. GDP growth rate accelerated from 1.7% in the first quarter to 2% in the second quarter thus a 1.9% growth rate was recorded for the first half of the year.

On the other hand, the international environment has become clearly more unfavourable from Q2 2008. As a consequence of the financial turbulence stemming from the US subprime

mortgage market, beginning in summer 2007, the macro data of developed economies show a significant deceleration of growth and permanent weakness of the macroeconomic outlook. The financial turmoil has by now a negative effect on the whole world economy. The remedy of the problems of the financial system requires apparently more time than reckoned previously, and meanwhile a strong deceleration in the world economy is reasonable to calculate with.

As the share of exports in GDP is sizeable (more than 80%), the Hungarian economy can not remain intact from the international developments. Thus the strong deceleration in the export partner economies deteriorates significantly the export outlook.

Labour market developments in the coming period are also determined by the lower demand caused by the deceleration on the external markets, which the private sector – regarding both headcount and wages – will adapt to. The effect of the narrower external market offsets the rather favourable headcount developments of 2008 in the export sectors of the manufacturing industry, while the financial turmoil may reduce headcount in the financial service sector. The mitigation in international purchasing power has a negative effect on the trade and tourism sectors. Overall, employment is expected to decrease by approx. 0.6% in 2009. As a consequence of moderating profitability in the private sector, a moderate wage increase is projected. In the public sector in the absence of wage increase and following the withholding of the so-called 13th month wages, real wages will decrease significantly in 2009.

Due to the increase in financing costs and risk premium, the banking sector applies tighter credit conditions and higher interest rates, which has a negative effect on both households' and enterprises' borrowing.

Owing to the tighter credit conditions and more expensive credit facilities, the fall in headcount because of the recession and the decrease in real wages, households' consumption is expected to diminish by approx 3% in 2009.

Investments will also decline somewhat in the unfavourable economic environment and because

of the tighter credit conditions, notwithstanding the increasingly positive role of EU funds. Over the upcoming period, Community funding made available within the framework of the NHDP (New Hungary Development Plan) ensures the opportunity to launch developments representing a total of HUF 2800 billion on the basis of the operational programmes of NHDP, partly by means of tendering and partly through the 271 priority projects. The priority projects primarily facilitate enhancing competitiveness, increasing existing capacities, improving the business environment and increasing employment. These projects are also aimed at establishing a knowledge-based (innovative) economy, improving the capital base of the SME sector, developing industrial/logistics parks and setting up the infrastructure of broadband IT networks. Beyond EU funding, PPP investments will also support the ongoing development of the highway network. The construction of Metro Line 4 plays a key role in developing the capital's infrastructure. These infrastructure investments help promote the development of regions lagging behind, attract major foreign direct investments and improve labour mobility.

The contribution of net exports to GDP in 2008 is expected to be negative as the growth of imports is expected to exceed that of exports. In 2009 export markets will recede, thus rationally calculating, export growth can only approach 4%, while the growth of imports will lag significantly behind, due to the restrained domestic demand.

Overall, in 2008 GDP is projected to grow by 1.8%. Following the larger than planned deficit reduction, the more unfavourable global economic environment and tighter credit conditions, GDP is expected to decrease in 2009.

The inflation in the first three quarters of 2008 was determined by the food price increase experienced in the last one and a half-two years, the depreciation of the forint in Q1, the globally observable fast increase in energy and fuel prices – and thus the significant increase in households' electricity, gas and other fuel prices – and the carry-over effect of last year's price developments. The Hungarian economy faced several – primarily global, cost side – shocks, whose inflationary consequences it bore relatively well. By the end of Q3 2008 the

inflationary shocks of previous periods largely petered out. The domestic agricultural prices, attributable to the good harvest, began to fall sharply from the summer, which – beside the base effect – was reflected in last months' decelerating food price inflation. After the peak reached in July, global energy prices diminished rapidly, which was translated soon in fuel price decreases, and the pressure on households' electricity, gas and other fuel prices also eased.

Because of pricing rules, the cheaper crude oil prices can appear markedly in households' gas prices from the middle of next year. In this context, according to the forecast, the inflation will decrease to 5% in December, and the annual average change is expected to be 6.4% in 2008. Next year, the annual average increase in consumer prices will fall to 4.5%.

From 2010, both the external and internal environment are expected to improve. Employment may somewhat increase, primarily by decreasing unemployment. Real wages may rise in line with productivity. Therefore, household consumption is projected to modestly increase. In addition to the continuing increase in EU funds, the willingness for households and enterprises to invest may also improve. Greater external demand may have a positive impact on export performance. However, the contribution of net exports to GDP is expected to decrease compared to 2009, since the gap between export and import growth will narrow, due to considerable increase in domestic demand.

Main macroeconomic indicators - 2007-2010

	2007	2008	2009	2010
	<i>Change from previous year, in per cent</i>			
GDP growth	1.1	1.8	-1.0	1.5-2.5
...of which: Domestic demand	-1.0	2.1	-2.2	1-2
Household consumption	-1.8	0.9	-3.1	0.5-1.5
of which: consumption expenditures	0.7	1.1	-3.8	0.5-1.5
Gross fixed capital formation	1.5	1.0	-0.9	2.5-4.5
Export (goods and services)	15.9	7.6	3.9	4-6
Import (goods and services)	13.1	8.1	2.4	3.5-5.5
Consumer price index, annual average	8.0	6.4	4.5	2.5-3

The external and internal balances of the Hungarian economy will improve as a consequence of the fiscal consolidation launched in the second half of 2006. The consolidation programme proved to have been successful; the budget balance improved more than previously planned in 2006 and 2007. In 2007, the deficit decreased from 9.3% in 2006 to 5.0% of GDP, and it will shrink to 3.4% of GDP in 2008. Adjustments will continue during the next few years: the deficit will drop to 2.6% of GDP in 2009. Concerning debt developments, the objective of the economic policy is that the public debt ratio fall to under the reference level of 60% of GDP as soon as possible and remain permanently under this threshold on the long-run.

MICRO-ECONOMY

From the mid-1990s, the Hungarian economy grew dynamically surpassing the European average by a considerable margin. However, as regards the real economy, closing the gap substantially slowed down over the past 2-3 years and unfortunately reached the point of even turning around in 2007. This latter trend largely reflects the immediate impacts of the budgetary adjustment measures, however, particularly hit domestic consumption, whilst export continued to perform well. However, the slow down in the dynamic underlying closing the gap that could also nevertheless be felt earlier shed light on serious structural shortfalls. The negative impact of the budgetary adjustments on growth surfaced immediately; however, the positive impacts of the structural measures and sector reforms introduced and planned to be adopted in the following will be delayed in time. Increasing productivity and setting employment on the growth path once again still remains the precondition for returning to a permanently high economic growth pace exceeding that of the EU average. (It is nevertheless a fact that redundancies made in the public sector play a key role in the deterioration of employment indicators exposed last year.)

Beyond maintaining macro-economic stability, i.e. creating a forecastable macro-economic environment promoting long-term investments, the Hungarian Government is convinced that introducing reforms in network-based industrial sectors aimed at stimulating competition regulations promotes raising productivity and the same impact is expected from government

initiatives targeting economic R+D and innovation activities, raising environmental awareness and upgrading the business environment. From among the industrial sectors operating on a network-basis, competition only functioned to a limited extent in the energy sector; however, these conditions will improve in the near future pursuant to the recently adopted decision of the European Commission instructing the termination of long-term agreements.

As regards **work productivity**, the **trend** that has allowed the country to **close the gap was unbroken** since the turn of the millennium; however, last year – in line with the weak GDP figure – productivity at best stagnated. GDP per capita employee was 74.4% of the EU average in 2007, which is the second highest figure for the Visegrád countries. Although real wages in Hungary rose at a fast pace over the past few years, the country is still classified as a relatively low wage-cost country.

Enterprises in Hungary have been stably generating profits exceeding 10% of capital on average since the mid-2000s. The difference between the profitability indicators of the SME vs. corporate enterprise sector and the majority foreign stakes vs. Hungarian-owned companies indicated a rising trend in favour of foreign-owned and/or corporate enterprise earlier; however, the difference in the profitability of Hungarian and foreign-owned enterprises has decreased over the past few years on the basis of the most recent data. This margin decreased mostly due to how Hungarian-owned companies generated more profit before tax, which is in part attributable to measures introduced to promote regular employment.

EMPLOYMENT

Establishing the budgetary balance was specified in the convergence programme, and even though the **reforms** that were introduced had a negative impact on employment, **labour market indicators by and large did not deteriorate over the past three years**. Moreover, the employment rate – slightly fluctuating – slightly increased, which, together with the decrease in the active working-age population (15-64 age bracket),

engendered an approximately 0.5% increase in the rate of employment in relation to the figure for 2004. **Major changes** coupled this slight increase: as a result of the transformation of the public sector, 68 000 less employees were employed at budgetary bodies by 2007 (representing a decrease of over 8%), which trend was counterbalanced by an increase in the number of employees in the economic sector.

Both the number and ratio of the economically active segment of the population changed considerably, which is largely attributable to the rise in the unemployment rate. (See Table 1) This is primarily the outcome of employment policy action focusing on preserving and/or increasing activity. In line with the objective defined in 2006 specifying that dealing with the employment impact of the adjustments should not increase inactivity, but should instead rely on instruments used to preserve activity, **paths paving the way to inactivity have gradually narrowed down during the past few years.** The **unemployment rate did not decisively rise at the expense of employment**, but instead, many individuals that were inactive earlier entered the labour market as potential employees. This is justified by the fact that the number of inactive individuals seeking employment decreased by a total of 66 000 up to 2007; therefore, a large segment of this particular group – assessing their labour market status and job potentials in a favourable light – was integrated in the economically active job seeking segment of the population (See Annex 1). In relation to EU member states, Hungary continues to rank average as regards the country's unemployment rate.

Table 1

Key labour market indicators in 2007 and changes to these in relation to 2004 in the 15–64 age bracket								
	Employed (thou ind.)	Unemployed (thou ind.)	Economically (thou ind.)	Inactive (thou ind.)	Population (thou ind.)	Activity ratio (%)	Unemployment rate (%)	Employment rate (%)
2004	3 874,7	252,5	4 127,2	2 699,2	6 826,3	60,5	6,1	56,8
2005	3 878,6	303,1	4 181,7	2 633,0	6 814,7	61,4	7,2	56,9
2006	3 906,0	316,5	4 222,5	2 593,3	6 815,8	62,0	7,5	57,3
2007	3 897,0	311,7	4 208,7	2 591,0	6 799,7	61,9	7,4	57,3
Change (2007/2004, %)	0,6	23,5	2,0	–4,0	–0,4	–	–	–
Key labour market indicators in 2007 according to age group								
	Employed (thou ind.)	Unemployed (thou ind.)	Economically (thou ind.)	Inactive (thou ind.)	Population (thou ind.)	Activity ratio (%)	Unemployment rate (%)	Employment rate (%)
15–24	261,6	57,6	319,2	927,0	1 246,2	25,6	18,0	21,0
25–54	3 232,5	236,3	3 468,8	866,6	4 335,4	80,0	6,8	74,6
55–64	402,9	17,8	420,7	797,4	1 218,1	34,5	4,2	33,1
15–64	3 897,0	311,7	4 208,7	2 591,0	6 799,7	61,9	7,4	57,3

Source: KSH

Integration of the **15–24 age group** in the labour market further decreased in 2007 to 25.6%. This is primarily due to prolonged education and training, longer periods of time spent studying and the longer transitional period, whilst at the same time regular employment alongside studying is still not a typical phenomenon in Hungary. At the same time, the time spent looking for employment following the completion of studies has also increased, which is well-demonstrated by the high unemployment rate in this particular age group.

The employment indicators of the **55–64 age group** – also thanks to the gradual rise in retirement age – have improved substantially over the past few years, i.e., the employment rate has increased by an overall 2% to 33.1% in relation to the figure for 2004. It is nevertheless true that this trend was broken in 2007, which can be attributable to the short-term negative employment impacts accompanying the transformation of the pension system introduced in January 2008, which changes project activity increase on the long run. At the same time, the level of employment and activity in this particular age group continues to remain very low in relation to the active working-age population, and in particular in comparison to the EU average, which is why it is necessary to introduce employment measures promoting the employment of the older generations.

The employment characteristics of **women** in relation to men presents a mixed picture; some employment indicators are more favourable, however others are less favourable in relation to the EU average; however gender disparities in Hungary are generally at a lower level in relation to other EU member states. The labour market gap has slightly widened over the past period in the case of employment: in the case of women, decrease in the active working age population was only counterbalanced to a limited degree by changes to rate of employment. (Although the employment rate rose by 0.2%, the employment rate in the female population practically remained at the same level). The unemployment rate rose somewhat higher than average over the past three years in the case of women (from 6.1 to 7.7%); in practical terms, this is what engendered the 1.1% increase in activity rates. The way in which the employment rate of women is lower than men can be attributable to how Hungarian women spend more time away from the labour market due to child-bearing than in other EU countries. This is equally demonstrated by how the employment rate of women and men significantly deviates around the average child-bearing age in relation to developed EU member states. One of the reasons for this is that it is difficult to reconcile child-bearing with work. In general terms it is plausible to state that women have more children in developed European countries and a higher ratio of women work in these countries in relation to Hungary.

Regional disparities in employment continue to persist; there is 13% margin in the rate employment between the most disadvantaged North Great Plain region and the most developed Western Transdanubian (West Pannon) region. However, data measured at a regional level alone fails to demonstrate the true size of these employment disparities; regional indicators conceal major disparities and increasing disparities at a micro-regional level within specific regions.

Major changes have not taken place in the **sectoral structure of employment** since 2004. The employment level primarily rose in the commercial sector (8.4%), other community and personal services sector (7.9%), as well as the building industry (7.1%). Significant relative cut-backs impacted the following sectors: agriculture (10.7%), public administration – as a result of measures aimed at decreasing the number of employees in public administration

- security and compulsory social security, as well as education (5%), healthcare and social services (3.3%). The number of employees decreased by a total of 4.3% in relation to 2004 in sectors in which a high ratio of public services are used, whilst a 2.1% was recorded in other sectors.

From among the range of **unconventional forms of employment**, the low rate of part-time employment has further decreased. Less than 4% of the 15-64 age bracket was employed on a part-time basis in 2007, as opposed to the 17.7% average for the EU-27 is 17.7%. In Hungary, mainly older women work on a part-time basis, many of whom concurrently receive pension allowances. 7.3% of the 15-64 age bracket are employed on a contract-basis for a definite period (EU average: 14.5%). The slight decrease in the number of individuals employed on an individual entrepreneurial or company basis continued (also including assisting family members and associated members); this segment represented 12.2% in 2007, which is 0.5% less than one year earlier. The role of individual entrepreneurs in employment continually decreased over the past period, which is most probably attributable to the decrease in the number of sham contracts and forced entrepreneurs.

The extremely low level of employment of individuals with **low level qualifications** in an EU perspective is the main reason underlying the low rate of employment in Hungary (See Annex 2). Only 27.3% of individuals in the 15-64 age bracket with primary school qualification were classified as employed individuals in 2007, whilst the average for the EU-27 is 48.3%. **Roma** individuals are over-represented in the segment of the population with only low level qualifications, which – together with discrimination experienced on behalf of employers – plays a key role in the employment disadvantages this population faces. In addition, low employment rates have also been registered in the case **persons with disabilities**; in their case, labour market participation is anticipated to increase through the transformation of the disability allowances and the employment rehabilitation system.

Specific and tangible partial results were achieved and effective changes were set in motion over the past three years as a result of the series of transformations launched in the

educational-training system. However, not enough time has lapsed to be able to demonstrate the qualitative impact of these changes through significant results accomplished. In light of the most recent data it is nevertheless plausible to state that a **slow, however continuous improvement can be experienced between 2000 and 2007 in the area of public and higher education** in the case of practically all Lisbon indicators and reference values (e.g. key competencies [reading and writing skills, foreign language and IT skills], school drop-out rates, IT equipment in education institutions, ratio of individuals with higher-secondary level education, ratio of children enrolled in pre-school, ratio of students completing higher education in mathematics, natural sciences or technology). **Hungary is classified as a so-called closing the gap country.**² In compliance with the principles underpinning the Bologna Process, the three-tier education system was introduced in higher education pursuant to the entry into force of the new education act (2006); accordingly, the development and introduction of requirements adjusted to grades awarded and outputs has been completed in the case of basic education courses (BSC) and is in progress in the case of master courses MSC. Effective action has been taken to increasingly adapt the curriculum to practical needs.

The changes that have been launched have established the grounds for continuing comprehensive reforms; however, it is necessary to accelerate the pace of transformation and create better consistency between structural, curriculum-related measures and the regulatory environment to be able to fully implement these changes, especially to ensure better access to quality education, eliminate segregation in schools, in areas tying in with strengthening the labour market relevance of the education system and participation in adult training.

2 **COMMISSION STAFF WORKING DOCUMENT**
PROGRESS TOWARDS THE LISBON OBJECTIVES IN EDUCATION AND TRAINING
Indicators and benchmarks, 2008

HUNGARY'S NATIONAL ACTION PROGRAMME

Hungary's National Action Programme has been compiled in accordance with the strategic target system defined by the so-called EU integrated guidelines.

Key challenges for Hungary – taking account of the framework of conditions presented in the present document – were defined in accordance with the following:

Our priorities are based on the challenges set out in the National Action Programme for 2006-2007; however, we equally adapted to the changing set of conditions and built on the results reached during the past period. On the basis of the results of the convergence programme, as well as due to the initially negative impacts of budgetary deficit adjustments on growth and employment, we find it extremely important for the budgetary deficit to keep following the path set out in the convergence programme. In addition, government measures aimed at increasing growth and employment have also been equally emphasised under the various priorities.

Beyond the improvement of the business environment and promoting R+D and innovation – adjusted to the Lisbon priorities – extending the scope of infrastructure in a wide sense has also been prioritised in the case of micro-economic conditions. The way in which Hungary needs to make up considerable arrears experienced in relation to the average EU level is what makes the latter a priority issue.

We have elaborated the following priority system in order to be able to increase employment levels: promoting activity, job search and employment; improving employability; increasing labour demands, with special regard to the most disadvantaged regions; helping employment „transitions“; disseminating unconventional forms of employment; reducing irregular employment; preventing the reproduction of labour market disadvantages, which includes strengthening equal opportunity in the domain of employment, as well as education; strengthening coordination between education and labour market needs.

MACRO-ECONOMIC PROGRAMME

Guideline 1

Securing economic stability for sustainable growth Country-specific recommendation - 1

Continue to implement the necessary measures to ensure a durable reduction of the government deficit and of the public debt ratio, with increased reliance on the expenditure side, including through the establishment of more thorough and comprehensive expenditure rules

Budgetary deficit needs to reach an adequately low level (in the case of Hungary the medium-term budgetary objective is a 0.5% deficit to GDP ratio in structural term – i.e. cyclically adjusted and net of one-off and other temporary items), which allows for the proper functioning of automatic stabilisers while ensuring that the deficit does not exceed the 3% reference value. Monetary policy must contribute to achieving and maintaining price stability, in addition to providing an appropriate framework for the catching up.

The Government shall conduct its budgetary and structural policy in a way that these policies create favourable conditions for sustainable growth, real convergence and increasing employment.

As regards monetary policy, the primary objective of the central bank (Magyar Nemzeti Bank MNB) – in accordance with the MNB Act – is to achieve and maintain price stability. Monetary policy has been applying an inflation targeting regime since mid-2001. The pegged wide exchange rate regime (which means that the market exchange rate may deviate from the parity within the +/-15 percent fluctuation band) introduced in 2001 was abolished from the end of February 2008, pursuant to the mutual decision of the Government and the Central Bank. Under the current circumstances, the exchange rate regime without bands (floating exchange rate regime) is much more in line with the inflation targeting system and creates more leeway for supporting real and nominal convergence.

Budgetary outlook

Hungary is under excessive deficit procedure. Eliminating the excessive deficit in 2009 at the latest is the primary goal of budgetary policy, which complies with recommendation of the Council of the European Union (Ecofin) issued in October 2006. The Government launched a comprehensive consolidation programme in summer 2006 to reach this goal. Adjustments primarily focus on measures affecting expenditures; however, measures aimed at generating revenue were also needed to be taken during the initial adjustment period (2006-2007) to be able to expediently reduce the budgetary deficit. Structural reforms affecting various budgetary subsystems (such as healthcare, public administration or the pension system) establish the grounds for the durability of adjustments. Results have become evident two years after the launch of the adjustment programme. Budgetary deficit in 2006 was 9.3% of GDP, which dropped to 5.0% in 2007. The balance was improved through both expenditure cuts and revenue increases (50-50%). The deficit further decreased in 2008; the convergence programme has set a 4% deficit target. In order to adjust to the impact of the financial crisis evolving in October 2008, the Government made a decision to accelerate deficit reduction defined in the convergence programme and introduced further expenditure measures underpinning this goal. The budgetary deficit is expected to decrease even further in 2008 to 3.4% of GDP, due to the Government decision and intra-year developments (which together with the adjustment for the burden of the pension reform that can be taken into account in view of the excessive deficit procedure will drop to 2.9%). The Budget Bill for 2009 set a deficit target of 2.6% of GDP. In accordance with the bill, the balance will primarily be improved by decreasing primary expenditures. The cut in expenditures is achieved through the reduction of central government chapters spending financed from subsidies (i.e. not from own revenues and not from EU-resources), the cutback in public sector wages and containing pension and social expenditure growth. Wages in the public sector will not change in 2009 compared to the previous year and 13th month salaries will be suspended. Social expenditures will only marginally increase compared to GDP due to changes in payment rules of the 13th month pension and the impact of measures planned in the field of social benefits. In view

of the deterioration of real economic outlook, the Government also envisages addressing employment decline by using budgetary means. The objective of the National Employment Programme is to quadruple the number of persons who participate in public purpose jobs instead of living on social benefits, which can be facilitated through the significant increase of resources re-allocated for this purpose. Deficit will continue to decrease in 2010.

Beyond the structural reforms affecting certain subsystems of general government (see next chapter), the following reform measures underpinning the efficiency of budgetary planning and implementation support the sustainable position of the budget balance on the medium and long run.

- On the grounds of the amended Act on Public Finances, in effect since 1 January 2007, the Government is only permitted to submit a budget bill to the Parliament that ensures the surplus of the so-called primary balance indicator of the general government sector, which does not include interest expenditures.
- The budget bill for 2008 further reinforced medium term budgetary planning. Medium term expenditure ceilings introduced on the basis of the bill fix the funding and expenditure appropriations of ministries for a three-year period in advance.
- The draft legislative proposal currently being discussed by the Parliament introduces numerical rules to expenditures. The real value of (primary) expenditures can only increase by max. half of the GDP growth in 2010-11. In addition, according to the proposal, an institution to be set up, the so-called Budgetary Council shall also contribute to the sustainability of the budgetary policy.

The ongoing reduction of the budget deficit established the grounds for the permanent decrease in public debt. On the medium term, public debt will permanently decrease in line with the ongoing improvement of the budget balance, which contributes to the long-term sustainability of public finances, reduces country risk and therefore spreads.

Guideline 2

Safeguarding economic and fiscal sustainability as a basis for increased employment

Country-specific recommendation - 2

Continue to reform the public administration, health care, pension and education systems with a view to ensuring long-term fiscal sustainability and improving economic efficiency. This should include steps to further limit early retirement, reduce the number of new recipients of disability pensions and further restructure health care.

The Government introduced a series of measures aimed at restructuring public administration, health care, pension, education and the gas subsidy systems, underpinning the budgetary targets outlined in the convergence programme. In addition, the Government implemented or initiated a series of reforms (e.g. by introducing the act on state assets) that serve to establish sound grounds for the budget and improve its efficiency.

Central public administration

The reform measures started in 2006 (reorganisations, staff cuts and the introduction of the performance measurement system) have all contributed to cutting costs and raising the efficiency of public administration. The main thrust of the organisational measures adopted early in the term of the government was to regionalise large networks; these have been implemented between 2006 and 2008. The remaining measures and objectives, mostly attained by now, all aimed to improve the efficiency and effectiveness of operations. These include the following: the reduction of the size and internal segmentation of the institution system; the close-down of institutions and business associations where the performance of functions by the public sector is not justified; the elimination of duplications; merger of financial services supporting professional activities, of professional functions and physical support organisations, and the performance of functions with concentrated and more limited

capacities. Actual figures indicated that in 2006-2007, the measures brought about a net reduction(i.e., taking into account any staff increases in some fields) of 13,604 in the number of persons employed, representing some 5% of the total authorized employee numbers for 2006. The sustainable annual savings for the budget amounted to HUF 47 billion, which thus serves to improve the equilibrium.

- The number of employees of the central government fell to 5787 by the end of 2007, corresponding to an approximately 27% reduction from the staff numbers at the beginning of 2006 (7936 persons);
- in the framework of the centralisation of parallel functional areas, in order to make the performance of tasks more effective and economical, the management of public assets was integrated in a single entity (Hungarian National Asset Management Zrt.) as of 1 January 2008. Central service providers gradually take over support functions till the end of 2008;
- in the course of the consolidation and regional reorganisation of the central administration and its regional (decentralised) bodies, a number of large networks were reorganised with a regional focus mostly as of 1 January 2007, or later in the year. As a result of the reorganisation, instead of the 430 central budgetary institutions affected, only 184 have continued their operation.

The quality improvement of public services has been promoted by the introduction of the definition and measurement of performance requirements across the board in the entire public administration (establishment of a new type of performance assessment procedure (TÉR)).

In order to gradually reduce the administrative burdens of market and non-market actors alike, the assessment of the administrative burdens imposed by the effective legal regulations has started based on the Standard Cost Model method. The aim is to reduce burdens by at

least 25% by 2012.

In order to prevent the regeneration of the aforementioned administrative burdens, it will be necessary to introduce the prior measurement of expected administrative burdens imposed by proposed draft regulations. Accordingly, the preparation for the systematic use of the SCM method and for its inclusion in the government's decision making mechanism is ongoing, with the deadline on 31 December 2008.

To eliminate procedural law obstacles to maintaining electronic contacts between clients and authorities and between various authorities and to promote such electronic contacts, it is necessary to amend the act on the rules governing the regulatory administrative procedure and service provision; the draft of the legislation has been completed, was discussed by the Government in October 2008.

The purpose of the review of the role of specialised authorities in every regulatory procedure is to reduce the participation of specialised authorities in the various procedures, applying a notification obligation instead of a licensing procedure while introducing strict controls. With the final deadline on 30 November 2008, the review of procedures has made time proportionate progress and the amendment of the relevant laws is under way. As a result, the contribution of specialised authorities is expected to be reduced by 20%.

With a view to reducing the administrative burdens of market and non-market actors and of public administration and to assure faster case administration, progress has started on making the forms used in public authority and regulatory procedures electronically available for downloading or completion. The technical tool is available for the conversion of forms into electronic format, and the guidelines for their required content have been completed. The preparation of the electronic versions of the various forms is under way, with the final deadline on 31 March 2009.

Local governments

In 2008, Parliament approved HUF 28.1 billion for funding the performance of tasks in micro-regions. In 2007, HUF 22.5 billion was available for funding multifunctional micro-regional associations, as opposed to HUF 15.4 billion in 2006. The main areas of cooperation continue to be public education and social functions. As an indication of the intensity of cooperation, the number of associations maintaining public education institutions and the number of local governments participating in such increased considerably in the 2007/2008 school year.

In addition to multifunctional micro-regional associations, the increase in the number of district town clerk offices also indicates a move towards a more rational allocation of functions.

In order to improve cooperation between municipalities and to promote the joint performance of functions, and to improve the material conditions for the schools of small settlements and district town clerk's offices and to procure community buses, the central budget has provided funding of HUF 3.5 billion in 2008. This grant has opened up new opportunities for small settlements to implement some minor investments for which there is a real need but which, due to their size, are not eligible for EU funding. Based on 342 successful applications, 905 settlements and 38 micro-regions received funds to achieve the aforesaid objectives.

Taking into account the investment needs arising from the derogation commitments on the side of local governments, the resources available to the EU Own Funding Fund have increased by almost fifty percent.

The Government has approved HUF 1.6 billion for the infrastructure development and capacity expansion of nurseries and kindergartens and the infrastructure development of primary schools. The grant serves the infrastructure development of settlements in the 47 most disadvantaged micro-regions. The objective is to ensure that care for and education of children and students in these micro-regions is the highest possible quality, with particular

attention to providing equal opportunities to children with multiple disadvantages.

The amendment of the act on public finance altered the system of on-site inspection of requesting and accounting for the funds received by local governments from the central budget, in the framework of the Treasury review, as well as the terms of the mandatory on-site inspection:

- In respect of the application for grants and contributions at the beginning of or during the year, by default, the Treasury conducts an on-site inspection if the difference between the aggregate amount indicated in the local government reporting on the one hand and shown in the Treasury records on the other hand exceeds 2% and is not less than HUF 1 million. In respect of the review of the year-end accounts, the Treasury conducts on-site inspections at every local government at least once every four years.
- By way of exception, stricter rules apply to local governments with budgets in excess of HUF 400 million. In that case, on-site inspection is performed annually in respect of at least 50% of the titles of revenues from the central budget.

Curative-preventive care

The declining trend of the expenditures on curative-preventive care to GDP in recent years satisfies the requirements of the convergence programme and in the long term it lays the foundations for the sustainable funding of health care. Curative-preventive care expenditures at current prices increased from HUF 714 billion to HUF 741 billion between 2006 and 2008, which represents a decrease from 3% in 2006 to 2.7% in 2007 compared to GDP, which is expected to further decrease by 0.1 percentage point in 2008.

The reforms of 2006 and 2007, the introduction of the new capacity regulation and financing systems facilitated the equilibrium of the Health Insurance Fund. In 2007, the Health Insurance Fund already closed with a surplus of HUF 27.4 billion. A surplus is expected also for 2008.

The revenue side of the Health Insurance Fund has been strengthened mainly through the verification of insured status, which continues to be an important reform element in 2008.

Persons not paying contributions continue to receive any required health care, but from 1 January 2008 on, the Tax Authority, based on the data supplied by the NHIF, has paid special attention to controlling residents failing to sort out their legal relationship. Failure to submit a notification triggers a default fine, and failure to pay contributions results in the imposition of a penalty. In order to assist with controls, the scope of data exchange between the NHIF and the Tax Authority has been broadened.

Health care service providers are obliged to verify the existence of an ensured status in advance. The NHIF will withdraw 10% of the financing of service providers failing to perform the verification. In order to improve the efficiency of the insured status check, under the system introduced in 2008, if the family doctor or the service provider offering dental, outpatient or in-patient services verifies the insured status of a patient, he receives HUF 50 remuneration per case to recognise the additional effort required.

The insurance principle of the social security system is also reinforced by the fact that there is actual contribution payment in respect of persons entitled to health care services on a solidarity basis (e.g., pensioners, recipients of maternal benefits, full time students, homeless persons) as the central budget pays a health service contribution of HUF 4350 per month and per person into the Health Insurance Fund. In 2008, the funds thus remitted from the central budget amounted to HUF 307 billion, in contrast with HUF 289 billion in 2007.

In the rationalisation of the curative-preventive care, the account statement plays a major role, serving to curb the financing of reported but unjustified output. Under the threat of sanctions, all health service providers must issue account statements to insured persons if they make use of in-patient care, specialised outpatient care or basic dental care. In the account statement, the insured person is informed about the services or treatments the health service provider intends to charge to the insurer as well as the amount charged.

The standards of care can be maintained also among the tighter fiscal boundary conditions considering that

- as a result of the relevant measures (account statement), invalid, fictitious procedures no longer burden the benefit system, thus capacities can be used to satisfy real needs;
- the monitoring of care has become more efficient through the institutional background (Health Insurance Supervision) and the new legal instruments introduced (waiting list, scheduled appointment system);
- continued promotion of forms of care that create less burden for the budget but that are better for patients (day surgery, day hospital).

The savings in expenditures facilitated increasing the financing of providers of basic health care services, the improvement of forms of day surgery and the shortening of waiting lists that evolved in certain specialisations.

Pharmaceutical subsidies

Upon the entry into force of the provision of the Act on the secure and efficient supply of pharmaceuticals and medical aids and on the general rules of pharmaceutical trade as well as the rules on the contributions of pharmaceutical companies, 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 Act created a new, more equitable 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 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 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 implemented affecting the pharmaceutical subsidy system and the

pharmaceutical market:

- the free supply of indication-related pharmaceuticals in priority subsidy groups has been abolished;
- subsidy rates have been lowered;
- in order to accelerate generic competition and to assure transparency, the rules of „fixing“ of the subsidy have changed (formation of fixed subsidy groups and announcement of price cuts continuously, fixing on a quarterly basis). Producers can now submit price cut offers through the internet (NHIF Web Bidding system), using electronic signatures. This is a major step forward and it also accelerates processes;
- the criteria for remaining in the subsidised pharmaceutical category have become more stringent;
- in line with regulations promoting efficient prescription, physicians receive regular feedback about how their prescription practice relates to the average. The amendment of the legal regulation on the promotion of quality and effective subscription practices is under way; the new rules are expected to be applicable based on prescriptions redeemed after 31 march 2009. On this basis, physicians will not be sanctioned financially; instead, they will be required to attend training;
- the payment obligation of pharmaceutical producers and traders is set in an act (payment obligation of 12% of the producer-price-proportionate part of the subsidy, 2.5% of the wholesale margin of subsidised pharmaceuticals, HUF 5 million per year after medical representatives, tiered payment in the event of the overrun of the appropriation for pharmaceutical sales in pharmacies). Of these, the payment obligation in respect of medical representatives was abolished by the Constitutional Court as of 18 June 2008. Due to the favourable developments, no tiered payment obligation has arisen in 2007 or 2008;
- the on-line verification of prescription rights and eligibility has started;
- the restraints on the opening of pharmacies have been eased and the sale of certain non-prescription drugs outside pharmacies has been allowed.

As a consequence of the measures affecting the pharmaceutical subsidy system and the

pharmaceutical market, in 2007 the long-standing, dynamic growth trend of pharmaceutical subsidy expenditures was interrupted. Expenditures fell by 16.7% from the level of subsidies paid in 2006. In 2007, HUF 323.6 billion of pharmaceutical subsidies were paid, the payments of pharmaceutical producers and traders showed a balance of HUF 27.8 billion, and the pharmaceutical-related balance of the Health Insurance Fund was HUF 295.8 billion. The latter represented 1.17% of GDP, which was a major, 0.38 percentage point decline from the previous year level.

By August 2007, pharmaceutical subsidies of HUF 218.6 billion were paid, while in 2008 the corresponding figure was HUF 212.6, representing a drop of 2.8%; this is only 61% of the original subsidy appropriation of HUF 347.9 billion, which included the pharmaceutical subsidy reserve. Based on trends so far, and in view of the Constitutional Court decision, the payments of pharmaceutical producers and traders are expected to be around the envisaged level.

Based on the time proportional performance values of previous years it is likely that the pharmaceutical-related balance of the Health Insurance Fund will turn out to be more favourable than budgeted despite the fact that the demand for pharmaceuticals has risen by a few percentages due to the involuntary abolition of the visit fee.

The reduction of the subsidy levels triggered a considerable increase in the co-payment in mid-January 2007. As a result of the price competition on the generic market, however, prices of the subsidised products declined continuously, affecting 960 preparations in total between 15 January 2007 and 31 August 2008; producer prices fell by 25% in this category. The 18.5% average consumer price increase of 2007 for the full range of pharmaceuticals (both subsidised and non-subsidised products) fell to 2.3% in the first eight months of 2008.

On the whole, the expenditures of the in-kind services of the Health Insurance Fund (curative-preventive, pharmaceutical subsidies, medical aids subsidies and other expenditures) are expected to fall, from 4.9% in 2006, to 4.1% in 2008 compared to GDP.

Education

Public education

The new performance indicator based financing, introduced on 1 September 2007, has been extended, as of 1 September 2008, pursuant to the budget act, to basic art education, education and care in dormitories and hostels, day school and study room activities and boarding school education as well. The basis of calculation for these functions is also the education organisation parameters specified in the act on public education. Essentially, as a result of this funding system, maintainers (mostly local governments) will have to face the consequences if they employ more teachers than justified by these parameters (mandatory classroom hours of teachers, average student group sizes, weekly time allocated to study).

In respect of kindergarten education, school instruction and theoretical studies in vocational training, the parameters defined for the 2007/2008 school year will become more stringent in the new school year as we move up in grades. The provisions of the public education act will be fully applicable in financing in the 2010/2011 school year.

The rules governing transfers to promote the association of local governments maintaining institutions have been fine-tuned; the obligation of planning public education tasks in micro-regions has been set forth. From 1 September 2008 on, funding to micro-regional public education functions has been conditional on the multifunctional micro-regional association possessing an approved micro-regional action plan setting out, in respect of the settlements participating in performing the public education functions, all the requirements that need to be included in the action plans of local governments as well.

The objectives of the Government's programme 'New Knowledge – Education for Everyone' include, inter alia, that every child should start school with equal opportunities and that the school system should not increase social differences but rather it should allow persons in

disadvantageous positions to improve their plight; furthermore, the teaching profession should be made more attractive and the work of teachers should receive more recognition.

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 new steps have been taken:

- Pursuant to the amendment of the act on higher education in 2007, the government programme for the quality-driven development of higher education, in view of the requirements of mobility in higher education within the European Higher Education Area, as a new means of adaptation gives universities and colleges the choice of a three-year maintainer agreement between the higher education institution and the maintainer ministry, which provides more independence as well as greater responsibility and helps the financial management of the institution. Thus, on the one hand, the safety of budget planning is improved, and on the other hand, qualitative performance expectations are set out for financed institutions in areas such as training, R&D, financial management, regional economic and social integration and cooperation.
- Under the agreements signed in December 2007, the central budget funding consists of two parts: the core funding for the duration of the agreement and the annually changing funding tied to performance indicators.
- The pro-competitive effect of the admission procedure, based on student choice and limiting the role of the government to setting admission ceilings for areas of specialisation was already noticeable in the 2007 admission results: the majority of students applied to larger universities and to institutions in cities and in Budapest. In the admission procedure of 2008, the numbers of both applications and admissions were more balanced between the country and Budapest than in the first year of the new admission system, even though

due to a demographic decline, some ten thousand persons fewer applied to institutions of higher education. The continued concentration of applications, which is limited only by the maximum capacity of institutions, is expected to bring about an involuntary reduction in the number of institutions, promoting a more efficient, more competitive structure in higher education.

- The deadline for the review of capacities of higher education institutions, as related to the admission ceiling and the functions to be performed, has been moved from 1 September 2009 to 31 March 2008. Admission into higher education institutions in 2008 was conducted in light of the outcome of the new capacity accreditation procedure.
- The Higher Education Information System set up in line with the Public Education Act also facilitates the economic financial management of higher education institutions. This system registers data that is essential for the regular operation of the institution, exercising employer rights and organising courses and are equally required for the assessment and certification of eligibility for allowances granted on the grounds of legislation and the organisational and operational manuals of higher education institutions. In this regard, data on the basis of which it is possible to determine individual eligibility and eligibility for allowances can be administered.
- In preparation for the master education to start in some three hundred majors in September 2009, the state-financed master quota of 21,700 persons will be allocated among institutions in an application scheme in September 2008.
- On 1 January 2008, the number of institutions was reduced by one state-financed and one church-maintained institution, and more integration initiatives are under way.

The quality of higher education is supported by a provision entered into force in September 2008 whereby students failing to reach achievement targets in the state financed system may continue their studies on a tuition fee payment basis, and they may be replaced by the best performing tuition-paying students. The reclassification, promoting higher achievements,

affects 15% of the students.

Pension system

In the pension system, the Hungarian general government faces considerable long-term expenditure growth as a result of demographic trends. In the forthcoming 50 years, the old-age dependency ratio (ratio of the population above retirement age to the active age population) will increase substantially. Therefore the ratio of pensioners to persons in employment will also develop along an unfavourable course as the improvement of the employment rate will only moderately alleviate the demographic problem. Thus firm measures are required to assure the long-term sustainability of public finances. The best tool for improving sustainability is to curb expenditures, which will increase in the future. This demands reforms, primarily in the pension system. In addition, the gradual reduction of the government debt will also improve, indirectly, the long term sustainability of public finances.

The measures implemented in the 2006-2008 period will, in the medium and long term, considerably reduce the expenditures to be incurred in the pension system in the next 50 years, thereby continuously improving the position of the central budget as well as the sustainability indicators of the mandatory pension system. Most of the measures are set out in the amendments of the Act on social security pension benefits adopted in 2006 and 2007. The approved and effective measures include the following:

1. Persons going into early retirement after 1 January 2008 will be allowed to take up regular employment with earnings above minimum wage only if they simultaneously suspend their pensioner status. The new rule is applicable to persons retiring after 1 January 2008, while from 2010 onwards it will also be extended to all persons in early retirement.
2. After 1 April 2007, 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 (0.5% after 2008) for each year

of contribution payment.

3. From 2008 on, for incomes earned in previous years, instead of the earlier partial valorisation, full valorisation will be applicable in pension calculation (to the level of the year directly preceding retirement); furthermore, the calculated tax must be deducted from the earnings reduced by the contributions payable by the individual. As a combined effect, the replacement ratio of initial old-age pensions may decline from 82% to around 76%.
4. From 2007, businesses employing persons in jobs with potential health hazards have had to pay a special contribution to cover eligibility for early retirement. Between 2007 and 2010, the central budget will assume the related burdens from the employers, on a regressive scale, while from 2011, the 13% contribution will be payable fully by employers.
5. In case of men, the earliest date of early old age retirement will not be reduced to 59 years of age between 2009 and 2012; instead, it will remain at 60 years. The adjustment is estimated to result in expenditure savings of HUF 120 billion between 2009 and 2012;
6. From 2009 on, the criteria of early retirement will become considerably more stringent: instead of the previous 38 years of service, or 33 years for a reduced benefit, 40 and 37 years, respectively, will be required from next year, which is expected to significantly increase the mean age.
7. As of 2013, the early retirement age will increase to a uniform 60 years of age, and at least 37 years of service will be required for a reduced pension benefit.
8. From 2013 on, the rules governing the reduction of old age pension in case of early retirement will be modified. The rate of reduction, depending on the time remaining until retirement age, will be 0.3% per month for the 61-62 age group and 0.4% per month below the age of 61.

The expenditure decreasing impact of the measures introduced in 2006-2008 will already be felt on the medium-term. Expenditures potentially arising in the future will decrease as an impact of these measures. From among the measures listed, changes to pension calculations and rules for early retirement will have the most significant expenditure reduction impact. In any case, with the exception of the measures listed under section 3 and 4, all measures

are aimed at raising the age of retirement, which implies that by changing the effective age threshold for retirement (for men and women), it will be possible to measure the impacts of these measures on the basis of a positive shift in the effective age of retirement.

It must be emphasised, however, that the tightening of the rules will temporarily go hand in hand with an increase in the numbers of the newly retired. The majority of those who had a choice between retiring under the old or new rules is likely to have chosen the old rules; moreover, persons originally intending to retire later may have brought their application for retirement forward. The number of applications for pension in the own right of the applicant awarded in 2007 increased by approximately 16%, or close to 20 thousand, over the previous year figures (19,715 persons), and this figure is even higher for old age pensions: almost 25% more people retired in 2007 than a year before (an increase of 19,630 persons), while at the same time, the number of disability pensions awarded fell by some 12% (by 4,825 persons).

In addition to the aforementioned amendments of the retirement rules, the act on the reform of the disability pension system, effective from 2008 and focusing on a rehabilitation approach, contains additional measures to promote the long term sustainability of public finances. The new regulations have modernised the system of assessment of altered working capacity, concentrating on the remaining working capacity while providing for the background for complex rehabilitation. Persons having remaining working capacity will receive a rehabilitation benefit rather than a disability pension in the future. This benefit may be granted during the rehabilitation procedure but for no more than 3 years. The new benefit rules, supplemented by the reform of the system of rehabilitation instruments and institutions, are expected to yield the first savings in 5 or 6 years, to increase to an appreciable level within 8-10 years of their introduction.

Demography have a major impact on the operation and maintainability of the pension system. As regards life expectancy at birth and life expectancy at age 65, Hungary is well below the EU average; however, major progress is expected to be made on the long run on the basis of forecasts. The dependency ratio of old age population over 65 and above

was 23.2% in 2007, which is slightly below the average for the EU-27 (25.2%). According to Eurostat prognosis, this rate will increase to 57.6% by 2060, which will be somewhat higher than in the EU (53.5%).

Assuming no-policy change, on the basis of the long-term prognosis compiled by the Ministry of Finance in October 2008, the social security pension system balance – excluding the temporary costs of the private pension system – will improve from the 1% deficit registered in 2007 up to 2030; however, the deficit rate is expected to increase in the following and reach 2.2% of GDP by 2060 (in spite of the temporary costs of the private pension system will no longer arise). Net public pension expenditures will increase by 1.9% over the 2007-2060-period, and it is expected to reach approximately 12.8% of GDP by 2060. (The expenditures of the private pension funds operating as a part of the compulsory pension system will increase by 2.2%).

This projection does not take into account the impacts of the new additional contribution payment, since this will decrease expenditures if employers engaging employees working under circumstances causing potential health damages request - and are approved - exemption from payment by ensuring appropriate working conditions; consequently, less individuals will claim early retirement entitlements.

The expenditure decreasing impact of the pension measures introduced in 2006-2008 is well-demonstrated by the above-detailed prognosis; however, it is also evident that further reforms are needed to ensure the long-term sustainability.

In order to assure the sound implementation of such additional measures, the Government has set up the Pension and Old Age Roundtable to promote a consensus on issues of great import affecting the entire society in the medium and long term. It initiates the preparation and extensive discussion of analyses that may result in recommendations effectively supporting the work of governments and the legislative process. In the course of expert-level preparatory work, both the key parameters (retirement age, replacement rate, indexation) and systemic

changes (e.g., individual accounts) will be reviewed and assessed.

The Round Table has initiated impact assessments on the reform of the pension system. This includes, on the one hand, the long term projection of the effects of the current system (parametric reforms) as well as the thorough examination of scenarios relying on assumptions based on the various paradigms. Furthermore, the impact assessments cover the expedient methods of managing the transition and the examination of the effects of external factors relevant for the pension system (taxation, flexible retirement age, improved willingness to pay contributions, etc.). When completed, the impact assessments may provide orientation to the preparation of government decisions. The Round Table is expected to complete the impact assessments by end-2008.

Guideline 3

Promoting a growth- and employment-orientated and efficient allocation of resources

In order to implement a rapid and substantial adjustment in the fiscal balance, when launching the consolidation programme (mid-2006) it was equally necessary to increase revenues, more specifically increase taxes and contributions - and at the same time decreasing expenditures. In October 2008, it became evident that it is not possible to decrease taxes in the context of the unfolding global financial crisis. Accordingly, proposed changes in the tax system for 2009 are aimed at simplifications and improving incentives for regular forms of employment in the economy. The following key measures were taken:

- Extension of mandatory invoicing (broadening the number of persons who can be fined for the failure of invoicing, extension of the mandatory invoice-keeping);
- Restriction in cash transaction (cash limit prescription for taxpayers having bank account, limitation of the end-of-the-day cash stock);
- Tightening the rules for suspension of tax register code (e.g. in case of failure of tax return

and payment);

- Tightening the rules aiming at avoiding fictitious invoicing, extension of invoicing (in case of advance payment) to the VAT.

As a result of the successful budgetary consolidation programme launched in 2006, the expenditure to GDP ratio is gradually decreasing; nevertheless, in European comparison this ratio is still somewhat larger than the average. The objective of the structural reforms launched within the framework of the programme is to ensure the provision of public services in a more efficient manner, i.e., at a higher standard and at a lower cost. Beyond reducing expenditures, their composition will also be changed in line with economic policy priorities.

- Reflecting the changes implemented in the field of public administration, the reduction of the relative high share of general public administration expenditures – reaching 5.8% of GDP (excluding interest rates) in 2006 - will continue to decline both compared to GDP, as well as within total expenditures.
- Economic function-type expenditures increased to 6.2% of GDP in 2006. However, having „phased out“ the construction of motorways, these types of expenditures will decrease and the ratio of these types of tasks compared to GDP will return to the average level prevailing in cohesion countries at a similar level of development as Hungary.
- In 2006, Hungary spent 5.8% of its GDP on education expenditures, which is considered average when compared to the expenditures of member states at a similar level of economic development. Prioritising economy of scale criteria results in an increasingly efficient use of public resources.
- Initial steps taken in the area of healthcare halted and then reversed GDP proportionate expenditure increases. Although the level of healthcare expenditures is in line with the country's economic development (amounting to 5.5% of the GDP in 2006), within these expenditures both the state and households spend a strikingly higher amount to pharmaceuticals (the highest volume in OECD as a percent of GDP). The changes in the subsidy system helped reduce unnecessary demands for pharmaceuticals. Due to these measures, as well as a result of improving economies of scale and cost-efficiency in the

area of curative-preventive care, these expenditures declined in terms of GDP.

- The Hungarian budget spent 17.7% of GDP on social protection. Within this, pensions represented the largest item, the change of which largely determines the development of this expenditure category. As a result of the measures introduced in pension expenditures and family and social benefits, the GDP proportionate increase in these types of expenditures will not continue.
- Expenditures in connection with environmental protection – which will increase at a faster pace than the GDP over the upcoming years - explain the reasons for the increasing ratio of other expenditures.

Guideline 4

Ensuring that wage developments contribute to macroeconomic stability and growth

In 2007, real wages decreased by nearly 5% – coupled by a slowdown in economic growth – as an impact of the consolidation programme launched in 2006. The economy is performing better in 2008 and real wages are projected to increase slightly. In the context of deteriorating market conditions accompanying the world economic crisis and the further reduction of the budget deficit, enhanced job protection determines the possibilities for wage increases in 2009.

The National Interest Reconciliation Council (NIRC), i.e., employees', employers' and the Government's three-party macroeconomic forum, plays a key role in determining wages in the business sector. The activities of the forum include all issues related to labour, including economic policy issues with relevance on income distribution; in addition, the forum also develops proposals for the extent of wage increases in the business sector on an annual basis. The wage agreement concluded by NIRC is not compulsory or binding; it instead serves as a guideline from which it is possible to deviate at a sectoral and local level. Therefore, in the business sector there is an opportunity for the sector consultation committees to strike a balance between economic growth, employment and wage developments through collective

agreements. The three-year agreements concluded in relation with minimum wages and guaranteed wage minima for the 2006-2008 period of macroeconomic consolidation also played a stabilising role.

The National Public Service Interest Reconciliation Council (NPSIRC) focuses on wage policy, labour and employment matters affecting all public service employees (public service employees, civil servants, employees of military and law enforcement bodies, full-time and contracted military personnel of the Hungarian army). NPSIRC is the general forum for public sector annual wage negotiations and agreements. In the public sector, the Government managed to reconcile – for 2007-2008 – the wage and employment claims articulated by the trade unions with the resource and other restrictions defined in the convergence programme on the grounds of the agreement established with the consolidated public service strike committee set up in 2006. The further reduction of the budget deficit in 2009 will not allow increasing the wages of public sector employees; furthermore, the budget calculates with the temporary suspension of 13th month wages.

Guideline 5

Promoting coherent macroeconomic, structural and employment policies

Coordinated and coherent macroeconomic, structural and employment policies are essential for reaching sustainable economic growth, increasing employment and improving competitiveness. One of the key challenges Hungary faces relates to continuing the reduction of the deficit amidst deteriorating external conditions, while increasing the growth potential. The envisaged measures for the latter include efficiency improvement in public expenditures, improving the investment environment and promoting employment (via steps impacting both labour supply and demand). The macroeconomic, microeconomic and employment policy measures presented in the Action Programme are coherently linked to each other and contribute to the implementation of the Lisbon Strategy.

MICRO-ECONOMIC PROGRAMME

Guideline 7

Increasing and upgrading R+D investments, in particular in the private sector

Country-specific point to watch

It is necessary to continue the reform of the state research network by increasing the efficiency of state R+D expenditures, as well as by strengthening the network of contacts of R+D activities undertaken by the state and private organisations.

Council Conclusion - 1

We shall indicate the performance status of the national R+D investment objectives for 2010, as well as how the connecting R+D strategies contribute to the creation and operation of the European Research Area

The mid-term strategic objective is for overall R+D expenditures to reach **1.4% of the GDP** preferably **by 2010** and **1.8% by 2013**, in line with available budgetary resources. **R+D expenditures of enterprises** should reach **4.5%** of the total R+D expenditure framework **by 2010 and 50% by 2013**.

The long-term strategic objective is for the country to catch up to EU member states ranked average by establishing a knowledge-based economy – with the help of products and services representing high added value and marketable on the global market – and for the Hungarian Summary Innovation Index (**SII**) used to measure implementation to **reach the EU average by 2013**. In order to achieve this – beyond increasing R+D expenditures of enterprises – it is mostly necessary to increase the number of young professionals with qualifications in the field of technology and natural sciences, as well as industrial property rights related activity levels and the innovation performance of enterprises.

According to our assumptions, the indices used to measure the intensity of the Hungarian innovation system, namely, the indices GERD (Gross Expenditure on Research and Development)

and BERD (Business Expenditure on Research and Development) will increase at a higher rate than the GDP during the NAP-period. This is why human resource development needs to keep pace with the R+D-intensity increase of the national economy in this area; the Science, Technology and Innovation policy (STI) strategic target indicator is used a standard index to measure this. The ratio of professionals with technological and natural science qualifications in the 20-29 age-bracket **must reach 5.5% by 2010** and **6.0% by 2013** (which figure was 5.1% in 2005).

According to the data of the Central Statistical Office (CSO), the overall R+D expenditure in 2006 was equivalent to 238 billion HUF, which represents 1% of the GDP. .

On the basis of preliminary estimates, the value of the GERD/GDP index is expected to reach 1.1%, 1.2% in 2008, 1.3% in 2009 and is anticipated to reach the level of 1.4% defined in the mid-term Science, Technology and Innovation policy (STI) strategy.

1. Transformation of the STI institutional system and the reform of the Hungarian Academy of Sciences (HAS)

Evaluations conducted by international organisations and the EU, as well as the STI Strategy equally raise the need to transform Hungarian research networks into performance-oriented networks. This measure covers the transformation of the entire STI institutional system, which also includes the reform of the Hungarian Academy of Sciences (HAS) and linking up to international R+D+I networks. In compliance with the specifications set out in the STI plan of measures, we intend to resolve performance increase by adopting a diverse system of tasks (evaluation methods, providing incentives, setting up centres of excellence, scientific parks, etc.). The new minister without portfolio for research and development post introduced on 1 May 2008 consolidates scientific and R+D+I management for the very first time. The STI government management system is about to be renewed in order to be able to exploit and

efficiently operate the new model; this implies re-conceptualising the role of the highest level coordination body under the management of the Prime Minister, namely, the Science and Technology Policy Board and making the secretariat function more efficient and operational within the context of this.

The Government endorsed Government Decree 1023/2007 (IV. 5.) on the mid-term Science, Technology and Innovation policy (STI) strategy on 28 March 2007. Implementation tasks are detailed in the science, technology and innovation policy plan of measures (Government Decree 1066/2007 (VIII. 29.)).

HAS shall collaborate in the implementation of a series of tasks set out in the plan of STI measures (in 36 out of the 93 measures). From among these tasks, the most pertinent task relates to the elaboration of the new **Academic Act**, which equally covers re-defining HAS public duties and the set of conditions underlying these tasks, as well as dividing tasks undertaken by public bodies and research management tasks. The bill is expected to be presented to the National Assembly in autumn 2008.

One of the other highly relevant tasks set out in the plan of STI measures ties in with the issue of **internationally competitive research institutions and knowledge centres**. The aim is to build a network of leading European research universities and research institutions operating in line with modern international scientific organisational and management standards in cooperation with the players of the economic sphere by building on existing eminences.

Helping the use of intellectual assets at research centres financed by the budget, as well as the **coordinated amendment** of the Act on research and development and technological innovation, the Budget Act and the Act on assets owned by the state also represents a major task. The objective is for research centres to be able to freely use their intellectual assets. Directives to be adopted in connection with use have been elaborated by HAS in cooperation with the Hungarian Patent Office; introduction of

the regulations is currently in progress. Since the Government handed over ownership of assets to HSA – which assets were only managed by HSA earlier – defining efficient asset management frameworks for the Academy is also a key task; in this regard, establishing the legislative background is essential.

The Hungarian Academy of Sciences and National Office for Research and Technology (NORT) are jointly working on the elaboration of a consolidated **national research infrastructure strategy and programme** (national „itinerary” for the development of instruments and research infrastructure – NEKIFUT Project (TAKE-OFF Project)) aligned to the European Research Area. The measure helps assess data on currently available national research infrastructure, as well as development needs, its ongoing maintenance and public disclosure, as well as the development of a comprehensive research infrastructure development strategy, which equally covers linking up to international research infrastructure networks. In order to be able to better integrate Hungary in European research activities, Hungary has announced its intention to set up the European Neutron Research Centre (ESS) specified within the framework of the European Strategy Forum on Research Infrastructures (ESFRI) at a site in Hungary. The placement of ESS in Hungary may come to represent a millstone in the development of the research infrastructure of the central European region, through which it will be possible to reduce the significant regional disparities arising in this domain.

The following events have taken place as regards other ERA initiatives:

- Joint programming: NORT, which organisation assumes the representation of Hungary, joined the 12 ERA-NET project in order to harmonise Hungarian research programmes with those of other member states. In certain cases, this implies cross-border themes, in which case coordination is in any case necessary (e.g. biodiversity, environmental protection). In other themes, Hungarian research capacities are below the critical level, which is why it would not be possible to launch high standard targeted national programmes (e.g. complexity). Hungary managed to integrate in the new instruments, joint programmes launched on the grounds of Article 169 of the Treaty Establishing the European Community, as well as technological initiatives launched on the grounds of Article 171 of the Treaty Establishing the European

Community in line with its priorities. (Eurostars, AAL, Artemis, Eniac, IMI)

- Mobility: We successfully submitted a mobility programme to the European Commission for co-financing in 2008 and were approved funding of 400 million HUF to supplement the 600 million HUF budgetary programme within the framework of the COFUND scheme of the FP7 „People“ Specific Programme. Moreover, we were one of the 6 countries that implemented Council Directive 2005/71 on a specific procedure for admitting third-country nationals for the purposes of scientific research prior to the set deadline date.
- International cooperation: Beyond the specialisation trend accompanying globalisation, following the focus stipulated by the strategy also implies that international cooperation is increasingly needed. NORT set up special project funds with developing Asian economies, such as, Singapore, Shenzhen, India. These primarily target joint research activities and making use of the results of these, and are consequently aimed at exploiting the markets of the regions taking part in the project and introducing joint developments on the markets of third countries.

2. Increasing the effectiveness of publicly financed R+D+I programmes

Fragmentation of funding, overregulatedness and excessive administration prevents the efficient use of funding during the course of the implementation of the public-financed R+D+I programmes. (Over 20 pieces of legislation regulate the implementation of tendering, thus creating funding-dependent tendering practices.) The technical monitoring and development of the evaluation system of public-financed R+D+I programmes is required to be able to use available resources in an increasingly efficient manner.

An inter-ministerial expert working group was formed in October 2007 with the help of the coordination of the Ministry of Economy and Transport (MET) with the aim to harmonise public-financed R+D+I programmes (objectives and financing) and eliminate potential overlaps.

The **three „pillars“ of the activities** of the working group“:

1. The Working Group will work as a plenary-type permanent conciliatory forum to coordinate resources by continuously „maintaining” the resource maps of specific programmes, tenders, schemes and measures. The competent Minister shall hold a meetings (restricted to invited participants) with the concerned fund managers to clarify problems and make recommendations for resolving these, should overlaps occur between the specific programmes and funding use strategies of specific funds.
2. The Working Group will map problems and develop a specific action plan to resolve these at the beginning of 2009, in order to set up and make the operation of the monitoring and evaluation systems of public-financed R+D+I programmes and the National Research Registration System more efficient.
3. The Working Group will define recommendations in connection with the public-financed funding system that takes the characteristics of the R+D+I field increasingly into account and shall integrate sections in connection with tendering in the draft version of so-called de-regulation Government Decree currently in the process of being drafted (which is expected to be passed in the first quarter of 2009) aimed at simplifying and consolidating the tender procedures of Hungarian public-financed programmes.

The coordination of the coordinated use of the funding of public-financed R+D+I programmes was designated to the scope of competency of the Minister without Portfolio for Research and Development (MWPRD) - which post created with the aim of operating the consolidated scientific, technological and innovation policy management system more efficiently - on 1 July 2008 due to changes taking place in government structure.

3. Ensuing the operation of the Research and Technological Innovation Fund in the way funds operate

The way in which the innovation tax system should better promote research and development performances, as well as how the expenditures of the Research and Technological Innovation Fund should be aimed at upgrading R+D activities in enterprises, particularly in the case of SMEs, as well as strengthening relations between research centre and enterprises and the

industry is a priority objective of the Government. Moreover, **sorting out the financial regulatory framework** of the Research and Technological Innovation Fund, freeing up blocked funds and **eliminating blocking by 2010 also** represents a key task. In addition, the monitoring and evaluation of the use made of direct funding granted by the Fund and tax allowances targeting innovation and defining this activity on the grounds of policy facts equally represent priority tasks.

The task of the Government relates to removing those provisions from the Budget Act obstructing the Research and Technological Innovation Fund to operate as a fund, primarily in respect of the use of remaining annual amounts. The objective is to remove restrictions applied in connection with the use of remaining amounts and free up remaining amounts accumulated to date (approximately 30 billion HUF) over the next three years by pumping an amount of 10 billion HUF per year into the Fund.

4. Promoting R+D and innovation activities undertaken by enterprises

In compliance with the Lisbon Objectives, a key component of the R+D+I policy and strategy of the Hungarian Government is to promote R+D and innovation activities in enterprises, with special regard to small and medium enterprises. Several assistance programmes help reach this objective, namely, Priority 1 of the Economic Development Operational Programme of National Development Plan II (R+D and innovation for competitiveness) and assistance programmes running within the framework of the Research and Technological Innovation Fund:

- Supporting market-oriented research and development activities (EDOP-1.1.1)

The objective of the scheme is to support research and development projects that engender the development of prototypes representing state-of-the-art high added value by building on research results. The scheme facilitates feedback of R+D demands of enterprises for research centres and promotes supporting the more marked presence of cooperation between

universities/research centres and enterprises suitable for promoting technology transfer within the scope of the R+D and innovation system. Projects are based on the immediate needs of enterprise, which is why only enterprises are eligible to apply. The scheme was announced in June 2008; together with the funding allocated for CHOP, the overall framework for 2008 is equivalent to 7.5 billion HUF.

- Promoting enterprise innovation (EDOP-1.3.1)

The objective of the scheme is to support research and development in enterprises that assume commitments for the market introduction and development of products, services or technologies building on existing R+D results (prototype or product) or new, significantly upgraded and state-of-the-art products, services or technologies representing high value. The scheme promotes the strengthening of growth potentials of innovative enterprises, the introduction of their competitive products on the market, use of experimental development activities of enterprises and R+D results by supporting innovation activities of new, or considerably upgraded products, services and technologies through to the introduction of these on the market. The scheme was announced in June 2008; together with the funding allocated for CHOP, the overall framework for 2008 is equivalent to 17.2 billion HUF.

- National Technological Programme

The programme aims to promote increasing economic competitiveness and sustainable development with the help of mid-term use-oriented strategic research and development carried out in the field of modern technologies. The aim of the funding scheme is to promote innovation by taking account of Hungarian R+D strategic components. The objective of the programme is to encourage R+D activities that:

- establish a basis for technology-based innovations that are anticipated to have an impact on the national economy and society, (the usability of which affects a wider sphere of users,
- results in the development of competitive products and services based on real market needs,

- build on cooperation between enterprises and the R+D sphere, lead to the formation of strategic partnerships,
 - ensure the opportunity for enterprises to play a leading role in planning and implementation,
 - ensure future staff needs for Hungarian research community by strengthening the integration of PhD students and young researchers in projects and,
 - support the preparation for and linking of Hungary to the research and development Framework Programme 7 of the European Union.
 - 11 technological platforms were set up in April 2008 as a result of the programme.
-
- National Knowledge Centre Programme
- The objective of the programme is to support knowledge centres on an excellence basis that establish long-term cooperation with companies, which equally covers training, as well as research and development. The call „Developing and strengthening research and development centres” (ECOP/CHOP-1.1.2) running within the framework of National Development Plan II ensures the opportunity for knowledge centres that intend to operate in the form of business organisations in the future to develop and make progress. NDP calls are currently open and the National Development Agency (NDA) plans to announce these calls in the upcoming years as well (2009-2010). Beyond knowledge centres operating in the form of business organisations, the programme launched within the framework of the Research and Technological Innovation Fund would also provide the opportunity to develop institutions assuming the role of R+D competency centres. However, the Fund would only grant funding to centres that have carried out high standard R+D work over the past few years and dispose of human resources guaranteeing that the centre will evolve into a centre of excellence operating at an international standard. It is in the country's interest to establish not more than 6-8 centres of excellence in propulsive sectors.

- Individual implementation of R+D results and innovative concepts

The objective of the call is to help promote innovations developed by individual inventors, promote the practical implementation of R+D results and innovative concepts and develop these into marketable products and encourage the establishment of companies established with the aim of making use of intellectual property. Any individual is eligible to receive funding if they are capable of demonstrating that their respective project will be successfully implemented and a new product will be development from the concept and that they are capable of establishing a company required for product use in their project proposal, work completed in specific phases, as well as R+D results. From 2008, an annual rate of funding of 200 million HUF has been made available within the framework of the scheme.

- Decentralised Regional Programmes and Innocheck

The objective of both programmes targets strengthening the innovation abilities and capacities of regions by supporting the innovation activities of small and medium enterprises, as well as by establishing and developing R+D+I cooperation structures. Within the framework of the decentralised regional programmes, each region developed a region-specific assistance programme underpinning the implementation of the respective innovation strategy of the region, whilst the Innocheck Programme provides support for small and medium enterprises in regions for using innovation services, in order for these enterprises to be able to implement their innovative initiatives.

4.5. Strengthening links between higher education and the economy in the field of research, innovation and education

This measure primarily supports organisational, training and research-development type activities that extend the capacities of higher education institutions in the domain of knowledge production and dissemination of knowledge by establishing framework conditions for structured cooperation with enterprises. As regards higher education institutions, these measures compliment and underpin schemes targeting R+D promotion within the framework

of ECOP, the R+D schemes of SROP, SIOP and pole programmes, as well as the relevant calls of the Research and Technological Innovation Fund. Another group of activities envisaged within the framework of the measure is aimed at extending the scope of intellectual research capacities, raising the standard of individuals engaging in base research, making research work and a career in research more appealing, as well as deepening social knowledge and acknowledgement of research results.

Planned activities include the following:

- § Trainings supporting the development of **managerial competencies**, extending the scope of the palette used for satisfying local needs;
- § Extending the scope of services and client capacity of higher education institutions required for **increasing research potentials**; supporting activities tying in with knowledge and technology transfer;
- § Releasing and disseminating **documentaries** presenting use made of result results;
- § Supporting projects implemented by **innovative research teams**;
- § Establishing research and innovation awards to strengthen the **social recognition** and acknowledgement of scientific results;
- § **Setting up centres of excellence**, supporting scientific schools, establishing PhD educational centres;
- § Extending the scope of R+D+I+E higher education capacities and strengthening and supporting knowledge centres providing innovation services underpinning closer cooperation with enterprises.
- § **The National Excellence Programme** operates a comprehensive tender system that makes it possible to plan the lecturer-researcher career by:
 - β Supporting the mobility of outstanding students, PhD candidates and PhD graduates, as well as lecturers-researchers;
 - β Implementing a comprehensive student, lecturer and researcher talent fostering programme;
 - β Making returning to Hungary more attractive for outstanding Hungarian researchers and lecturers working abroad by supporting career opportunities in

research (ensuring top academic/research jobs);

ß Employment of **outstanding foreign researchers** in Hungarian institutions.

Guideline 8

Promoting all forms of innovation

Ensuring the protection of intellectual creations and intellectual property established during the course of research and development activities represents a precondition for successful technological innovation. Ensuring appropriate industrial property protection for these results in Hungary, as well as abroad is required in order to achieve the widest possible use of research results. However, Hungarian enterprises and research centres only undertake property protection activities to a highly limited extent. In order to change this, it is necessary to raise Hungarian property protection awareness and develop government policies directly promoting the protection of intellectual property and supporting innovation, with special regard to small and medium enterprises.

The target is for the ratio EPO patents to reach 24 per 1 million residents by 2010 and 28 per 1 million residents by 2013 (which index was 18.9 in 2005).

1. Strengthening the protection of intellectual property at SMEs (VIVACE+ Programme)

Small and medium enterprises implementing innovations are the target groups of the Action Plan Promoting Industrial Property Competitiveness of Entrepreneurs, namely, the so-called VIVACE Programme that has been running since 2004. 22-23% of small and medium enterprises (16-17 thousand companies) operate in this context, whilst 75% of small and medium enterprises are considered inactive in terms of innovation.

The extent to which small and medium enterprises are aware of the details of industrial property protection and engage in patent-related activities is well below the EU average; the

VIVACE Programme, among others, envisages making ground in this domain as well.

Small and medium size enterprises are ensured access to services providing basic information on industrial property rights within the framework of the VIVACE+ Programme launched as a continuation of the base programme in 2008. This information contributes to improving the competitiveness of these enterprises and promotes their successful operation in the context of competition on the EU single market.

The Hungarian Patent Office runs the programme via the service network set up in the regional centres of the Hungarian Chamber of Commerce and Industry and university knowledge centres, which the National Office for Research and Technology also supports in 2008 within the framework of an assistance contract representing an overall 35 million HUF in value. Having concluded the assistance contract, the 81 projects listed in the STI policy plan of measures, as well as the objectives of these, were successfully implemented and reached.

The VIVACE Programme aimed at upgrading knowledge of industrial property rights of enterprises is built on the following three pillars:

- a) Development of industrial property right services, including network development;
- b) Development of industrial property right education and training activities;
- c) Developing economic incentives.

2. Integrating private capital in the implementation of R+D investments and projects supporting the growth of knowledge-based sectors

The objective of the measure is to promote direct R+D related foreign capital investments and increase the GDP proportionate R+D expenditures of the business sector, thus increasing the number of new research centres. This measure contributes to raising the BERD index, as well as increasing the number of patents and individuals with qualifications in natural sciences

and engineering.

In accordance with the objectives of the EU Barcelona process, the Science, Technology and Innovation policy strategy of the Hungarian Government stipulates that the R+D activity of the business sector is currently at an extremely low level in Hungary. Beyond promoting R+D activities undertaken by small and medium enterprises, encouraging foreign corporate enterprises to be more active in this area is also highly relevant. It is in our fundamental interest for the R+D activities of foreign enterprises expanding and increasing at a fast pace to integrate as quickly and as comprehensively possible in the Hungarian economy.

The decree (currently being drafted) targeting the prioritised funding of investments in research and development equally justifies closer cooperation in the domain of FDI. The objective of this is to establish the opportunity for the state to provide funding underpinning the adequate promotion of R+D projects that can be approved funding pursuant to a decision made by the Government, since this type of assistance is currently not regulated under any given Hungarian legislation. Once the new decree enters into force, it will become possible to support R+D projects more effectively in order for Hungary's assistance policy to approach the assistance frameworks ensured by competitor countries in the race for R+D investments, thus considerably improving the country's competitiveness and setting up research and development investments representing high added value in Hungary. Over the course of luring capital, it is necessary to take account of Hungarian economic development priorities, as well as the areas in which our research base disposes of the critical volume of capacities. R+D network development and capital investments must be adjusted to economic development key areas and priorities.

The tender scheme strengthening research and development capacities in enterprises (ECOP-2008-1.3.2 and CHOP-2008-1.1.5) is also aimed at promoting the integration of foreign-owned R+D units. The objective of this scheme relates to strengthening the direct use of R+D activities and establishing the conditions required for this by setting up or extending R+D research units in enterprises, as well as by promoting R+D-intense investments and the creation of research jobs.

3. Development and implementation of sector innovation and R+D strategies and programmes adjusting to the European technological platforms

The fundamental objective of the programme running from 2007 through to 2010 is to strengthen and expand the **R+D potentials of knowledge-intensive industrial sectors** that have a comparative advantage, and **therefore increasing R+D investments of enterprises**. In addition, the way that Hungarian corporate and medium-size enterprises undertaking extensive R+D+I activities should play a leading integrating role in the national innovation system is also a key policy objective. In the first round of the programme that was closed in spring 2008, the **Innovation Fund ensured funding of 400 million HUF in value for setting up national technological platforms**. The elaboration and implementation of the strategic programmes and innovation and research and development visions of funding, key industrial sectors and technological fields is encouraged in the second round to be executed in summer-autumn 2008. (These programmes will be elaborated under the direction of the key players of the industrial sector.)

Concurrently to the above, we will develop a **public-financed R+D+I concept** for sectors that have a competitive and comparative advantage, which will also take account of the unique characteristics of sectors. This document will serve as a guideline for programmes with an R+D+I component running within the framework of the New Hungary Development Plan, which includes projects and pole programmes aimed at developing human resources, as well as major projects financed by national resources (e.g. the innovation competition centre programme). In the next step, we will prepare and develop the details of industrial sector programmes aimed at linking up to EU programmes in the so-called 'frontier research' and 'cutting edge' areas (JTI, KIC, ERC, EUREKA) by taking the results achieved by Hungarian technological platforms into account.

4. Setting up an efficient National Innovation System (NIS)

The assessment of the national innovation system and its international comparison has been carried out in Hungary. Background analysis, a country report including recommendations enabling the international comparison of the national innovation system, was compiled for OECD experts in order for Hungary to approach the EU level of development and carry out the targeted development of the Hungarian National Innovation System (STI II.4). The study presents a detailed overview and analysis of the players of the national innovation system, the management of STI policies and the system of STI policy instruments.

<http://www.nkth.gov.hu/nemzetkozi-tevekenysegi/oecd/oecd-magyarorszag>

According to the background paper compiled for OECD³, all key components of a potentially successful and efficiently operating national innovation system are in place in Hungary, namely: each individual level of the education system; university faculties and research centres capable of R+D performances acknowledged at an international level; an increasing number of R+D units in enterprises, many of which are operated by major international corporations, as a result of which, they link up with international R+D+I networks; state bodies making and executing STI policy decisions; a wide range of state instruments used for promoting R+D+I processes; professional associations and chambers; operating capital market on which many venture capital investors are present; legal environment that complies with international practice; market economy based on private property; creative and qualified employees, etc. However, the performance of the **National Innovation System (NIS) is nevertheless substandard** for the following two main reasons: firstly, a **part of NIS components fail to operate efficiently and/or have not been fully set up and could not be strengthened**. Secondly, the performance of NIS is not decisively determined by the „individual” performance of specific components, but is instead determined on the basis

3 The Hungarian national innovation system. Background paper to the OECD innovation country report for 2007/2008, December 2007 <http://www.nkth.gov.hu/nemzetkozi-tevekenysegi/oecd/oecd-magyarorszag>.

of connections between the components and the intensity and quality of **cooperation, which is what is weak in our case.**

International practice demonstrates that countries where an **institutional network, centre or agency providing innovation services for players also operates** (such as the Finnish TEKES) achieve outstanding innovation performances (Finland, Ireland, etc.). On the basis of international experiences, the concept of the Government is for NORT to evolve into an **agency providing information at a national level** (e.g. supporting participation in FP7, locating investors, ensuring partner search, monitoring international technological trends, compiling technical analyses and background papers for decision-makers). Regional innovation agencies operating on a network-basis could be the potential implementation organisations of NORT.

5. Creating and promoting development poles

The 7-year Pole Flagship Programme encompassing the operational programmes is one of the most relevant programmes of the New Hungary Development Plan (NHDP) aimed at developing economic competitiveness. The task of establishing poles – on the grounds of international, primarily French experiences – was conceptualised at an informal cabinet meeting held on 13 November 2004 where development policy issues were discussed. The official declaration of the poles and preparation was set in motion pursuant to Government Decree 2230/2005 (X. 26.). In the following, the pole programme was presented as a priority development programme in the National Development Policy Concept and the National Regional Development Concepts endorsed by the National Assembly in December 2005. These documents specify pole locations: in addition to Budapest, Debrecen, Győr, Miskolc, Pécs, Szeged, as well as Székesfehérvár and Veszprém, as development co-centres. Locations were selected on the grounds of the concurrent presence of suitable volume and standard university, research and economic capacities in the given settlements and its agglomeration.

Sector focuses emerging in the pole programmes

Development Pole	Priority Sectors
Miskolc – Technopolis	Mechatronics, chemical industry, nanotechnology, renewable (alternative) energy
Budapest – Innopolis	Health industry, ICT, environmental industry
Szeged – Biopolis	Healthcare, environmental protection, agriculture, software industry
Gy�r – Autopolis	Car industry, machinery manufacturing, logistics, renewable energy
Debrecen Development Pole	Agriculture, environmental sciences, pharmaceutical industry, biotechnology
P�cs – Quality of Life Pole	Health industry, environmental industry, cultural industry
S�z�kesfeh�rv�r-Veszpr�m Development Axis	Car industry, logistics, environmental industry, IT, mechatronics

The Programme has set the target of increasing international competitiveness by supporting clusters with innovation and export potentials capable of demonstrating cooperation, as well as investments developing the environment of enterprises in pole cities. Accordingly, the programme builds on the following two pillars:

The **enterprise development** pillar of the Pole Programme is primarily aimed at the development of Hungarian SMEs organised in clusters. Funding earmarked for enterprise development targets the export-oriented growth of pole clusters and increasing the added value of the activities the given cluster specialises in.

As regards objectives, the first and foremost objective relates to improving the international competitiveness of enterprises participating in pole clusters. In order to be able to increase added value and strengthen innovation, it is necessary to strengthen cooperation among enterprises organised around the combination of the given industrial sector activity, as well as between enterprises and other (education, research) institutions.

From among the objectives of the Pole Programme, priority cluster development will be implemented in four consecutive phases according to plans.

We are devising propulsive funding instruments adjusted to the various levels of development of cooperation. The regional operational programmes on the one hand support clusters starting up by granting non-reimbursable assistance that can be used for setting up the cluster and starting up joint operations, whilst on the other hand support clusters in a development phase formed earlier and capable of demonstrating successful operation on the market on the basis of feedback.

We will announce complex funding calls for the most developed accredited (on the basis of set criteria) forms of cooperation within the framework of the Economic Development Operational Programme, which are capable of enhancing the international competitiveness of these forms of cooperation by granting funding aimed at promoting innovation and generating high added value. At the fourth level of cluster development that has not yet been planned, clusters could be granted funding for implementing truly major joint projects in accordance with criteria defined in advance.

Results:

Up to October 2008, 112 clusters submitted applications in response to cluster calls announced within the framework of ROPs; funding to the value of 4-5 billion HUF per year has been made available. 9 clusters were approved accreditation.

The **horizontal economic development** pillar of the Pole Programme supports university education and research adjusted to the demands of the economy, vocational training building on labour market needs and investments promoting developments (e.g. the development of innovation and technological service centres). A competitive business environment facilitates the development of clusters and enterprises either already operating or intending to set up sites in the given region, whilst at the same time strengthens the leading regional role of pole cities.

The pole programme mobilises concentrated funding exceeding 400 billion HUF in value over the 2007-13-period, primarily through the Economic Development, Regional, Social Renewal and the Social Infrastructure OPs. Funding equivalent to a total of 65 billion HUF was announced in 2008 within the framework of the Pole Programme. The National Development Agency has set up an independent organisation, namely, the Pole Programme Office, to ensure programme support and coordinate and monitor programme components.

Guideline 9

Promoting the dissemination and efficient use of ICT and establishing an all-inclusive information society

Council Recommendation - 2

It is necessary to set ambitious national goals as regards ensuring access to broadband Internet for households; in the case of schools, the objective is to reach 100% penetration.

1. E-Administration 2010 Strategy

The Government acknowledged the report on the e-Administration 2010 Strategy on 2 July 2008.

The objective of the e-Administration 2010 Strategy relates to framing an e-administration vision that all players wish to jointly implement, which provides a uniform framework for the detailed set of objectives of developments for the upcoming years and defines the main strategic factors influencing the attainment of goals.

The strategy particularly targets three areas, in order to provide a comprehensive guideline in connection with these areas:

- Transforming public administration services to benefit citizens, enterprises and public servants working in direct contact with the former;
- Introducing integrated services in the backgrounds systems of public administration organisations and public services to make public administration transparent and ensure its efficient operation;
- Improving the professional expertise of the public sector (level of technological preparation, ability to use the technology) at an executive and implementation level in order to be able to provide efficient public services.

The aim of the document is to embrace all relevant criteria and approaches that institutions need to take into account when developing their own services, as well as horizontal and integration programmes that establish the grounds and facilitate e-administration system operations as regards the entire scope of public administration.

The e-administration matrix defining comprehensive programmes was elaborated on the basis of the strategic concept. On the grounds of the strategic competencies and areas in which transformations will take place, the e-administration matrix has identified the following 7 comprehensive programmes:

- Inter-operability Comprehensive Programme,
- Client-centric Services Comprehensive Programme,
- Online Infrastructure Comprehensive Programme,
- Integrated Customer Service Comprehensive Programme,
- Integrated Government Function Comprehensive Programme,
- Distributed E-Administration Services Comprehensive Programme,
- Knowledge Management Comprehensive Programme.

2. The Digital Literacy Action Plan (2008–2010)

The objective of the action plan is to decrease the ratio of the digitally literate adult population from the **current level of 51% to 33%** 2010.

Breaking down the cognitive barriers (lack of motivation, information, interest and skills) inhibiting computer and Internet use is at the focal point of the action plan. Strengthening motivation and developing skills, encouraging learning are the two pillars of the action plan. Shaping attitudes, raising interest, strengthening confidence, as well as knowledge and information exchange are prioritised within these pillars.

The action plan specifies 7 actions for the 2008-2010-period; the implementation of several of these has already been launched. Programmes running at present were also integrated in the plan (NETREKÉSZ (NETREADY), eMagyarország (e-Hungary), Wifi-falu (WIFI Village)), which further increases consistency between various measures and programmes.

The indicators of the action plan and action plan implementation will be reviewed at the end of 2008 and 2009 respectively, which provides an opportunity for monitoring the targets set, evaluating results reached, or possibly failures and fine-tuning actions. The comprehensive monitoring of the action plan is scheduled for 2010.

The action plan is envisaged to be implemented with the aim of launching the e-Inclusion and e-Skills European Union initiatives and in compliance with the objectives of these.

3. The e-Hungary 2.0 Programme

The new integrated programme (E-Hungary 2.0) reformed in 2007 **is aimed at supporting narrowing the digital abyss** and consequently improving the competitiveness of underdeveloped regions, as well as **developing the services provided by the e-Consultancy personal assistance network (online and personal assistance).**

Within the framework of the e-Hungary programme (eMOP), the Government set up approximately 3000 community Internet access points (e-Hungary) during the 2004-2006-period, as a result of which Hungary has evolved into a global leader as regards the per capita number of the community access points. The secondary impact of the programme is that labour is retained locally, since the quality of life improves in the region (job creation and retention).

The programme primarily focuses on small settlements, disadvantaged and economically underdeveloped micro-regions, as well as socially disadvantaged social groups. The e-MOP programme is the most successfully integrated inter-ministerial programme underpinning horizontal tasks. By setting up the e-Consultancy network and the network of services building on this, the programme improves the competitiveness of rural regions and effectively decreases digital illiteracy, as a result of which, it will evolve into a model community access project of the Central European region.

Training of e-consultants has been continuing nationwide since October 2007: so far 1000 consultants have passed the exam in 15 training institutions. 1004 e-Hungary points were approved funding – 280 000 HUF per @Point – within the framework of the call for applications announced by the Ministry of Economy and Transport in September 2007 for supporting efficiently operating community access points. In accordance with the Budget Act for 2008, the overall budget of the programme amounts to 1.7 billion HUF, which, according to plans, will be distributed in a differentiated manner among 1400 points on the basis of needs.

Maintaining the operation of the e-Hungary network is particularly relevant in the case of disadvantaged small settlements by ensuring state funding for the continuation of the programme. At the same time, by developing the @Points, raising the level of digital literacy and extending the scope of services accessible via the Internet, making @Points operate on a self-financed basis by offering and developing paid services may be a possible mid-term objective.

4. Implementation of the e-Economy Action Plan

The objective of the action plan is to present the status of the e-economy according to pillars, **identify problems and remedying the causes of these by using various state instruments** (public policy, regulations, fiscal).

Surveys conducted in connection with the e-economy (both international and Hungarian) report on how Hungarian indicators fall in the bottom tier of the EU in every regard. According to the date of the past few years, we not only failed to reduce our substantial arrears in relation to the EU in several areas, but instead **the gap between Hungary and EU further increased in several regards.**

Preparation work was completed in summer 2008. The background study establishing the grounds of the action plan was compiled, bottlenecks and factors inhibiting the spreading of the e-economy were identified and the actions aimed at managing these were defined by classifying the actions in action groups.

The actions listed below are the main actions:

1. SME training and motivation programme: announcing a coordinated series of actions in part building on and complimenting one another to strengthen the digital maturity of SMEs and break down barriers constraining ICT introduction and use. The aim of the action on the one hand ties in with training SME owners and executives, increasing their demand for ICT equipment and services and raising awareness about the significance and importance of ICT. On the other hand, actions are aimed at implementing organisational structural changes and management developments to promote the wider-scope use of ICT equipment by SME owners and executives. Trainings to be held within the framework of the action aim to encourage company executives to invest in ICT equipment by demonstrating how company processes can be upgraded by using this type of equipment (see below). The

training would also provide information on available financial sources, since according to the surveys (e.g. eBusiness W@tch), the lack of the latter largely constrains the development of the ICT-related physical infrastructure in enterprises.

The TITAN Programme ties in with these actions. The programme is an initiative established in Hungary on the basis of the self-organisation of the IT sector, governmental and non-profit players aimed at developing and implementing a national development programme that contributes to the training of Hungarian human resources. The long-term target of the TITAN Programme is to develop various levels of e-skills and integrate approximately 1.2 million people in training programmes over the 2009-2013-period.

2. Fair Business: the Ministry of Economy and Transport began to develop the operating model of a „Fair Business electronic commercial classification system” in April 2008. The core feature of the system is that independent organisations assess whether a given e-shop acts in compliance with a rigorous criteria system (security, consumer protection, use criterions, etc.) and issues attestation to consumer-friendly and reliable Internet traders. The system is expected to be launched during the first half of 2009.

3. www.MadeinHungary.com the objective of the project is to support the introduction of enterprises on the domestic, as well as foreign markets and promote export. This involves providing help to Hungarian small and medium enterprises for extending business contacts and improving their operating efficiency by setting up a multi-lingual online database and portal accessible free of charge listing SME data (producers and traders). Concurrently to this, the project also aims to present and promote Hungarian and foreign companies participating in the project and establish and strengthen new brands by providing integrated marketing solutions.

4. Other programmes:

- a) Setting up a website enabling free database access and intelligent search option in connection with the products and services of SMEs registered in Hungary**
- b) Launching an electronic attestation system and alternative dispute settlement forum on a PPP-basis**
- c) Preparation of the ICT training and motivation programmes provided for the executives of small and medium enterprises**
- d) Performing legal and technical preparatory, as well as communication tasks tying in with electronic invoicing and online payments**
- e) Compiling communication material on the types and use of Internet content screening and tagging systems for parents and teachers**
- f) Compiling analysis required for revising Government Decree 257/2007 (X.4.) on the rules of procedural action that can be exercised within the scope of electronic public procurement procedures, as well as the application of the Dutch**
- g) Collaboration in identifying the financial, accountancy, infrastructural and motivational impediments constraining ICT developments in enterprises and devising and implementing the necessary actions**
- h) Collaboration in the elaboration of the feasibility study and operating model of the ECOP SaaS (ASP) scheme**
- i) Collaboration in ensuring access to value-added digital content industry services through the legal and technical support of the reuse of public data**
- j) Collaboration in the implementation of actions required for developing the broadband network in Hungary**

5. Development and promotion of information-based economy and trade

Hungarian SMEs only use ICT equipment and complex state-of-the-art ICT solutions to a limited extent. Process integration in enterprises is at a low level and they fail to exploit competitiveness increasing opportunities underlying ICT. Online commercial transactions are also at a low level.

The objective of the NHDP calls launched in summer 2007 (ECOP 2.2.1; CHOP 1.2.5 Supporting enterprise process management; ECOP 2.2.3; CHOP 1.2.7 Supporting e-commerce and other e-services) **is to raise the level of ICT use in enterprises.** Consequently, small and medium enterprises will also have the opportunity to use state-of-the-art business IT solutions. 538 enterprises were approved funding of approximately 4.4 billion HUF in value for targeted IT developments within the framework of the calls announced in 2007. The calls were repeatedly announced in May 2008. In addition to the above-listed calls, the preparation of a possible ASP (Application Service Provision) scheme to be implemented within the framework of ECOP was also launched. ECOP 2.1.1.4.5 ensures funding of 4.5 billion HUF and ECOP 2.2.3.3.5 ensures funding of 3.5 billion HUF for reaching the above-specified objective by 2009-2010. The rate of funding in the case of parallel calls is equivalent to 500 million HUF respectively.

6. Broadband Action Plan

The main objective of the Broadband Action Plan is to ensure **full (100%) coverage for the population, enterprises and institutions by the end of 2010.** The household coverage data for 2007 was 94% and the most recently released data for 2008 records 97% coverage (estimated for the end of the year).

The action plan for the 2008–2011-period is aimed at breaking down the barriers constraining broadband electronic communication by improving conditions of access. This on the one hand implies the full-scope extension of the level already reached in the case of expectations

formulated earlier (min. 256 kb/s downloading speed and min. 64/s uploading speed). On the other hand, the network infrastructure must be capable of satisfying the demands of the population, enterprises and institutions on the basis of current and expected use intensity and bandwidth demands, as well as in the case of an increasing number of users.

A total of 18 actions are specified in the action plan; it is practical to define the final scope of these – by justifying these on the grounds of a feasibility study and accurate financial calculations – following the processing of remarks received within the framework of partnership consultation, in line with principles underlying state action.

Main **development policy measures** (actions) planned in 2008-2009:

- Targeted support of settlements lacking coverage (ECOP 3.1.1, Phase 2, autumn 2008),
- Eliminating district network bottlenecks, ensuring missing institutional capacities (ECOP 3.1.2, 2009),
- Continuation of the e-Hungary 2.0 Programme in 2008,
- Launching the e-Hungary 114/2007ry 3.0 Programme,
- Financing priority government infrastructure projects,
- Granting development tax allowances.

Most relevant **regulatory and public policy action recommendations:**

- Detailed regulation concept for eliminating constraints affecting the building regulatory environment,
- Assessment of the potential to implement functional separation,
- Assessment of the possibility of introducing demand aggregation within Hungary,
- Best practices – Szélessáv MŰhely (Broadband Workshop),
- Operational action plan targeting practical and flexible spectrum management.

7. Setting up broadband telecommunication infrastructure in underdeveloped regions

The measure is aimed at setting up broadband telecommunications networks in **economically underdeveloped regions where networks could not be set up on a business basis earlier**.

At present, approximately 6-8% of Hungary's population lives in regions where there is absolutely no access to broadband Internet (primarily dispersed, isolated rural settlements difficult to access). Due to market insufficiencies, access to broadband services for households and enterprises cannot be ensured without state intervention. A survey was conducted to pinpoint settlements without any coverage whatsoever prior to the announcement of the call „Setting up network infrastructure” (ECOP 3.1.1, CHOP 1.4.1), on the basis of which potential development sites were designated (502 settlements in 65 micro-regions; number of residents affected: approximately. 210.000).

57 applications were submitted in response to the call announced in October 2007; 45 of these applications were accepted. According to preliminary results, broadband infrastructure developments can be implemented in 279 settlements representing 44 micro-regions (number of residents affected: approximately 128 824).

Within the framework of the call announced in autumn 2008, the objective in the first phase is to **ensure full coverage for settlements with absolutely no Internet access** by fine-tuning the scheme. As regards potential changes, increase in funding intensity, updating the list of settlements, lifting micro-regional delimitations, extending the scope of applicants and practical relaxation of technical specifications and point score guidelines are the key changes that need to be highlighted.

8. Review of regulations concerning B2C and B2B transactions

The objective of the measure is to **elaborate clear regulations** in connection with e-commerce capable of satisfying the demands of enterprises, as well as consumers as best possible, as well as **disseminating knowledge in connection with e-commerce and raising consumer awareness**.

As a result of the measure, it is possible to reduce the lack of information experienced by enterprises and consumers; moreover, the measure creates the opportunity for disseminating electronic invoicing and electronic signing in a wider scope of enterprises.

MET Decree 114/2007 simplified digital archiving rules from January 2008, hence promoting the dissemination of electronic invoicing. Legislation adopted by the MF in connection with invoicing was also changed from this date on.

Maintenance costs of mail order companies were suspended on 31 March 2008. (The special registration obligation of the above-mentioned enterprises was suspended in May 2007 in the case of this measure.)

9. Supporting electronic public procurement

The objective of the measure is to compile information and promotion documents and analyses facilitating the practical application of the **electronic descending bidding process**.

Government Decree 257/2007 that entered into force on 1 January 2008 regulates procedural action, as well as electronic descending bidding (Dutch reverse auction) rules that may be exercised within the framework of public procurement procedures. Beyond the elaboration of the Decree, the Ministry for National Development and Economy (MNDE) also envisages supporting implementation in order for the application of electronic descending bidding process to effectively be disseminated in the context of public procurement.

The above-mentioned information and promotion documents facilitating the practical application of the electronic descending bidding process will be ready by autumn 2008.

Guideline 10

Strengthening the competition edge of the industry

1. The concept of sustainable industrial competitiveness

Taking the basic principles underlying sustainable industrial policy into account, we plan on reviewing the Hungarian industry on the basis of the competitiveness and sustainability criteria set out in the National Strategy for Sustainable Development Strategy and defining sectors that also comply with sustainability criterions, however are equally relevant in terms of competitiveness. We will assess the extent to which the fulfilment of the EU commitments highly relevant in terms of environmental protection to be met by 2020 (reducing gas emissions causing the green-house effect by at least 20%, increasing the use of renewable energy sources by 13% and improving energy efficiency by 20%) impact the competitiveness of specific sectors.

A proposal is currently being drafted to define which high energy consumption sectors fall under the scope of effect of emission trading can be supported – with the aim of maintaining competitiveness - through admissible state and EU instruments; moreover, the sectors that may potentially be competitive after switching over to the use of low-carbon (low coal emission) technologies, as well as instruments that can be applied to facilitate this process will also be defined.

2. Development of concepts and development policy programmes to increase the competitiveness of knowledge intense industrial sectors

In addition to the concept of sustainable industrial competitiveness, the Government has also

begun to develop the concept aimed at increasing the competitiveness of a few key industrial sectors and services.

The aim is to **develop and implement development policy programmes in the case of knowledge-intensive activities with good growth potentials and exceptionally relevant in terms of the country's competitiveness** – on the basis of the analysis of market trends – **capable of adjusting to the networks of the industrial sector on the global market or supplier chains**. According to the experiences of development policy strategies and programmes that have so primarily focused on horizontal criteria, however cover vertical criteria as well (e.g. the STI Plan of Measures, the Pole Programme, as well as establishing the grounds of the FDI incentive system) and the results of surveys applying the most recently developed government benchmarking techniques, the **knowledge-based pharmaceutical industry, biotechnology, the car industry, ICT sectors and business and creative services** can be considered as key sectors representing breakout points. At the same time, we will most definitely take account of the comparative advantages of Hungarian characteristics for improving the development conditions of these sectors. This is why we will pay exceptional attention to implementing the **logistics strategy** and launching special **tourism projects**. (See Guideline 13 for a detailed overview of the logistics strategy).

3. Promoting cooperation among enterprises to exploit the advantages of localisation

The objective of the measure is to promote cooperation between educational and R+D institutions and local government players implemented in the form of industrial sector clusters. This measure is an integral part of the Pole Flagship Programme of the New Hungary Development Plan and primarily targets the development of SMEs grouped in clusters, since there is little effective market-based cooperation between enterprises and other organisations (e.g. educational institutions, research institutes), which constrains the exploitation of advantages ensuing from local operations and networking, as well as innovation and knowledge sharing. Moreover, promoting networking helps exploit advantages of economies of scale, and therefore, in

overall terms contributes to improving the income generation capacity of regions.

Calls primarily target strengthening services provided for the cluster management organisation and cluster members, however, also envisage promoting the implementation of the joint developments of cluster members. The cluster calls of the Regional OPs differentiate cluster initiatives („developing, qualified clusters”) in key sectors demonstrating close cooperation and new cluster initiatives („clusters being launched”) launched in non-key sectors. Funding of 5.5 billion HUF in value has been made available within the framework of these calls in 2008. A total of 112 clusters – 86 start up clusters and 26 clusters in the development phase - submitted applications in response to ROP cluster calls up to 15 October 2008. TOP cluster calls were closed on 30 October 2008. Evaluators and the Assessment Committee have begun their work; the results on approval of funding are expected to be released in January. 9 clusters were approved accreditation on 8 September 2008 (according to our information, several of these applied for ROP funding). The Accreditation Committee approved the accreditation of a further 5 clusters on 28 November 2008.

4. Investment promotion

The objective of proactive investment incentive promotion – in line with the strategic objective set by the Hungarian Government – is to lure new investments creating high added value to Hungary, which contribute to the development of the Hungarian economy, introduce new technologies, create new jobs at an employee and supplier level alike, increase the country's export potentials, hence improving the country's financial balance, and engender a positive spin-off effect in other areas of the economy and society. This economic development results in the better exploitation and use of Hungary's resources, paves the way leading to a knowledge-based development path and improves the country's competitiveness.

In order to facilitate industrial development, the Government promotes investment activity within the framework of a „Single Window System” in collaboration with ITDH. When granting these types of funding, primarily the planned investment value, the technological level, the number of new jobs and the impact on the state budget is what is assessed.

EU funding equally supports competitive industrial development; the following types

of organisations are eligible to receive support within the framework of the Economic Competitiveness Operational Programme (ECOP):

- § Enterprises implementing investments in the processing industry: complex technological investment for enterprises starting up businesses in disadvantaged micro-regions (ECOP 2.1.2/D); targeting enterprises that have been operating for at least 2 years: ECOP-2.1.1/C and ECOP-2.1.2/C.
- § Enterprises implementing R+D investments and creating jobs: ECOP-1.3.2.
- § Investments creating jobs: ECOP-2.1.3 will be a call promoting job creation from 2009, within the framework of which capacity expanding investments implemented by enterprises in non-disadvantaged regions as well will be eligible for support.
- § Enterprises implementing logistics investments: development of logistics centres and services (ECOP 3.2).

Economic development programmes (ECOP + CHOP)	Original framework	Original framework	Funding requested	Funding requested	Funding approved	Funding approved	Payments	Payments
Billion HUF	2007	2008	2007	2008	2007	2008	2007 call	2008 call
2.1.1C (techn. Investment)	14,0	5,1	20,1	10,9	16,3	9,5	2,6	-
2.1.2C	9,2	4,8	10,4	4,2	8,9	3,2	1,5	-
2.1.2D	4,5	5,0	5,6	8,4	4,8	1,4	-	-
1.3.2 (R+D investments)	-	7,5	-	0,2	-	-	-	-
2.1.3 (job creation)	-	-	-	-	-	-	-	-
3.2.1 (logistics)	-	8,7	6,0	-	4,3	-	-	-

Within the framework of ECOP, Priority 1, namely, research and development and innovation, as well as ECOP Priority 3, namely, development of the business environment, ensures the opportunity for micro, small and medium enterprises to implement research and development projects, link up to these initiatives and develop their respective business environments.

Guideline 11

Promoting the sustainable use of renewable energy resources, strengthening the synergy between environmental protection and growth

The National Assembly recently endorsed a decree on the energy policy for the 2008-2009 (NA Decree 40/2008 (IV. 17.)). **The new energy policy** sets out findings and concepts valid on the long-run that help the population, enterprises, the Government and politicians to make decisions in connection with energy.

The objective of the energy policy is for energy to contribute to strengthening the **competitiveness** of our economy. We envisage setting up and operating an operational model and regulatory framework within the context of which competition becomes transparent and creates discrimination-free conditions for Hungarian enterprises.

Ensuring supply **safety** is the most important energy policy goal. In order to achieve this, the concept goes into details regarding the ratio of use of various energy resources, energy import, diversification, strategic energy reserves, infrastructure developments, supplying energy to the population, as well as social responsibility. Accordingly, nuclear energy must, on the long run, continue to play a key role in Hungarian energy supplies; however, it is necessary to resolve the final resting place for nuclear waste.

The third objective of energy policy relates to **sustainable development**, the key component of which is that present needs should be satisfied in a way the needs of future generations are not jeopardised. Environmental protection and economic objectives underlying sustainable development must be implemented in a coordinated manner in cooperation with society.

1. Energy saving and energy efficiency

In accordance with Directive 2006/32/EC of the European Parliament and of the Council on energy end-use and energy services and repealing Council Directive 93/76, Hungary developed its National Energy Efficiency Action Plan up to December 2007 and submitted this plan to the European Commission in February 2008.

The objective of the action plan is for **Hungary's energy use to decrease by 1% per year over the 9-year 2008-2016-period**. If the action plan is implemented, our energy use will decrease by 57.4 PJ by the end of 2016, which represents accumulated energy savings of 6.4 PJ/year. Beyond the measures to be implemented with help of funding assistance, the Action Plan also sets out a series of „soft“ measures, as well as measures to be implemented (or tying in with existing legislation) pursuant to new legislation.

The **assessment of funding needs** required for implementing the action plan is currently in progress. A total of 38 billion HUF has been earmarked within the framework EEOP for the 2007-2013-period, whilst funding of 10-20 billion HUF in value is available within the framework of other government programmes for projects targeting the improvement of energy efficiency. The schedule for 2009-2010 will be defined in line with the funding frameworks the government approves for this period.

As regards energy upgrading developments implemented with the help of funding, the National Energy Saving Programme (NESP), the ECO Programme and the Housing Estate Programme were launched in 2008. The NESP tender system applies differentiated funding rates in 2008, which promotes higher energy efficiency investments. The ECO programme supports the introduction of heat regulators in apartments using distant heating, whilst the Housing Estate Programme for 2008 supports upgrading energy use in buildings using this type of technology, as well as increasing the use of renewable energy resources. The scheme supporting the replacement of large-scale residential energy installations for more modern ones is currently under preparation.

2. Use of renewable energy resources

Our strategic objective is for the **ratio of renewable energy resources to reach around 15% by 2020**, which is slightly above EU expectations (and therefore also includes back-up reserves).

The Government will soon approve the strategy aimed at increasing the use of renewable energy resources. The objective of the strategy – beyond the way Hungary envisages validating national and global advantages that can be attained by increasing the ratio of renewable energy resources – is to comply with EU expectations defined in 2008, in accordance with which, it is necessary to increase the ratio of renewable energy resources from the current ratio of 4.9% to 13% by 2020.

In its current form, the strategy does not define measures required for implementing the strategy and only sets out approximate estimates in connection with probable funding needs. The necessary measures will be determined and we will make calculations for accurately defining funding needs as soon as the government approves the strategy on renewable energy resources.

In accordance with Government Decree 2058/2006 (III. 27.) on the development of biofuel production and promoting its use in transport, the objective of the government is for the **ratio of biofuels** – as regards energy content – **to at least reach a ratio of 5.75% of the fuels used for transport purposes in circulation by 2010**, hence ensuring compliance with Directive 2006/30/EC. To this end, the Government approved a package of measures at the end of 2006. At present, all petrol and diesel oil used for transport purposes in circulation contains a 4.4 V% blend of biofuel, and therefore does not fall under the scope of payment of additional excise duty. The draft version of the new Ministry Decree on quality criteria for vehicle fuel has been compiled and put through the EU notification procedure, which facilitates the sale of biofuels and E85 ethanol biofuels on the Hungarian market by specifying the quality criteria, as well conditions for distribution of these types of fuels, also covering information for consumers, by adjusting to EN standards.

In accordance with the 2005 amendment of Act CXXVII of 2003 on special rules on excise duty and the distribution of excise products, differentiated tax rates were introduced on 1 July 2007, or 1 January 2008 in the case of biodiesel, within which framework a lower tax rate will be charged in the case of fuels reaching desired biofuel levels.

Funding of a total of 68 billion HUF in value has been earmarked for the 2007-2013-period for projects targeting the increasing use of renewable energy resources within the framework of the Environmental Protection and Energy Operational Programme.

3. National Climate Change Strategy

The National Assembly unanimously passed the National Climate Change Strategy set out within the scope of Decree 29/2008 (III. 20.) initially covering the 2008-2025-period and defining the frameworks for measures planned for this period. .

The National Climate Change Strategy (NCCS) focuses on the following areas:

- **Reducing emission levels** to be able to slow down the process of climate change and prevent this situation from getting out of hand. The following need to be done to achieve this:
 - Decrease the use of fossil fuels,
 - by concurrently increasing the use of renewable energy resources,
 - launch an energy-efficiency programme and
 - continue promoting energy efficiency upgrading.
- In the process of **adapting to the impacts of climate change** that can already be felt, the greatest difficulty is that extreme weather patterns accompanying climate change occur at different points in time and in a geographically diverse manner. There is a lot of critical action on the agenda in the field of water management, agriculture and forestry, as well as healthcare.

- Strengthening shaping social attitudes and **climate awareness**

The share of Hungary's responsibilities in the fulfilment of the EU objective was not yet known when the NCCS was being compiled. According to preliminary estimates available at present, the regulatory and reduction targets of greenhouse gas emission levels in Hungary geared to EU commitments is anticipated to evolve as set out below by 2025, up to the end of the period defined in the NCCS:

- If the EU assumes commitments for unilaterally decreasing emissions by 20%: 16–25% decrease in relation to the emission level in 1990.
- 30% conditional decrease by the EU: 27–34% decrease in relation to the emission level in 1990.

A series of studies and background papers compiled by the experts of several government bodies scientific and non-profit organisation was used for defining the strategy. The fundamental objective of the document is for all current government measures in place and the mobilisation of all segments of society to jointly influence climate protection.

The National Climate Change Programmes covering a 2-year period will break down the strategic objectives and measures defined in NCCS into specific programmes; the first 2-year programme covers the 2009-2010-period.

- Ø Infrastructure developments tying in with the development and upgrading of agriculture and forestry
- Ø Phasing out the funding of forest rehabilitation and forestation launched exclusively by using national funding
- Ø Water resources review programme
- Ø Adaptation potentials for human health
- Ø Research facilitating adaptation in the field of town planning
- Ø Measures aimed at developing transport infrastructure
- Ø Regulatory measures
- Ø Emission Trade System
- Ø Green Investment System

Guideline 12

Extending the scope of and deepening the single market

Council Conclusion - 3

It is necessary to make further efforts to consistently implement the Services Directive.

1. Adaptation of the Services Directive

Directive 2006/123/EC of the European Parliament and the Council on services in the internal market was approved on 12 December 2006. In accordance with the provisions governing the Directive, member states, and therefore **Hungary too, „shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive before 28 December 2009”**.

The government specified the series of tasks to be undertaken in order to implement the Directive on services in the internal market within the framework of a Government Decree at the meeting held on 16 April 2008. The following main tasks need to be undertaken to adapt the Directive: **legislative deregulation, ensuring the operation of the electronic Single Window System, as well as setting up system for cooperation among various authorities**.

The following proposal on legal harmonisation established the basis for the transposition of the Services Directive in Hungarian law: Hungarian tasks required for the transposition of the Services Directive in Hungarian law were assessed and relevant Hungarian legislation was screened on the basis of this. The amendment of Hungarian legislation that fails to comply with the Directive was launched during the course of the screening process, concurrently to which, electronic questionnaires on authorisation systems set out under the scope of Hungarian legislation or local government decrees, requirements maintained in specifically justifiable cases in connection with services provided through a fixed site, as well as requirements stipulated in connection with cross-border provision of services was also uploaded.

It is also necessary to adopt legislation implementing the framework regulation, which, by adhering to provisions of the Directive, must set out the fundamental principles stipulated in the Directive, procedural rules and requirements, as well as the reporting obligations of local governments and tasks in connection with single window administration. The Government will make a decision in connection with the bill by the end of the first quarter of 2009.

A concept, schedule and background study has been compiled to implement IT development at authorities taking part in electronic single window administration procedure, on the basis of which, the connection of competent authorities to the single window system was launched in 2009.

Beyond obligations ensuing from the Directive, in addition to electronic administration, it would also be possible to operate conventional, face-to-face administration points for those that do not wish to take advantage of the advantages to the electronic procedure. A feasibility study will be compiled by the end of the first quarter of 2009 to define these, as well as matters relating to scope of competency, in view of how this issue goes beyond the legal requirements stipulated in the Services Directive.

The Services Directive stipulates that it is mandatory for member states to use – within the framework of administrative cooperation – the Internal Market Information System (IMI) to be set up by the European Commission. A decision is expected to be made on the national structure of this electronic system in the second half of 2008, in accordance with which, the national IMI coordinator would be the same organisation functioning as a liaison point referred to in Article 28(2) of the Services Directive, whilst the ministries exercising legislative control over competent authorities to be connected to the IMI system would be designated as deputy coordinators.

Guideline 13

Open markets operating on a competitive basis in an internal and external context of Europe;
Exploiting the advantages to globalisation

Country-specific point to watch - 2

It is necessary to decrease and transform state aid.

1. The Hungarian Logistics Strategy

Hungary has set the strategic target of becoming one of the **logistics service centres in the central-eastern European region and at the same time an intercontinental „cargo hub“ by 2013.**

The Hungarian Logistics Strategy (HLS) is a background document compiled at a government level establishing the grounds for exploiting the country's logistics potentials and increasing competitiveness on the mid run (2007-2013), which presents an overview of the Government's comprehensive development orientations and objectives. These objectives include five comprehensive objectives (exploiting transit-hinterland potentials and managing this; providing competitive logistics services representing high added value; use of modern technologies, modern transport division of work; promoting logistics-intense sectors) and two horizontal (sustainable development and competitiveness) objectives. The following instruments support the attainment of objectives:

1. Regulatory instruments on the one hand incorporate the main packages of measures of the EU Freight Transport Logistics Action Plan, whilst on the other hand cover regulatory areas where there is more room for movement for the Government (e.g. pricing of infrastructure, transportation control, public charges).
2. Fiscal (funding) instruments primarily include programmes promoting logistics developments co-financed by the EU (logistics centres, development of first/last mile infrastructure).
3. Public policy and diplomatic instruments target improving Hungarian transport-logistics diplomacy and strengthening the marketing of the country.

18 indicators monitor the fulfilment of HLS strategic objectives; the first three of these are particularly relevant.

Indicator	Target value (2010)	Target value (2013)	Base value	Frequency of data collection	Data source
LPI (Logistics Performance Index)	30-33.	26-30.	35. (2006)	Annually	World Bank, FIATA
Logistics service providers (gross added value share of enterprises keeping books by double entry)	6,10-6,60%	7,30-8,00%	5,40% (2006)	Annually	Tax Office
List ranking conditions for establishing logistics centres	3. (2011)	3.	3. (2005)	Every 2 years	Cushman&Wakefield

Annual reports, also including action plans, will be compiled following the approval of HLS. The Logistics Monitoring Committee shall be responsible for controlling the implementation of the strategy.

Some of the calls supporting logistics developments set out in HLS (ECOP-3.2.1/CHOP-1.4.2, UMVP-1.2.1.1) have already been announced and the draft decree for the TOP Priority 4 call (Industrial track, access road, port development) has been compiled and is currently awaiting EU approval.

2. Supply safety and diversification

Creating a back-up supply of natural gas stocks

Hungary's primary natural gas energy use exceeds 40% of the total energy used by the country and 80% of consumption demands are currently covered by imports. Risks pertaining to supply safety are substantially increased in the way we are anticipated to increasingly rely on imports in the future. Residential and communal consumers use the substantial part of natural gas in Hungary, mainly for heating, which implies that the volume used highly depends on temperatures.

Directive 2004/67/EC concerning measures to safeguard security of gas supply proposes using gas storage units to create gas reserves as an option for avoiding possible gas supply turbulences.

In accordance with Act XXVI of 2006 on back-up gas reserves, the Hungarian Carbon-Hydrogen Stockpiling Association shall assume tasks in connection with stockpiling in Hungary. The aim of stockpiling is to efficiently ensure natural gas primarily for residential and communal consumers even in the case of major supply problems (import drop-out, extreme weather). Consequently, we will accumulate a volume of 1.2 billion m³ gas reserves – in several phases – by 1 January 2010.

Participation in the preparation of the South Stream Project

The South Stream Pipeline aimed at expanding EU natural gas supplies relies on Russian (Gazprom) resources; the investment will cost approximately 4 billion EUR and is envisaged to operate from 2012. The Hungarian and Russian government signed an agreement on the gas pipeline in February 2008, in accordance with which the gas pipeline will supply a volume of gas of at least 10 billion m³ per year to Hungary, Hungary shall build a gas storage unit with a capacity of 1 billion m³ and the parties shall hold a 50% stake each in the company to be established to implement the project.

Participation in the preparation of the Nabucco Project

The project currently being developed and also enjoying the support of the European Union will establish a 30 billion m³ capacity natural gas pipeline traversing Turkey, Bulgaria, Romania, Hungary and Austria transporting gas from the Central Asian region (primarily from Azerbaijan, Iran and Kazakhstan) to the countries involved in the implementation of the project, as well as other EU member states by bypassing Russia (in other words the implementation of the project will lead to effective diversification of sources).

The gas industry companies of the 5 countries listed above will take part in implementation (MOL on behalf of Hungary). According to the EU project coordinator, it will be possible to launch gas supply in 2013-2014. The 3300 kilometre long pipeline of the project envisaged to cost 7.9 billion EUR will, according to plans, initially ensure 8 billion m³ of gas supply per year and 31 billion m³/year later on.

3. Stimulating market competition in the energy sector

Opening of the electricity market

Act LXXXVI of 2007 on electricity entered into force on 1 January 2008. The objective of the legislation is for **full and real competition to evolve on the electricity market** in order to increase economic competitiveness, as well as to enforce the requirement relating to ensuring long-term supply safety (in compliance with the requirements defined in Directive 2003/54/EC).

The dual market model (public utility and free market) operating earlier has now been abolished and replaced by an explicit market competition model, within which context competition can only be restricted to prevent abuse of superiority or to protect defenceless consumers. Users, as well as traders are able to purchase electricity under free market circumstances, whilst producers can sell electricity through the same means. A limited sphere of residential consumers and small enterprises – designated by the legislation – are also authorised to use universal electricity services. Within this framework, they are authorised to purchase a set volume of electricity from universal service providers at a reasonable, easily comparable and transparent prices. The „fine-tuning” of the system is currently in progress on the grounds of the experiences of the initial few months of operation.

Opening of the natural gas market

In accordance with Act XL of 2008 on gas supply, a similar operational model to the one adopted in the electricity market will be introduced on the gas market up to 1 July 2009.

Review of the regulated electricity market

The establishment of a regulated electricity market is currently under assessment and preparation by using the experiences gained over the initial few months of market opening.

4. Preparing market opening of postal services

The European Parliament and Council endorsed the amendment of Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service in January 2008, the objective of which is to accomplish the full-scope implementation of the postal internal market (market liberalisation).

A feasibility study was compiled in June 2007 with the aim of establishing the Hungarian position to be represented during the course of negotiations. EU member states considered the Hungarian initiative as exemplary, in view of how the impact analysis compiled in connection with the draft Directive developed by the EU does not specify the impacts of liberalisation according to country. In 2007, numerous European countries decided – by following the Hungarian example – to write a similar study.

The feasibility study establishing the grounds of the government postal strategy did not only serve to underpin the Hungarian position adopted in connection with the Directive and the target date set for liberalisation, but equally lays down the grounds for planning the operational model of the Hungarian postal market operating under fully liberalised circumstances. We will continue to prepare for full market opening by using this as a basis.

The way in which **Hungary was granted the opportunity to undertake preparations over a longer period of time** is a major Hungarian success, according to the negotiation position backed by the Government and the National Assembly. We were required to submit the derogation request regarding deferral of full market opening **up to 31 December 2012** to the European Commission by 27 August 2008.

The feasibility study (compiled in June 2007) establishing the grounds of the government postal strategy did not only serve to underpin the Hungarian position adopted in connection with the Directive and the target date set for liberalisation, but equally lays down the grounds for planning the operational model of the Hungarian postal market operating under fully liberalised circumstances. We will continue preparations for full market opening along these lines, to which we would like to add the following action plans:

- Implementation of the connecting strategic projects:
 - Review of the scope of universal postal services and service provision indicators took place in 2008;
 - Defining the financing model of universal services in the first half of 2009;
 - Implementation of the feasibility study compiled for identifying the market model that can be applied on the liberalised market in the first half of 2009 as a close of the strategic projects;
 - Preparation of the government postal strategy (the government postal strategy is only anticipated to be compiled in 2009 following the implementation and evaluation of strategic projects developed or to be developed by our ministry and the National Telecommunications Authority, in view of the project time demands);
 - Preparation of the necessary legislative amendments will take place from 2010 in accordance with the approved strategy;
 - It is necessary to make corrections to the strategy, as well as regulation proposals compiled by using the experiences of member states that fully opened up their respective markets at an earlier date;
 - Ongoing monitoring activity also taking the experiences of member states into account in order for market opening to take place at the most optimal point in time, should this prove necessary prior to 31 December 2012.

Guideline 14

Creating a more competitive business environment and backing private initiatives with the help of better regulations

Country-specific point to watch - 3

It is necessary to develop the regulatory environment by further reducing administrative burdens and simplifying legislation.

1. Implementation of the deregulation programme (simplifying official administration, extending the scope of electronic administration, review of outdated legislation, developing publicity and information, etc.)

The objective of the programme approved in 2007 is to reduce administrative burdens and speed up and simplify electronic administration by abolishing unnecessary regulations and procedures, implementing higher-level and customer-centric regulations and extending the scope of electronic administration.

The following issues were reviewed within the framework of the programme: issues in connection with birth-death-marriage life situations, issues in connection with cars, site permit and State Public Health Service procedures concerning enterprises.

The assessment of collaboration of official authorities in public administration procedures was completed within the framework of this measure in autumn 2008; within the scope of activities undertaken by authorities, emphasis will shift from authorisation to control to ensure the enforcement of law by the state.

The amendment of Act CXL of 2004 on general rules concerning the official public administration procedure and services will also be ready by autumn 2008, which amendment establishes the general rules of procedure for exercising divided official scopes of competency, eliminates procedural impediments concerning electronic liaison between the client and the authority, as well as the proceeding authority, helps disseminate electronic liaison and ensures the opportunity for clients to settle all payment obligations arising in connection with the given

matter at the proceeding authority effectively taking action in connection with issue..

Guidelines and recommendations summarising the criteria system established on technical grounds will be elaborated in order to standardise websites and documents and ensure downloading from the government portal and electronic filling in via the standardised information platform.

A draft sample proposal form, guidelines and a feasibility study sheet to be used by the ministries is being compiled in order to include deregulation criteria in the codification procedure and institutionalise and integrate changes.

2. Reducing the administrative burdens of entrepreneurs

The Lisbon Strategy treats quality codification as a priority issue, which may be an effective means for measuring administrative burdens. This on the one hand contributes to defining the area in which the most serious burdens arise; whilst on the other hand may assist in the selection of less bureaucratic regulatory solutions. The development of the project aimed at measuring burdens began in Hungary in 2007 and the measurement of administrative burdens has commenced in 11 key areas defined in compliance with so-called fast track areas specified by the European Commission.

We will begin the measurement of administrative burdens – in compliance with EU methodology – in the area of tax administration, employment administration, authorisation and control procedures, as well as areas deemed over-complicated by entrepreneurs on the basis of the survey conducted by applying the so-called Standard Cost Model (SCM). A contract was concluded as the close the public procurement procedure in November 2008 and the winning bidder has approximately 6 months at their disposal to complete the work. We will include the business sector in the task of defining objectives and measures, as well as tasks in connection with control and feedback.

3. Implementation of the Fine-Tuned to Businesses Programme

The task of the Fine-Tuned to Business Programme announced in October 2006 relates to reducing administrative burdens arising due to how state regulations fail to meet modern requirements, as well as additional expenditures and losses arising due to regulatory deficiencies and unsatisfactory enforcement of law.

The intention of the programme relates to establishing a culture and attitudes in state administration and enterprises, within which context the development of the business environment, strengthening entrepreneurship and observing criteria stipulated in connection with becomes a natural.

Regulatory and development policy action detailed in the plan of measures elaborated in connection with programme was defined on the grounds of recommendations put forth by technical and interest-representation organisations of enterprises. These relate to the following areas:

- Ø Simplification of company and tax administration;
- Ø Strengthening the legal security of enterprises;
- Ø Improving financial operating conditions;
- Ø Making competition cleaner and more transparent.

The following can be highlighted, **as regards results reached in 2007**:

Simpler, cheaper and faster enterprise start-up – (Act LXI of 2007)

From 1 September 2007

- Ø Minimum capital requirements were reduced: Ltd. – 500 000 HUF (instead of 3 million HUF), CC – 5 million HUF (instead of 20 million HUF);
- Ø Duty rates decrease when choosing the simplified procedure (15 000 HUF); name

reservation in advance is no longer a precondition; fewer documents need to be submitted to the Court of Registry (the legitimacy of other documents is verified by the proceeding lawyer or public notary);

- Ø Lawyers are now also authorised to authenticate the sample signature and certify the payment of deposits;
- Ø It is not necessary to open a bank account in advance; this can be done within a period of 8 days following registration;
- Ø Sample contracts have become more flexible.

The electronic company registration procedure has become mandatory since 1 July 2008, within the framework of which simplified procedure the deadline for administration is reduced to 1 hour.

Extending the scope of electronic administration in matters concerning the Tax Office; establishing the conditions underlying e-taxation and payment

From 1 January 2008, taxpayers performing tax declaration obligations electronically are able to obtain negative (zero) tax certificates through electronic means and make queries concerning their current tax account balance or submit documents through the same means. Payment by bank card has been ensured at certain branches of the Tax Office since 1 January 2008 (pursuant to Act LIV of 2007).

E-customs clearance

The test run of the Automated Export System was carried out in August 2007 and live operation of the system was launched in the following in November. Following client registration, the system creates the opportunity for submitting customs declarations through electronic means; the outward clearance certificate is also sent electronically. A simplified processing procedure can be performed by clients that dispose of authorisation stipulated under the second subparagraph of Article 2 of the Commission Regulation, within the framework of which the

system automatically processes the customs declaration submitted. In this case, the client receives the Community accompanying document in electronic format and is authorised to ship the cargo.

The test run of the Automated Import System was launched in June 2007 and the system was introduced in February 2008. The system was gradually introduced; only the customs clearances of clients with deferred modes of payment, as well as guarantees or customs deposits could be processed during the initial phase in the case of specific procedural codes. Similarly to the above, client registration must be performed to use this system.

Within the scope of the customs procedure, electronic payment by bank card became possible at customs offices at the end of 2007. During this procedure, the client is able to pay customs debts charged by the customs goods processing system and non-Community taxes and fees in a single lump sum via one transaction.

Simplification, consolidation of taxes paid by entrepreneurs and tax declarations

The Tax Declaration Modernisation Forum (TDMF) has been working on the simplification of tax and social security declaration under the direction of the Hungarian Tax Office since April 2007. As a result of the forum's work, whilst 59 types of tax declaration forms were used in 2007, this number decreased to 23 and 10 types of data provision. The same forms are used for tax declarations and self-revision. The use of platform independent declaration filling in and control programmes has become generally widespread. TDMF will continue its work in 2008 as well.

Increasing the value limit for mandatory accountancy

The threshold for mandatory accounting increased from 50 million HUF to 100 million HUF on 1 January 2008 (Act LXXV of 2007), pursuant to which approximately 25 000 business are exempt from mandatory accounting.

Simplifying the reimbursement of social security taxes

From 2008, social security tax clearances can be settled in the declaration for the given month (without having to submit self-audit).

Public access to companies, company information

From 2008, it is possible to access electronic company information free of charge via the company information service website www.e-cegjegyzek.hu. This implies access to, for example, data recorded in the company register of enterprises, electronically registered registration forms (registration of changes), certain company information classified in groups, information regarding whether a bankruptcy procedure has been initiated against the company, or whether the company is in the process of being wound up, etc.

Simplifying tender/application administration

- Ø Easing security rules: it is not necessary to provide securities under assistance of 10 million HUF in value, instead of 5 million HUF; the prescribed rate for securities has decreased and securities do not need to be provided during the maintenance period under a value of 50 million HUF.
- Ø Fewer certification need to be presented when submitting applications.
- Ø Standardised procedures: having simplified the total of 30 procedures applied earlier, 5 procedures are now in force; application datasheets and forms and assistance contract samples have been simplified and standardised.
- Ø Gradual extension of the scope of electronic administration to include the submission of claims for payment and sending notification on amendment letters.
- Ø Obtaining state certifications instead of the applicant. Obtaining certifications in which case necessary data is available in other state administration systems is not the task of applicants, but will instead be performed by the organisations announcing the tenders/calls.
- Ø The number of documents to be submitted to claims has been reduced.

- Ø Simplified, normative-type tender procedure in the case of lower amounts of assistance; decisions made within a maximum period of 60 days.

Further major steps are anticipated in 2008 as regards the simplification of tender administration.

Electronic administration in industrial property protection matters

Declaring trademark registration can be submitted electronically from 1 January 2007. Amendments to the industrial property protection acts entering into force on 1 July 2007 also integrated requests for trademark renewal under the scope of documents that can be submitted electronically; moreover, it is also possible to submit patent, registered design protection and design patent protection declarations electronically from the same date.

Expedited trademark registration procedure

Amendments to the Patent and trademark Act that entered into force on 1 January 2008 introduced the special expedited procedure within the scope of procedure targeting trademark registration. By applying this procedure, it becomes possible for the Hungarian Patent Office to register the trademark within a period of 1-1.5 months following declaration.

Setting up a National Anti-Fraud Body

The „National Anti-Fraud Body” was set up and began to operate as a body designated with making proposals, issuing opinions and providing consultancy tasks for the government commissioner for the „New Order and Freedom” Programme pursuant to Government Decree 1002/2008 (I. 25.), in order to decrease illegal conduct in connection with intellectual property, as well as to make the enforcement of rights more efficient and effective and simpler. Having set up this body, the section of the plan of measures relating to setting up a national anti-fraud body to combat fraud with the aim of suppressing black-market activities in the economy set out in the Government’s proposal on the „Fine-Tuned to Business” Programme approved on 25 April 2007 was fulfilled. The Government approved the National Anti-Fraud Strategy for 2008-2010, as well as the plan of measures tying in with the Strategy on 1 October 2008.

4. Government programme aimed at reducing administrative burdens and simplifying and speeding up procedures

The Government approved a programme in August 2008 aimed at reducing the administrative burdens of market and non-market players and simplifying and speeding up procedures. This programme has set the target of gradually reducing administrative burdens by 25% up to 2012, as well as preventing the reproduction of administrative burdens. The programme, among others, relates to conducting preliminary feasibility studies, reviewing official procedures, simplifying public administration official procedures, wider-scope application of electronic procedures, abatement and reduction of administrative burdens, simplifying site permit procedures, implementing single window permit procedures, eliminating parallelisms and simplifying tendering procedures by setting the shortest possible deadlines.

Guideline 15

Promoting the formation of a more enterprise-friendly cultural environment and a business environment supporting SMEs

The Government approved the strategy for the development of small and medium enterprises for the 2007-2013-period (http://nfgm.gov.hu/data/cms1553600/SMEs_Strategy_2007_2013.pdf) on 10 October 2007, which envisages developing the economic performance of SMEs on the grounds of results reached in four areas of intervention:

- § Regulatory environment (Specific measures presented within the framework of **Guideline 1 and 14**: 14.1 Specific components of the Deregulation Programme; 14.3 Reducing the administrative burdens of enterprises; 14.4 „Fine-Tuned to Business” Programme aimed at reducing administrative burdens);
- § Financing;
- § Knowledge (entrepreneurial skills and human resources);
- § Developing business infrastructure.

1. Financial programmes backing the development of SMEs

The Ministry of Economy and Transport (now called MNDE), in collaboration with EIF experts, compiled the assessment on access to financing for small and medium enterprises and market insufficiencies (<http://nfgm.gov.hu/feladataink/kkv/vallpol/elemzesek/gap.html>). The financial programmes of NHDP (tying in with JEREMIE initiatives) were compiled by using the experiences of the so-called *gap analysis*.

1. The NHDP Micro-credit Programme (MP) has been operating within the framework of ECOP and CHOP financial programmes since October 2007. The aim of the tender scheme relates to developing micro-enterprises with seats in Hungary either not or only inadequately financed through means ensured by commercial banks by improving credit options. Beyond low-cost state re-financing, free consultancy combined with low rate investment or business credit with favourable interest terms and repayment conditions are offered to Hungarian micro-enterprises within the framework of MP. Financial organisations that largely do not operate in the form of credit institutions undertake consultancy and credit allocation. During the 2007-2013-period, funding of 77.1 billion HUF in value has been made available for the programme within the framework of ECOP and CHOP. A combined total of 617 contracts were concluded representing 2974 million HUF in value within the framework of the financial programmes of ECOP and CHOP up to 30 September 2008
2. The NHDP Portfolio Guarantee programme offers favourable guarantees for commercial bank credits of SMEs, the objective of which relates to improving the position and competitiveness of Hungarian micro, small and medium enterprises by providing guarantee (mass) instruments ensured by the portfolio. Within the framework of the scheme, Venture Finance Hungary Private Limited Company offers favourable term guarantees granted within the scope of a simplified procedure to credit institution portfolios of SMEs not exceeding a max. amount of 100 million HUF in value per SME. ECOP and CHOP funding of 66.2 billion HUF in value was allocated within the framework of the programme.
3. The NHDP Venture Capital Programme has set the target of providing equity financing

to help the successful financial management of enterprises at an early (seed and start-up) and growth-stage of their life-cycle. Venture Finance Hungary Plc shall operate a venture capital programme in collaboration with private investors from December 2008 by using funding of 50 billion HUF in value earmarked within the framework of ECOP and CHOP financial programmes. Funding of 77.1 billion HUF in value has been made available for the programme within the framework of ECOP and CHOP.

4. With the Széchenyi Card, small and medium enterprises that have been operating for at least one year are eligible for maximum 25 million HUF loan with favourable terms that can be used freely granted through a simplified procedure to manage liquidity problems. The duration of the loan is 1 year. This can be extended for an addition year in the case of the Széchenyi Card 2 scheme by submitting an application for review and in the case of positive bank appraisal. In 2008, a 1% interest subsidy was granted in the case of loans less than 10 million HUF for card holders, to which 0.75% guarantee fee subsidy will also be granted up to 2010. 12 520 contracts were concluded up to 30 September 2008, representing loans amounting to a total of 86 734 million HUF.
5. Access to investment and current asset loans is ensured within the framework of micro-credit granted by the National Micro-Credit Fund; maximum amount of the loan: 6.35 million HUF. Within the framework of the programme, loans can be used for the payment of machinery, equipment, installations or other investments and/or financing current assets tying in with investments. In the case of the loan granted for a maximum duration of 8 years, a maximum 50% of the loan – depending on the activity undertaken -can be invested in financing current assets tying in with investments. 230 contracts were concluded up to 31 July 2008, representing loans amounting to a total of 1069 million HUF.
6. The long-term loans with favourable interest terms made available by the „New Hungary” Enterprise Development Credit Programme aim to facilitate the development of the competitiveness of micro, small and medium enterprises with seats in Hungary to promote modernisation; within the framework of this programme, the loans granted in part offer different, however more favourable terms than regular loans on the market

in the case of the various loan objectives. The foreign currency loan drawn by HDB from Community credit institutions guaranteed by the state – to which the favourable guarantees offered by Credit Guarantee Ltd. are also ensured - ensure the resources underpinning the Credit programme.

232 contracts were concluded up to September 2008, representing loans amounting to a total of 13 874 million HUF.

2. Supporting competitive entrepreneurial knowledge and skills (KKC-2008-V)

The fundamental aim of the tender scheme relates to developing entrepreneurial culture and strengthening entrepreneurship, and in turn increasing the competitiveness and improving the international position and networking of micro, small and medium enterprises. The funding framework made available at the time of the announcement of scheme was equivalent to 373.6 million HUF.

Organisations with seats in Hungary and legal entity are eligible to apply, more specifically: national and regional economic interest representation organisations, economic chambers associations, foundations, public non-profit organisations, local government associations with legal entity, micro-regional associations, higher education institutions.

Scope of activities eligible for support

Strand „A”: EU entrepreneurial knowledge and knowledge transfer, setting up EU Knowledge Centres in cross-border regions, disseminating the application of the best EU practices and methods, organising and holding business contact building programmes. Target regions: Ukraine-Sub-Carpathian region; Serbia-Vojvodina; Romania-Transylvania; Slovakia-Upper Hungary; Croatia-South Baranya; Austria-Burgenland.

Strand „B”: profession-specific education and training programmes, organising and holding network-building programmes, organising and holding European business information days, organising and holding awareness raising events and programmes.

Type of assistance: non-reimbursable. Min. amount of assistance: 300 000 HUF; maximum amount of assistance: 10 million HUF. Max rate of assistance: 60-90 %.

The programme was announced in 2007 for the first time; 155 applications were received requesting a total rate of funding exceeding 8.2 billion HUF. The available funding framework only ensured funding for 50 applications, through which we facilitated the implementation of development representing 430 million HUF in value. 142 applications were received in 2008 requesting a total rate of funding of 960 718 million HUF; the decision preparation committee proposed the approval of 60 of these applications representing funding of 406 703 million HUF in value.

3. Supporting the promotion of the activities of entrepreneurs starting up businesses (KKC-2007-K)

The fundamental aim of the tender scheme relates to encouraging entrepreneurship and the activities of enterprises start-up operations by developing entrepreneurial knowledge and skills, through curriculum development, training and consultancy. This engenders the strengthening of entrepreneurial culture, entrepreneurship and image, as well as the development of competitive entrepreneurial knowledge and skills, best practices and PR and communication skills. The funding framework made available at the time of the announcement of scheme was equivalent to 500 million HUF.

Organisations with seats in Hungary and legal entity undertaking educational and consultancy activities that comply with the objectives of the programme are eligible to apply, more specifically: budgetary bodies and institutions, associations, chambers, foundations, public benefit companies.

Scope of activities eligible for support: consultancy, training, curriculum development, mentoring, PR and communication expenditures aimed at presenting entrepreneurship as a social value and image building...

Type of assistance: non-reimbursable. Max rate of assistance: generally maximum 70% of overall expenditures eligible for support under the programme; max. 80 % in the case of programmes organized for women and disadvantaged social groups.

The programme was announced in 2007 for the first time, within the framework of which 181 applications were received requesting a total rate of funding exceeding 2.9 billion HUF, which – due to the ceiling limit of 500 million HUF – only made it possible to approve funding in the case of 32 applicants, through which we facilitated the implementation of development representing 854 million HUF in value.

4. Developing the infrastructure promoting the development of SMEs

The level of development of industrial parks in Hungary varies to a considerable degree; at the same time, it is generally plausible to state that most of these parks qualify as industrial sites developed for accommodating entrepreneurial activities, however, only offer limited services in international comparison. Basic services, such as, financial and accountancy services and tax consulting are only accessible in 20% of parks, whilst legal consultancy is only provided in 14% of parks. This is why it is necessary to develop the scope and quality of services (including incubation) accessible in industrial parks, for which the economic development calls of ROPS provide help. A total 171 billion HUF has been made available for the development of the business environment during the 2007-2013-period within the framework of Regional Operational Programmes; so far 146.5 billion HUF of this framework has been committed and approximately 40% of this amount targets the development of industrial parks.

The situation is even worse as regards innovation services accessible for SMEs. According to the survey, these types of services are only accessible in 7% of industrial parks and only less than one-third of these parks apply innovative management. Technological and scientific parks are sparse in Hungary, which is why the ECOP 1.2.1 scheme promotes the establishment of parks specialising in the same field of operations in pole cities (See Guideline 1 and 8 for the description of the Pole Programme). The call announced by the Research and Technological Innovation Fund (RTIF) in 2007 aimed at strengthening the regional institutional system of the National Innovation System also targets promoting the innovation activities of SMEs by strengthening Regional Innovation Agencies.

5. Developing micro, small and medium enterprises

We support the following activities within the framework of ECOP Priority 2 „Complex development of enterprises (with special regard to SMEs)“:

The main aim of the priority relates to the complex development of the capacities of primarily micro, small and medium enterprises with growth potentials (taken in a wide context) to increase their income generation capacities and improve their market position. In order to achieve this, it is necessary to further extend the scope of technology-intense activities, promote the operation of high added value production and strategic services in Hungary, prioritise the modernisation of the SME sector and strengthen its role in employment. Developing the organisational structure and human resources of enterprises, integrating the use of ICT technologies and applications, as well as business and market development activities are particularly relevant in the case of interventions defined along this priority axis.

A total of 2 213 applications were approved funding in 2007 within the framework of ECOP and CHOP representing 22 759 million HUF in value; 1285 applications were approved funding amounting to a total of 30 829 million HUF up to June 2008. The framework earmarked for 2009 is equivalent to 32.95 billion HUF and 33.5 billion HUF for 2010.

Guideline 16

Expansion, development and linking European infrastructure; finishing trans-national priority projects

1. Developing international transport connections

The objective of the measure is to **improve access** in order to be able to increase competitiveness, strengthen social and regional cohesion, better integrate the country in European economic circulation and better exploit opportunities arising in developing markets at by developing transport infrastructure. Projects aimed at the development of the railway, public road and water transport networks making international connections possible primarily

specify the development of the Hungarian sections of EU Ten-corridors and the expressway network.

Some of the projects are directly aimed at improving accessibility, eliminating capacity constraints, increasing travel speed and ensuring higher technological standard services.

Developments are characteristically implemented along long road stretches and will only be completed after 2010.

2. Public-Private Partnership (PPP)

The objective of the measure is to implement transport infrastructure developments that make it possible to **eliminate bottlenecks** experienced in connection with passenger and goods transport by ensuring high standard and balanced services. By implementing this measure, we will include - through investors - financial interests engendering efficient construction and operation, management experiences, as well as resources complimenting the state budget. As a result of the above, investments will be more effective and will be completed earlier than if they were to be implemented by exclusively investing budgetary resources.

The following will be implemented within the framework of this measure: Motorway M6/M60 heading towards Croatia, Bosnia and the South Transdanubian centre of Pécs; express railway line connecting Budapest Ferihegy International Airport to the downtown area; Freeway M3 heading towards Ukraine.

The Szekszárd-Bóly and Bóly-Pécs sections of Motorway M6/M60 are currently under construction within the framework of a PPP scheme; the public procurement procedure for the construction of the Dunaújváros-Szekszárd section of Motorway M6 is currently in progress. The preparation of two additional projects is currently in progress.

3. Introduction of maintainable and innovative transport technologies

The objective of the measure is to **improve the quality of services of the currently operating transport infrastructure network**. Transport organisation, transport safety and information services connecting to cross-border infrastructure improve the safety conditions for unperturbed traffic and the physical safety of vehicles on the road, decrease unnecessary road travel, as well as the time needed for reaching destinations. By implementing these developments, it will be possible to use available infrastructure in an increasingly cost-efficient manner causing lower levels of environmental pollution.

The CONNECT III project aimed at the procurement and installation of technological/technical devices used for measuring, controlling and influencing traffic, as well as adjusting these to cross-border networks was completed in 2008. The preparation of the EASYWAY project that has a similar objective, however, establishing wider-scope international cooperation was launched in the same year.

The introduction of tolls proportionate to road use is currently under preparation, which system would replace the motorway sticker paid on a one-off basis. Tolls proportionate road use would not only be introduced along freeways – in which case higher maintenance resources are needed due to faster wear - but would also be introduced on the highway network.

EMPLOYMENT PROGRAMME

Guideline 17

Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion

Council Conclusion - 6

Promoting higher overall labour force participation and tackling segmentation in order to ensure active social inclusion

Decline in economic growth and measures aimed at creating budgetary stability have had a decisive impact on the leeway of employment policy over the past few years. **The primary objective related to preventing permanent inactivity, helping the re-employment of employees affected by structural reforms and encouraging the employment of disadvantaged persons.** Measures launched in the spirit of these objectives will continue to play a key role during the 2008-2010-period.

Beyond improving employability – taking into account those critical factors that affect global and european economy in the short term – funding schemes aimed at maintaining the employment capacity of the economy and preserving labour force demand, actions promoting employment and successfully restraining counter-incentives to work, as well as programmes aimed at increasing labour market participation by disseminating non-standard forms of employment are equally required.

The main components of the strategy targeting employment increase over the 2008-2010-period are listed below:

1. Activation, promoting job search and employment

It is necessary to continue to implement measures aimed at increasing labour market participation. Having gradually raised the age of retirement and transformed disability

pensions, earlier institutional frameworks that made permanent inactivity the primary option leading out of unemployment are no longer widely accessible. A set of conditions promoting active job search has been established by transforming the unemployment benefit system. The review and transformation of the components of the social benefit system restraining employment needs to be undertaken to be able to make further progress. The **integrated employment and social system** building on assistance and services promoting job search and employment provides a framework for the above.

2. Improving employability

Improving employability becomes even more relevant as labour market participation and the number of job seekers increase. Promoting job search can only engender a rise in employment levels if accompanied by measures aimed at preparation for employment, adaptability and the development of skills and competencies. **Active labour market policies** are the primary instruments used for improving employability in the case of working age population. In this regard, the main task involves increasing the number of participants and expenditures by concurrently improving effectiveness. It is necessary to continue the **primary level training of adults with low-level qualifications, the development of their key competencies, as well as measures supporting vocational training**. The quality and structure of education and training fundamentally influences the employability of future employees. It is of key importance that developments implemented with the help of EU funding concentrate on resolving the most substantial problems, decrease differences in quality within the education system and guarantee that the results of these developments become an integral part of daily operations in every school.

3. Increasing demand for labour with special regard to the most disadvantaged regions

The Government introduced targeted contribution allowances (START programmes) to promote the employment of disadvantaged persons. Experiences gathered so far indicate that – concurrently to measures targeting the establishment of macro-economic stability – the reduction of employers' contributions has increased demand for disadvantaged employees and encouraged employers to fill available job vacancies by disadvantaged people. Beyond maintaining **targeted contribution allowances**, it is equally necessary to **create new jobs and increase job opportunities** over the next period, primarily through instruments used to promote economic development. It is only possible to raise employment level if there is a perceivable increase in the demand for employees with low-level qualifications. Targeted measures that support increasing **employment opportunities** and reducing employment related costs are needed to be able to improve the employment opportunities of **people living in disadvantaged regions**.

4. Supporting labour market transitions; disseminating non-standard forms of employment

Even though the employment rate in Hungary is far below that of the EU average, if we also take the number of hours worked into account, our lag would only be 1.7%. This implies that the proportion of the working age population in work is considerably smaller than in the majority of EU member states; however, those who have a job **work significantly longer hours**. Nevertheless, there is a distinct line of divide between people „excluded from” (outsiders) and „integrated in” (insiders) the labour market; people that either do not have the opportunity or possibility to work within standard employment forms encounter difficulties in integrating into legal employment. Non-standard forms of employment are by no means widespread and a part of atypical types of work are characteristically performed through undeclared employment. This is why it is necessary to introduce measures that support the entry of permanently excluded people into the labour market, the exit out of inactivity and integration into the world of work.

Diverse instruments may be used to help transitions, depending on life contexts and reasons underlying inactivity: increasing part-time and telework, and developing childcare services at the same time may be one such instrument in the case of parents on maternity or childcare leave; supporting the acquisition of work experiences in the case of young career starters; exploiting opportunities underlying seasonal or casual employment in the case of people with low-level qualifications and long-term unemployed individuals. By disseminating atypical forms of employment, the aim is not the transformation of existing jobs, but the creation of new employment opportunities for people excluded from the labour market, the promotion of regular employment and the exploitation of potentials in non-standard job opportunities.

5. Combating undeclared work

Undeclared employment has serious consequences for the individual and society alike. Although higher wages may be paid on the short run, it **makes employees vulnerable** and does not ensure entitlement to social protection. As regards impacts affecting the society as a whole, undeclared employment creates unfair competition, **limits the scope for action to reduce taxes** and/or opportunities for improving the standard of state services. **Both sanctions and incentives are needed** for reducing the level of undeclared employment and increasing legal employment by strengthening regulatory and control frameworks, as well as by reducing social security and other wage-related taxes over the long run. Sanctions and incentives targeting the reduction of undeclared employment can only be successful if coupled with **attitude shaping**, which involves raising awareness about risks and drawbacks. It is important that the active population be better informed on the acquisition of retirement entitlements, and it is necessary to strengthen their conscious preparation for old age social security.

6. Preventing the reproduction of labour market disadvantages

A successful start to life fundamentally determines future social and labour market outlooks. Assistance provided early on and the development of skills and abilities is of key importance for establishing the grounds of a successful education career and preventing the reproduction of employment disadvantages. This is especially relevant in the case of the Roma population increasingly subjected to social and economic disadvantages. **Education and vocational training** must play a substantial role in preventing future labour market disadvantages; it is necessary to equip students with competencies and prevent the reproduction of people with low level qualifications by reducing school dropout rates. This is why the primary goal of the development of the education system is ensuring access for every student to high standard quality education.

In the following, we will present an overview of the employment measures adopted by the Government according to grouping of the EU employment guidelines:

1. Increasing labour market participation and modernisation of social protection systems (Guidelines 18-20);
2. Improving the adaptability of employees and enterprises (Guidelines 21-22),
3. More effective human resource development through higher standard education and training (Guideline 23-24).

Guideline 18

Ensuring access to work for everyone regardless of age or sex

Point to watch - 5

Ensuring better reconciliation of work and private life

Unique factors – also in connection to the life-cycle - make the placement of certain employee groups difficult. Young career starters encounter problems associated with integration in the labour market, whilst older age-groups face problems that relate to remaining integrated in the labour market or difficulties accompanying re-entry to employment, having been absent from the labour market for a shorter or longer period of time; whilst disadvantages experienced by women are primarily associated with their leave from the labour market for a certain period when having children (even up to several years in the majority of cases due to extensive childcare allowances), following which the return to the world of work is extremely difficult. Health status is also of decisive importance in terms of labour market participation.

1. Supporting the integration of young people in the labour market

Contribution allowances granted within the framework of the **START** scheme have been supporting job allocation of young career starters since 2005. The number of requests for contribution allowances demonstrates that this scheme plays an important role in assisting entry into the world of work, which is why these programmes **need to remain in place**. Since the 2-year allowance period has expired in the case of initial entrants, it is worthwhile assessing the results achieved by this form of assistance. In addition to encouraging employers, the quality of the education and vocational training system, as well as their adjustment to labour market demands decisively influence the job placement potential of young people; related measures are presented under Guidelines 23 and 24..

2. Preserving the labour market participation of older employees

Labour market participation of the older age groups has increased over the past few years as a result of the gradual rise in retirement age. Concurrently to raising the retirement age, the unemployment rate in the 55-64 age group decreased from 6.1% to 4.2% between 1998 and 2007, whilst the activity rate increased from 17.4% to 34.5% and the employment rate increased from 16.6% to 33.1%. Higher labour market participation can engender a further increase in the number of older workers only if measures aimed at improving their employability accompany the rise of the retirement age. This is why **older employees also constitute a priority target group of active labour market programmes**. Moreover, contribution allowances granted for employers within the framework of the **START Extra** programme also serve to encourage the employment of older employees.

3. Increasing the employment rate of women

In Hungary, child raising decisively influences the participation of women in the labour market. The level of employment of women with infants is well below the average recorded in other EU member states; benefits paid for staying at home considerably contribute to this. Nevertheless, a series of measures introduced **over the past few years encouraged returning to work as earliest possible**, i.e. granting contribution allowances for employers in the case of the employment of women returning to work after having received childcare allowance (START+); or ensuring the opportunity of full-time employment, whilst concurrently receiving childcare allowances, after the child having reached the age of 1.

At the same time, the capacities of childcare services provided for children aged 0-3 are extremely limited.⁴ As regards day-care services, there is a highly limited number of crèches only capable of ensuring services for 8% of children, even though these institutions operate at a 128% capacity on average. The transformation of the childcare allowance, to which all children are entitled up to the age of 3, carried out over the past few years (i.e. the elimination

⁴ Both the OECD and the European Commission drew attention to this problem in their recommendations compiled for Hungary.

of employment restrictions) removed counter promotion factors influencing employment. In the next step, it is necessary to prioritise the **development of crèches and ensuring access to childcare services**.

- § We will increase the number of places in crèches up to 2013 in the framework of regional operational programmes.
- § We will assess the impacts of the programmes aimed at encouraging the earliest possible return to work, as well as the potential for introducing a scheme building on a voucher system financed by the European Social Fund, which ensures support for using services helping the placement of children in child day-care services up to the age of 1-3, which would not replace the childcare allowance scheme, but would complement it.
- § We will assess means for promoting return to work by reallocating financial assistance according to a different schedule, however, by keeping the rate of support at the same level.

4. Improving the health status

In international comparison, the health status of the Hungarian population is extremely poor and is well below the level our socio-economic development status could make possible. Improving the health status, preventing diseases and ensuring dignified longevity can only be achieved through the structured and organised efforts of the entire society, by using our financial and intellectual resources, as well as by mobilising and efficiently using individual initiatives. The **National Programme for the Decade of Health** helps attain these targets, the fundamental mission of which is to provide responses to challenges concerning health and to support and speed up the process in which the Hungarian population approaches the EU average as quickly as possible. Implementation of the national health programme is a task for the entire society, which can only be successful and effective in the case of wide-scope inter-ministerial cooperation. Prevention and screening of tumour diseases are the main priorities of this programme. In addition, the Government aims at improving the health status of employees by implementing smoking prevention campaigns, programmes supporting the preservation of the health of young people, programmes promoting a healthy diet and regular exercise, as well as health development programmes at workplaces.

Guideline 19/a

Making work pay

Point to watch - 4

Introducing further incentives to work and to remain in the labour market

The entire unemployment benefit system was transformed between 2005 and 2007 to promote job search and employment; in addition, amendments aimed at eliminating the counter promotion effects negatively impacting employment were introduced in the social benefit system. **Opportunities for the working age population to remain permanently inactive have been restricted** by transforming the pension system and the disability pensions system. As a continuation of these steps in the next period, the enforcement of the principle of promoting employment will prevail by undertaking the further transformation of the social benefit and pension system.

1. Strengthening incentives to work in the social benefit system

People at a working age incapable of finding jobs and not entitled to receive unemployment benefits and whose families experience subsistence problems are entitled to social benefit and assistance. The Government envisages introducing a new series of measures with the aim of increasing incentives to work for people on social benefit. These people need to contact the Public Employment Service, where they enter into an agreement specifying the type of activities they must regularly undertake to be eligible to receive income. In order to support this, the **PES provides assistance and services helping transition to the open labour market**. Offering jobs will play a greater role in the review of benefit eligibility. In order to establish a solid basis for the latter, it is necessary to improve information flow and cooperation between organisations engaging in the mediation of social benefit and assistance.

2. Increasing labour market participation by transforming the pension system

Retirement age has been gradually rising since 1998, which resulted in the older generation reaching a higher activity and employment rate. In the period following the turn of the millennium, the average age for old-age retirement by and large did not change; the combined average age for women and men is currently between 58 and 59. The actual retirement age still remains well under the official age of retirement, primarily because of the early retirement scheme. Beyond the permissive regulation of early retirement, tax and contribution regulations ensure such benefits for employed pensioners that strengthen the principle of „*it's worth retiring and working*“ instead of „*it's worth working*“. Eligibility for old-age pension did not rule out continuing income earning activities, which encouraged some employees to claim pensions whilst continuing paid employment activities.

The Government developed a comprehensive package of measures in 2006 for **further raising the actual age of retirement**. The following main steps were taken in this regard:

- § Tightening age-related and employment duration conditions of retirement;
- § Encouraging later retirement.

Individual components of the package of measures entered into force during 2007 and 2008. By continuing the steps already taken, promotion of employment will continue by implementing the following measures over the 2008-2013 period:

- § Raising the retirement age will continue as stipulated by legislation, which process will end in 2009 in the case of women.
- § Conditions for claiming early retirement have been modified: during the 2009-2013-period, a minimum of 40 years of employment is required to be eligible for early old-age pension and 37 years of employment for reduced pension, which also points in the direction of raising the retirement age.
- § From 2013, anyone applying for pension prior to reaching the legal age threshold will

only receive a reduced pension no matter how long they have been employed for. This regulatory change in part raises the actual retirement age (because lower pension will hold people back from claiming pensions earlier) and in part decreases the base pension rate (for those who opt for early retirement).

3. Transformation of the disability pension system

The disability pension system was transformed in 2008 to constrain early retirement. Assessment of ability to work constitutes the basis of the new system, which focuses on retained abilities and abilities that can be developed, as well as on complex rehabilitation. In the case of persons who can be rehabilitated, the **earlier disability pension is replaced by a transitional benefit tied to participation in employment rehabilitation**. The development of employment rehabilitation services has been launched parallel to this. Since we have introduced an entirely new system, we will monitor and evaluate operational experiences and make necessary corrections on the basis of these.

Guideline 19/b

Ensure inclusive labour market through wider-range of and increasingly efficient assistance for job seekers and disadvantaged persons

Country-specific Recommendation - 3

Reinforcing active labour market policies to improve the labour market situation of disadvantaged groups; and reducing persistent regional disparities in employment

Active labour market policies play a key role in improving the employability and job search activities of job seekers and disadvantaged persons. Experiences gathered over the past one and half decade prove that it is difficult to re-integrate permanently inactive individuals to the labour market. These steps are needed **to avoid job loss evolving into permanent/final exit from the labour market**. It is especially important for individuals facing major difficulties, as regards entry into the labour market due to any disadvantages or discrimination (among other, Roma population and persons with disabilities), to receive **support tailored to individual needs** to surmount their difficulties, improve their employability and find employment.

4. Active labour market policies

Over the past few years, the increase of the number of registered job seekers was not followed by the increase in the number of persons participating in active labour market programmes implemented by the Public Employment Service (PES), or the increase in the expenditure on ALMPs. At the same time, it is also necessary to take account of recently introduced types of assistance within the framework of other schemes (such as, contribution allowances granted on a normative basis or the „*One Step Forward*“ programme that is not run by employment centres), which are not registered as active instruments. It is nevertheless plausible to state that **lower rates of funding were allocated into active labour market policies at a point in time when unemployment began to rise. Taking into account the adverse effects of the current economic slow-down, it is particularly necessary to increase the financing of active labour market policies** in the 2008-2010-period – by using funding made available by the European Social Fund – whilst at the same time improving the efficient use of resources through the following measures:

- § We will gradually integrate non-state organisations in the labour market services system from 2009. These organisations currently receive funding via tendering and provide labour market services (largely independent of PES) primarily for disadvantaged persons. The aim is to integrate programmes run by non-state organisations and PES services into a single system and increase opportunities for using services tailored to individual needs.
- § We will strengthen coordination between programmes and assistance within the multi-player framework of labour market support system. It is necessary to improve the planning and prediction of resources that can be used in a decentralised manner at a regional level. We will continue to develop the monitoring system used to track the impact of active labour market policies within the framework of PES development programmes. Regular evaluation and impact studies need to be conducted and lessons learnt should be fed back in the decision-making process, in order to adjust active instruments to labour market demands and opportunities; and to operate them in a cost-efficient and effective manner.

5. Improving the labour market situation in the most disadvantaged micro-regions

The programme targeting the comprehensive development of the most disadvantaged regions is aimed at preventing the **reproduction of regionally concentrated deep poverty from one generation to the next** and will be implemented within the framework of the New Hungary Development Plan. Within the framework of this programme, the Government has earmarked a total of 120 billion HUF for launching the economic, social and infrastructural development of the most disadvantaged micro-regions.

An additional contribution allowance will be introduced to complement currently available contribution allowances in order to increase labour demand, which – in the case of increasing the number of employees – grants **full tax exemption for a period of 3 years** for employers employing persons living in the most disadvantaged micro-regions and receiving regular social benefits, being long-term unemployed, or having only low-level school qualifications.

The substantial part of resources earmarked for active labour market policy will be invested in a decentralised manner. Disadvantaged regions will receive a higher share of the funding in relation to the average; consequently, active labour market policies will play a major role in reducing regional disparities. This role is further strengthened this year by regional employment centres **allocating part of their funding for improving the employment situation of most disadvantaged micro-regions located within their respective region**. Moreover, 40% of the individuals employed within the scope of public work schemes have to be selected from regular social benefit recipients. Labour market programmes will be integrally adjusted to programmes targeting the development of the local economy and rural development.

6. Employment of disadvantaged people at infrastructure investments funded by the EU

The implementation of the New Hungary Development over the upcoming years is expected to increase labour demand in the construction industry. In order to equally ensure employment opportunities for disadvantaged persons, contractors of EU-funded investments must, as a requirement, **employ a minimum 10% of work force registered as job seekers at regional employment centres**. Beyond the mediation of employment, the task of employment centres will involve organising preparation and training of labour.

7. Programmes promoting the employment of Roma

Owing to how former isolated programmes focusing on the prevention of specific different problems did not achieve a great deal in eliminating the disadvantages to which the Roma population is exposed, the Government initiated the launching of comprehensive **programmes simultaneously providing assistance in several areas**. In 2007, the Parliament endorsed a decree on the strategy for the period up to 2015 within the framework of the Decade of Roma Inclusion Programme. In order to implement this strategy, the Government elaborated the plan of measures for 2008-2009.⁵ Both documents build on a wide range of instruments, which equally cover education, employment, enterprise development, housing, healthcare and the enforcement of equal treatment. EU funding, and in particular, the comprehensive development programme targeting the country's most disadvantaged micro-regions, will play a substantial role in improving the employment and social status of the Roma population.

8. Facilitating the employment of people with disabilities

The disability pension system was transformed from 1 January 2008 (see Guideline 19/A for details). Individuals receiving disability benefits must – in order to be provided rehabilitation

⁵ Social integration of the Roma population (2008–2010): Parliamentary Act P68/2007 on the plan of government measures for 2008-2009 tying in with the Strategic Plan of the Decade of Roma Inclusion Programme.

– cooperate with the PES, and the PES must in turn ensure rehabilitation services for these individuals, assist their employment, as well as their access to social services. The PES provides employment rehabilitation services on the basis of individual development plans – with the help of funding granted by the European Social Fund – to support individuals return to their previous jobs or find employment once again. Approximately 10 000 persons with disabilities will be eligible to receive this type of assistance up to the end of 2009.

Guideline 20/a

Modern employment services

Point to watch - 6

Completing the establishment of the integrated employment and social services system

1. Modern employment services

The series of structural reforms implemented over the past few years affected the Public Employment Service in several regards. On the one hand, the PES has been designated a key task in dealing with the labour market impacts of those reforms. On the other hand, the PES is also required to prepare for new tasks and roles as a part of/consequences of certain reform measures (such as, the transformation of the disability pension system). Moreover, the PES itself has undergone organisational changes: **its former institutional framework based on counties has been converted into a regional system**. In order for the organisation to be able to perform tasks in an increasingly efficient and effective way, it is necessary to establish stable and predictable conditions of operations for the institutional system, hence ensuring the human resources and organisational frameworks required for performing the new tasks.

2. Continuing the development of the integrated employment and social services system

The development of the integrated employment and social services system has been in progress since 2006. The aim of the integrated system is to enforce that **job allocation overrides** various types of benefits, as well as to **prioritise job search and the consideration of employment opportunities** in the context of the benefit system provided due to the unemployment of active aged people and lack of income associated with this status. Firstly, the joint management system of the two areas was set up via the integration of the independently operating ministries responsible for social affairs and employment policy. As the next step, a new system for classifying of changes in working abilities was introduced in 2008 that prioritises complex rehabilitation. The PES provides employment rehabilitation and job allocation assistance services for people receiving rehabilitation allowances. Consequently, services of the PES are equally available for a specific segment of the inactive population that were not registered clients of the PES earlier.

As the next step in establishing the integrated employment and social services system, all those that regularly receive social benefits will also be registered as clients of the PES from 2009 (also see the section on the transformation of social services). Further major organisational adaptation on behalf of the institutional system is required to be able to perform this task, which, among others, makes it necessary to train and develop the competencies of staff working at employment centers, which is ensured through the development programme of PES co-financed by the EU.

Guideline 20/b

Managing migration adjusted to the labour market situation

In European comparison, the **ratio of foreigners in relation to the overall population** still remains low in Hungary. However, in relation to previous years, immigration to Hungary slightly and continually increased. Employment remains the main reason underlying immigration to Hungary; however, the number of immigrants arriving in the country for other, primarily family reunion purposes has nevertheless increased. This, among others, explains why less work permits were issued and less people registered over the past year (according to statistics of the PES). The following measures help the social and labour-market integration of foreign citizens residing in Hungary:

- § Hungary is now also eligible to use funding made available within the framework of the new EU financial instrument called the Integration Fund during the 2007-2013-period, with the help of which it becomes possible to implement programmes facilitating the integration of migrants in society and the labour market.
- § Act LXXX of 2007 on refugee status and Government Decree 301/2007 (XI. 9.) on the implementation of the former entered into force in 2008, which, among others, specifies the rights of persons applying for refugee status and the tasks of refugee shelters. According to the new regulation, refugees are authorised to work without work permit within the boundaries of the refugee shelters for a period of one year following the submission of the request for refugee status, following which period, they are authorised to undertake employment in accordance with general regulations applicable to foreigners.
- § The Integration Act is currently in the process of being drafted.
- § Pursuant to the adaptation of Directive 2004/38/EC on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member State, legislation re-regulating right of entry and stay have been adopted, as an impact of which the personal scope of legislation regulating social services has been extended to include and cover all persons entitled to stay in the country for over three months.

Guideline 21/a

Flexibility and security on the labour market

Council Conclusion - 5

Further facilitating geographic and occupational mobility

Council Conclusion - 8

Implementing the agreed common principles on flexicurity by establishing national arrangements giving effect to those principles

All measures aimed at implementing the concept of „flexicurity“ reflect the need of the balanced enforcement of labour market flexibility and job security: on the one hand, in order to increase competitiveness, it is necessary to ensure the opportunity for enterprises to continuously adapt to the changing economic and social environment, whilst on the other hand, we have to support the maintenance of jobs by focusing on job security of employees, or finding a new job in the case of unemployed individuals and ensuring the security of employment. A wide range of instruments is required to achieve this, which equally includes active labour market policies, training and re-training, as well as social security systems. Our concept of „flexicurity“ builds on policies that are also components in the implementation of other guidelines. We will present an overview of these components in line with the four pillars of „flexicurity“ defined at an EU level.

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1. **Life-long learning** is the fundamental instrument for adaptation to changes. As regards education and training, the fundamental task relates to ensuring access to suitable standard education for every student, since this potentially establishes the basis for a successful employment career later on in life, as well as the ability to adapt. It is also necessary to pay special attention to how the education and training system is required to ensure the development of key competencies and is capable of continuously adjusting to economic needs.
 2. **Active labour market policies** – by supporting switch between jobs – represent one of most important instruments for **ensuring employment security**. It is necessary to extend the scope of these instruments to wider segments of society and improve the targeted provision and

effectiveness of these instruments, which equally suggests increasing funding invested in active labour market policies.

3. It is plausible to state that the labour law environment in Hungary is flexible in international comparison. However, a considerable proportion of the labour force find employment outside of legal framework and work informally, which implies a complete lack of job security. Reducing **undeclared work** is not only of key importance for the state budget, but is equally relevant to the security of the individual.
4. Making **social protection systems** encourage work and people receiving benefits capable of employment, as well as ensuring suitable job opportunities represent key priorities for Hungary

Elements of the flexicurity concept in the National Action Plan	
Pillar	Measures
Strategy for Life-long Learning	„One Step Forward!“ programme
	Development of key labour market competencies
	Continuing the development of the Regional Integrated Vocational Training Centre network
	Development of a career guidance system
	New Career programme
	Supporting in job training
Active labour market policies	Quality, methodological and curriculum development of the training system
	Integration of non-state organisations in the employment services network
	Supporting the rehabilitation and employment of persons with disabilities
	Improving the labour market situation in the most disadvantaged micro-regions
	Employment of disadvantaged persons at infrastructure investments funded by the EU
Labour law environment; reducing the level of undeclared employment and labour market segmentation	Programmes promoting the employment of Roma population
	Reducing social security contribution in the case of employment of people with labour market disadvantages
	Strengthening labour inspection
	Raising employer awareness
Developing a modern social protection system	Package of measures aimed at reducing the informal economy
	Transformation of the pension system
	Improving access to child day-care services
	Transformation of the disability pension system
	Setting up an integrated employment and social services system
	Strengthening the promotion of employment in the social protection system

Atypical forms of employment are not generally widespread in the Hungarian labour market.

It is increasingly difficult to identify new employment opportunities on the standard labour market, and existing ones are often not exploited, since the needs of job seekers and enterprises are often incompatible. **Dissemination of atypical forms of employment** equally offers a solution for upgrading the adaptability and productivity of enterprises and promoting the activation of persons excluded from the labour market, i.e. mapping job opportunities that flexibly adjust to the needs of labour market actors and at the same time establish conditions underpinning job security, as well as the opportunity for interest representation.

1. Reviewing regulations adopted in connection with casual work

The objective of the review of regulations adopted in connection with casual work is to ensure the opportunity for temporary work by simplifying administration procedures. Employees employed on a short-term basis will also be entitled to social security and unemployment benefits. The dynamic expansion of casual work experienced over the past few years makes the evaluation and transformation of the system timely. The essential component of transformation relates to **switching over to electronic data provision** and **central registration** of legal statuses, instead of maintaining the current practice of administration on paper and decentralised registration, by concurrently maintaining the favourable tax payment scheme and simplified administration procedure.

2. Supporting re-organisation of casual work into permanent employment

We will assess potential means for supporting the re-organisation of seasonal and casual job opportunities into permanent employment accompanied by ongoing training – by also using funding of the ESF – and for **providing regular work for the most disadvantaged social groups**. This may equally contribute to making the labour market more flexible, integrating non-employed individuals in the world of work and expanding the scope of declared regular employment.

3. Exploiting employment opportunities for parents on maternity or

childcare leave

By disseminating flexible forms of employment, we wish to create job opportunities for people that are only capable spending a limited period of time on the labour market due to their life circumstances, more specifically:

- The START+ programme reduces fix contribution payment of employers, i.e., the so-called health-care contribution, in the case of the employment of parents returning to labour market after maternity or childcare leave and increases the part-time employment potentials of this target group.
- We envisage to create employment opportunities for individuals by extending the scope of and supporting childcare services (see Guideline 18).

Guideline 21/b

Transforming undeclared work into regular employment

Point to watch - 7

Transforming undeclared work into formal employment

In Hungary, undeclared work – similarly to the majority of new EU member states – is relatively high. The main reason for this is generally attributed to high taxes charged, which, however, cannot be reduced on the short run owing to requirements relating to restoring the budgetary balance. Over the past period, the Government introduced a series of reform measures to reduce undeclared employment. These primarily focus on observing the legislation and sanctioning unlawful behaviour. The future aim relates to developing a strategy combining instruments used for sanctioning and promotion in a more balanced way, which on the mid run may equally contribute to increasing legal employment and improving the competitiveness of the country.

1. Package of measures for combating informal employment

As a part of state reform measures, an expert project was launched in summer 2007 – with the participation of the World Bank – aimed at the elaboration of recommendations and measures targeting the suppression of informal and grey economy. Within the framework of this project, experts put forth important recommendations in connection with **taxes and contributions, enterprise and labour market regulations, control, as well as information and attitude shaping**. The Government has initiated the elaboration of a plan of measures and schedule on the basis of these, which endeavours to deal with counter promotion effects impacting legal employment on the short run, primarily by introducing changes that are neutral from a financial perspective and do not represent risks in terms of the fulfilment of the budgetary adjustment programme.

2. Reducing social security contribution paid by employers employing people with labour market disadvantages

Although current economic policy does not ensure the opportunity for general contribution cuts, the Government supports the employment of potential employees in the most disadvantaged situation by granting contribution allowances (Start, Start+, Start Extra contribution allowances, as well as the envisaged complementation of these in the most disadvantaged regions). Due to the unique characteristics of these schemes, they potentially generate employment **in low productivity and low added value generating sectors**, in which the ratio of undeclared employment is typically higher. These measures may contribute to the legalisation of the activities of these types of enterprises, as well as to establishing social protection for employees.

3. Strengthening labour inspection

Owing to the measures taken by the Government, the capacities of labour inspection authorities have perceivably increased over the past period, which contributed to the increase

in the number of labour inspections conducted and the more effective mapping of undeclared employment. These new jobs were preferably filled by employees made redundant in other segments of the public sector. The development of the training system for labour inspectors is concurrently in progress. According to plans, strengthening the capacity of inspection authorities will continue in the future with the support of ESF funds. The efficiency of inspections will improve by training current staff members and introducing quality management system.

4. Raising employee awareness

According to the recommendations made by the World Bank, disseminating information on the risks of undeclared employment to economic actors is particularly relevant. At present, the behaviour of the population tying in with legal employment, social security membership and pension insurance is not sufficiently conscious and the level of knowledge of the population in connection with labour-specific matters is low. Knowledge and internal motivation regarding correct conduct and attitude is highly limited. Information and attitude shaping may play a key role in improving public awareness. This is why we are planning to launch a campaign co-financed by ESF aiming at **dissemination of information to employees on labour law, the advantages to legal employment, as well as legal behaviour and attitudes** to encourage the acceptance of the work performed by labour authorities. The Government's plan aimed at regularly disseminating information to economically active individuals on acquired pension entitlements can also be linked to the above.

Guideline 22

Ensure employment-friendly labour cost developments and wage-setting mechanisms

Wage-setting mechanisms in the private sector in Hungary are adjusted to the economic circumstances of market economy; the Government does not apply direct instruments or interventions. Labour market regulations and the system applied for determining wages

functions in a sufficiently flexible manner. Trilateral national wage negotiations and agreements play a fundamental role in maintaining and strengthening a balanced wage policy and predictable wage development.

1. Regulating national minimum wages and guaranteed wage minimum

The trilateral national agreement of 2005 determined the amount of the national minimum wage for each year for a period of three-years in advance, i.e. for the 2006-2008 period. Paralelly to this newly introduced system, the so-called guaranteed minimum wage was also initiated as a mandatory requirement, which must be higher than the rate specified for minimum wage in the case of scopes of work where minimum secondary level qualifications are required. This measure made labour costs easier to plan on the long run for enterprises. The ratio of employees employed on the basis of the minimum wage considerably decreased as an impact of the measure, i.e.: whilst in 2005, 11% of employees in enterprises employing a minimum of 5 employees were declared on minimum wages, this ratio dropped to 3% by 2007. The contracting parties will jointly evaluate the experiences of the three-year agreement during the second half of 2008 and will also concurrently launch trilateral negotiations for the next period. The Government finds long-term predictability important also as regards the future, as well as establishing a multi-annual national wage agreement tying in with this. Within the framework of this agreement, concluding a new agreement in connection with guaranteed minimum wages would once again prove useful, since the current agreement will expire at the end of 2008, its regulatory role and its influence on improving wage proportions would also terminate.

2. Bilateral agreement on sectorial and professional wages

The so-called 'sectorial dialogue committee'-s system and its operation strengthened during the 2005–2008-period, which, due to the wide-scope of the forum system and the legal frameworks established, may largely help the establishment of bilateral agreements on sectorial and professional wages and increase coverage. Even though collective wage

agreements of sectors still do not play a major role in the wage mechanisms of the private sector, developments gradually achieved in this area demonstrate that, for example, a detailed wage agreement was nevertheless concluded in the case of the construction industry, in which sector undeclared employment and envelope-wages are highly prevalent. This agreement was extended to cover the entire scope of this sector. Extending the scope of bilateral agreements on sectorial and professional wages and increasing coverage represents an objective to be supported in the future period as well.

Guideline 23

Expand and improve investment in human capital

Point to watch - 8

Implementing the lifelong learning strategy

Council Conclusion - 5

Attracting more adults, particularly low-skilled and older workers into education and training

During the 2008-2010 period, the Government will continue to prioritise – by taking account of the country-specific recommendations made by the Council as well – the upgrading of the curriculum and structure of education extremely relevant in terms of increasing employment levels, accelerating economic growth and reducing regional disparities. By taking account of the government strategy for life-long learning, the upgrade of the system is built on the following three pillars:

- a. Continuation of the development of the curriculum, organisational and human resource conditions needed for the full-scope introduction of competency-based education across all levels of public education.
- b. Strengthening equity and combating segregation in public education and strengthening the legislative environment underpinning equal opportunity in order to achieve the above, establishing the grounds of quality-based educational policy and physical preconditions for wide-scope access to quality

education; ensuring efficient use of resources in line with the principle of equal opportunity.

- c. Strengthening labour market relevance of higher education and networks linking higher education and the economy; continuing the upgrade of the educational curriculum and structure in order to achieve the above; establishing institutionalised networks between the economy and enterprises, implementing fundamental measures promoting the enforcement of accountability.

Maintenance or slight increase in state budgetary expenditures earmarked for education at a GDP proportionate level, as well as the targeted use of a wide-range of EU funding ensures the financial basis for implementing priority development objectives.

The **Life-Long Learning strategy** of the Government approved in 2005 sets out the development of human resources and the modernisation of education and training systems. The plan sets 5 priorities regarding the development of Hungarian education and training systems. The strategy builds on two focal points as regards employment, namely: improving the adaptability of the working age population and the employability of young people entering the labour market, which is directly promoted by three priorities.⁶ In compliance with the above, we envisage implementing the following measures:

1. Training individuals with low-level qualifications

Although the education system should ensure the employability of career starters, it is necessary to emphasise raising the level of qualifications and employability of the working age population, with special regards to people with low level schooling and qualifications. The low employment rate of this segment of the population largely explains why the overall level of employment is so low, whilst at the same time, individuals with low level qualifications are at a substantial disadvantage as regards participation in adult training. This is why will

⁶ More specifically: (1.) strengthening the role of education and training in creating equal opportunity; (2.) strengthening contacts between education, training and the economy; (5.) priorities aimed at improving the standard of education and training.

be continuing programmes aimed at training individuals with low or no qualifications as well as the development of key labour market competencies. We will extend the scope of the programme „**One Step Forward!**“ by integrating a higher number of participants in the programme, which offers an opportunity for adults that have not completed primary school to **obtain primary level qualifications, which represents a precondition for enrolling in vocational training courses/programmes**, or basic competencies required for admission in vocational training programmes, as well as for acquiring vocational qualifications adjusted to labour market demands. Over 15 000 people signed up to the programme launched in 2005 and 14 000 of these individuals passed the exam. **60% of adults that were unemployed at the beginning of the programme managed to find jobs after acquiring vocational qualifications**. In addition, we will transform the funding system of adult training by explicitly focusing on the participant. On an experimental basis, we will help participating individuals to acquire reading, writing and arithmetic skills, learn foreign languages and acquire user-level IT skills and knowledge in commerce and entrepreneurship within the framework of the programme providing differentiated assistance according to employment status, educational qualifications and age.

2. Development of the vocational education training system

We will modernise the operation of the education and training system by introducing measures that promote the better adjustment of labour market demands and education/training opportunities. We have developed a **module-type structure of professions** to increase the flexibility of vocational training outputs. By building on this, we have developed competency-based curricula adjusted to transformed examination requirements. We shall be implementing a range of system developments to strengthen links between training and the labour market and feeding labour market information into vocational training. We shall establish a **career guidance system** that provides efficient help for individuals of various ages and in different life situations, in order for these persons to find learning paths suited to both individual abilities and labour market demands. By setting up the **career tracking system**, we shall establish stronger feedback on the economy and the labour

market for educational and training institutions. The objective of the system is for graduates and employers to evaluate the activities of educational and training institutions, as a result of which more accurate information is made available for career choosers and individuals searching for an educational or training institution for making conscious decisions. Moreover, we shall launch a **vocational training scholarship programme**, which provides scholarships for students enrolling in courses offering training in professional areas where regional shortages are experienced in line with their course grades.

Guideline 24

Education and training adjusted to labour market demands

Country-specific Recommendation - 4

Ensure access to high quality education and training for all, upgrade skill levels, and increase responsiveness of education and training systems to labour market needs

Council Conclusion - 4

Substantially reducing the number of young people who cannot read properly and the number of early school leavers

Council Conclusion - 7

Improving the achievement levels of learners with a migrant background or from disadvantaged groups

The primary objectives of the reform programme for 2008–2010 remain the same in the field of education. Over the course of the upcoming three-year cycle, the Government envisages speeding up and better adjusting curriculum-related, structural and institutional reforms launched in the field of public education and higher education alike by adhering to the spirit of **quality, efficiency and access**. During the implementation, the Government shall particularly prioritise establishing conditions required for preventing the reproduction of educational and labour market disadvantages, as well as for acquiring up-to-date and competitive knowledge and ensuring full-scope access to high standard education. The Government shall regularly monitor and evaluate the implementation of the decision made in connection with the strategy for life-long learning approved in 2005. Major progress has

been made as regards the implementation of the strategy for life-long learning by developing the National Qualifications Framework (NQF), which system will be introduced from 2013. Mostly funding granted by the European Social Fund, as well as the European Regional Development Fund will finance the implementation of plans and activities underpinning specific action programmes within the framework of the New Hungary Development Plan.

1. Supporting pre-school bridging and education

Early childhood plays a major role in inequalities manifesting in education; tackling learning disadvantages experienced later on must begin in the context of pre-school education. The „*Sure Start*“ programmes launched nationwide under the management of child welfare services locate children at risk, organise ability development programmes for these children and provide counselling for their parents. Kindergarten and school readiness indicators of children will improve and the risk of school dropout will decrease through the early recognition of problems and development.

We support complex services tying in with ability development in early childhood within the framework of the „*New Knowledge*“ programme announced in March 2008, which programme covers the development of the child welfare, crèche and kindergarten network. Within the framework of this programme, we will promote extending the scope of child day-care institutions; facilitate the development of standard crèches and kindergartens and provide assistance for integrating children with multiple disadvantages in kindergartens.

We will particularly focus on extending the kindergarten network in disadvantaged micro-regions.

2. Equal opportunity through integrated education and eliminating segregation in schools

The aim is to establish a school system that does not conserve social differences, but instead reduces and bridges these and ensures that each child will be able to make progress in life on the basis of their individual skills and abilities.

Measures promoting access to education and preventing school dropouts are largely system-level extensions to developments implemented earlier. A part of these measures are aimed at

developing the capacity of the institutions of the educational system in order for kindergartens, schools and high schools to be suitably prepared for the integrated (inclusive) education of children with special learning needs and students with multiple disadvantages. We will continue the targeted training of teachers, subject teachers, boarding school teachers and so-called equal opportunity mentors etc. The development of so-called integration packages to be introduced in teachers' training curriculum is an integral part of the programme underpinning implementation. We shall strengthen institutions by setting up professional service networks for disseminating and supporting good practices evolving in the context of integrated education. We will support and encourage gaining knowledge of foreign good practices.

Other activities supporting creating equal opportunity target the establishment of a legislative and regulatory environment aimed at creating opportunities and compensating disadvantages/handicaps. The elaboration and implementation of equal opportunity plans will be a mandatory requirement for institutions. We shall provide methodological assistance for resolving this task. We shall provide support for schools to develop programmes tailored to the individual needs of disadvantaged students; by adopting these programmes, it is possible to improve access to quality education for these students, reduce the risk of school dropouts and improve the opportunity for these students to make progress in the education system. Within the framework of this programme, we have doubled the number of disadvantaged students provided extra curricula development services after school. We will strengthen paths paving the way for disadvantaged students to higher education; ensure special assistance for preparing for the baccalaureate exam and higher education entrance exam in foreign languages and specific subjects, in addition to paying special attention to mentoring disadvantaged students enrolling in higher education. We will continue the talent fostering scholarship programmes. Setting up a so-called anti-discrimination warning system will be launched in the spirit of combating discrimination phenomena, which, on the one hand provides information for decision-makers by mapping conditions causing inequality and on the other hand, ensures the opportunity for disadvantaged students to enforce their interests.

Moreover, we envisage providing special support for pedagogues undertaking the most difficult teaching jobs, which is why extra remuneration will be paid from academic year 2009/2010 to teachers working with children and students with multiple disadvantages

within the framework of integrating and ability development special education. The primary objective is to establish the framework conditions underpinning equal opportunity-based use of funding in the context of the use of both national and EU funding.

3. Improving the quality of education: introducing competency-based education at a system-level

We will establish new grounds for our education system by disseminating competency-based education. By building on partial results achieved in substituting knowledge-centric education for competency-based education carried out in the previous cycle, as well as developments implemented (module-based educational programmes were developed in all 6 competency areas and trial runs were successfully completed in 10% of public education institutions), we will continue the dissemination of competency-based education in the context of an ascending system. In addition to the 1250 public education institutions currently included in the programme, a further 1700 institutions will join the programme by 2010. As a result of the continuation of curriculum development launched earlier, it will be possible to extend the scope of modernisation to include further competency and educational areas (natural sciences, preparations for active citizenship, entrepreneurship, lifestyle and health awareness, as well as communication competencies). We shall concurrently intensively continue preparation for competency-based education in the field of teachers' training and training courses organised for teachers. In addition, the nationwide introduction of a measurement and evaluation system and connecting IT and diagnostics systems enabling the evaluation - based on principles of comparison - of the performances of students, teachers and institutions on the grounds of the grades of students will be launched.

Most of the developments implemented with the help of ESF co-financing are set up under the operations specified within the framework of the Social Renewal Operational Programme of the New Hungary Development Plan.

4. Higher education output adjusted to market demands

Beyond upgrading the quality of education and infrastructural conditions in higher education, additional comprehensive measures will also be introduced in order for higher education outputs to adapt more speedily and flexibly to the changing demands of the economy. We will consistently continue the introduction and consolidation of the three tier educational structure by, among others, carrying out the comprehensive evaluation of reforms already introduced. We will continue to increase the core number of state-financed students enrolled in natural sciences, IT and technological faculties, ensure the opportunity for the effective inclusion of economic actors in the development of educational programmes, support the establishment and development of regional knowledge centres and set up and ensure access for all parties interested to the central system used for tracking student careers. Specific action will be taken to improve the adaptability of institutions and strengthen their accountability by introducing a new 3-year system of state financing. We will increase the roles played by higher education institutions in the field of informal learning by, among others, setting up a system recognising knowledge, skills and competencies acquired in an informal learning context by introducing a national validation system and introducing validation services at institutions.

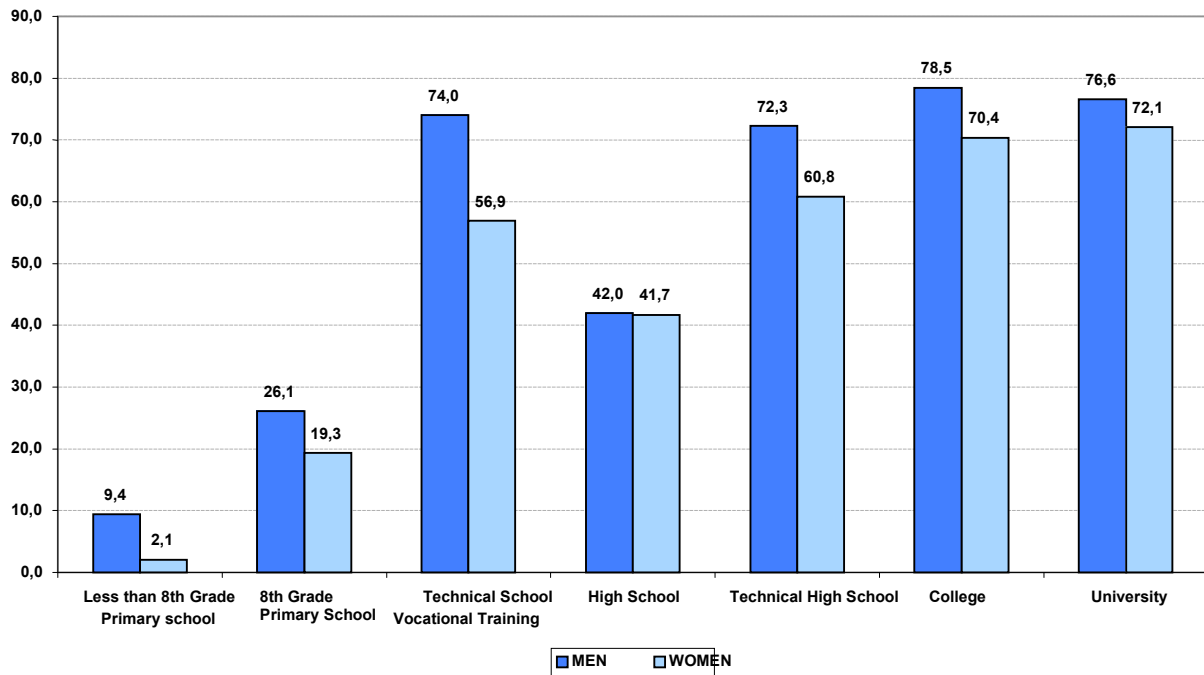
These comprehensive reform measures and developments will be implemented through action envisaged within the framework of the Social Renewal operational Programme and Social Infrastructure Operational Programme of the New Hungary Development Plan by using a substantial amount of EU cohesion funding.

5. Setting up the National Qualifications Framework (NQF) required for defining policy frameworks

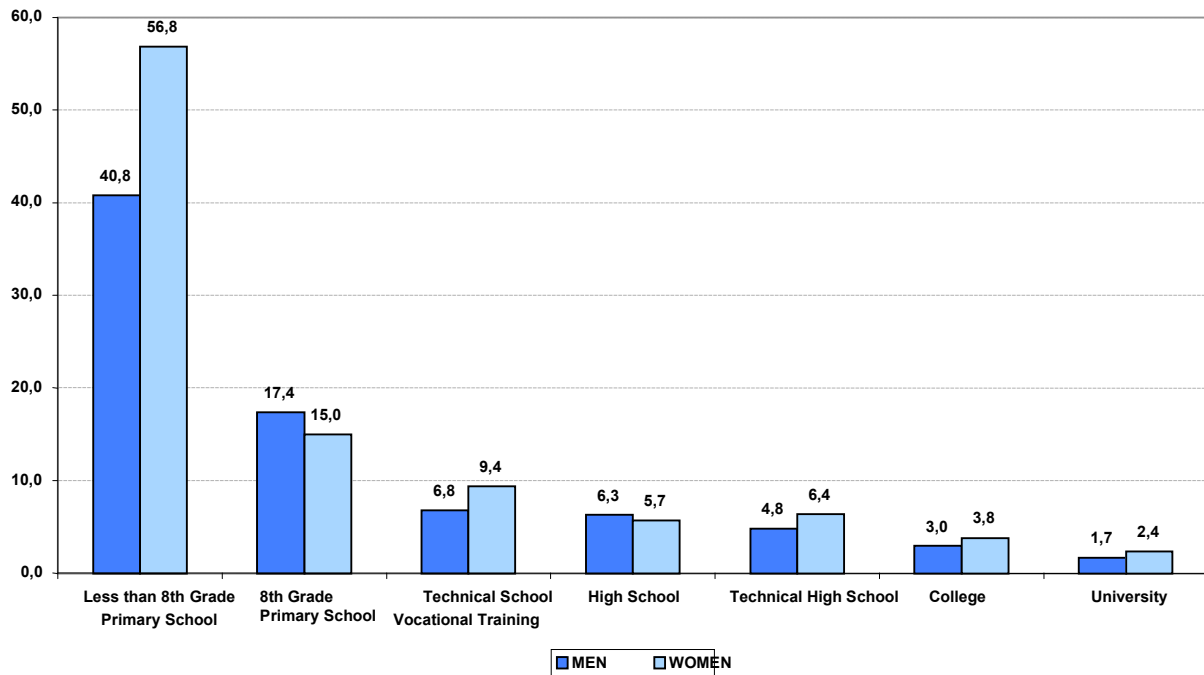
The Government endorsed a decree in May 2008 on technical tasks, as well as the schedule, content and organisational and financial frameworks of these, required for the establishment and introduction of NQF and establishing the grounds for joining the European Qualification Framework. By using EU funding, formal education and training systems, as well as specific recommendations targeting the establishment of a **standardised qualification framework** integrating informal forms of learning will be defined up to 2010. NQF will be introduced from 2013 on. According to preliminary concepts, the Hungarian NQF will classify the various qualification sub-systems according to grades awarded on the basis of standardised descriptors in a hierarchic system, whilst not changing the competencies of sub-system qualification authorities.

ANNEX 1

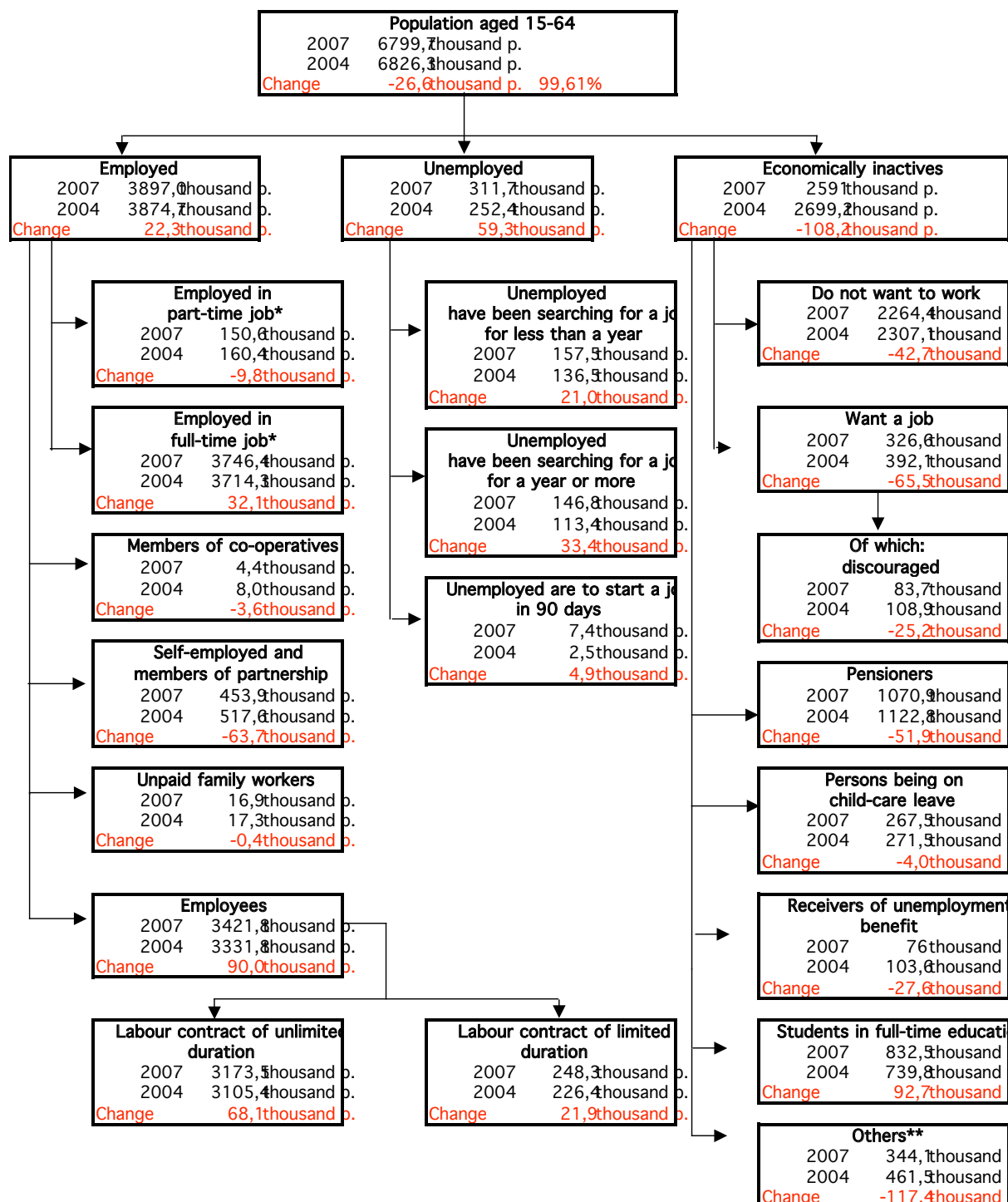
EMPLOYMENT RATE BY EDUCATION ATTAINMENT LEVEL
IN 2007 (%)



UNEMPLOYMENT RATE BY EDUCATION ATTAINMENT
LEVEL (%)



Changes in labour market status of population aged 15-64, 2004-2008



* Self classification.

**Includes the nursing allowance, orphan's provision

ANNEX 2

Responses provided to Council Recommendations in the National Action Programme for 2008-2010			
Council recommendations	Action taken (Guideline No.)	Related measures (List of Measures)	
<i>Country-specific recommendations</i>			
It is necessary to continue the implementation of measures underpinning the permanent reduction of budget deficit and public debts, by taking increasing account of expenditures, including the elaboration of sounder and more comprehensive expenditure rules.	<ul style="list-style-type: none"> - Reducing the deficit of the government sector, eliminating excessive deficit (1) - Mid-term budget planning, strengthening discipline (1) 	<ul style="list-style-type: none"> - Eliminating excessive deficit is the primary target for budgetary policy in 2009; adjustments primarily focus on measures concerning expenditures - In accordance with the Budget Act, from 2008 the Government is required to present a draft bill on the annual budget in the National Assembly ensuring a surplus as regards the Maastricht criterion relating to primary balance (2) - Government Decree 2032/2008 (III. 11.) fixes expenditure appropriations covered by the funding earmarked for specific ministries for three years in advance; these appropriations can only be modified pursuant to Government authorisation 	

<p>Continuation of the reform of public administration, healthcare, the pension system and the educational system to ensure sustainability of the budget on the long run and higher economic effectiveness. This covers action geared towards the further restriction of early retirement, reducing the number of new beneficiaries receiving disability pensions and continuing the transformation of the structure of the healthcare system.</p>	<ul style="list-style-type: none"> - Re-organising public administration, decreasing the number of employees and introducing a performance measurement system (2) - Supporting micro-regional associations; tighter control of budgetary resources allocated to local governments (2) - Capacity regulation in healthcare, new financing system, ensuring the equilibrium of the Health Insurance Fund (2) - Transformation of the medicine subsidy system (2) <ul style="list-style-type: none"> - Financing improving the efficiency of public education institutions (2) - Financing supporting the adaptation opportunities of higher education institutions, their higher degree of independence and wider scope of responsibility (2) - Transformation of the structure of higher education professions by taking labour market demands into account (2) <ul style="list-style-type: none"> - Ensuing the long-term sustainability of public finances by transforming the pension system, including disability allowances (2): <ul style="list-style-type: none"> - Tighter regulation of age and service-time conditions - Encouraging later retirement - Transformation of the disability allowances system 	<ul style="list-style-type: none"> - Regionalisation of large networks of public administration; reducing the size and internal structures of the institutional system; eliminating institutions and financing bodies if justified by the provision of state tasks; eliminating parallelisms; consolidating financial apparatus, technical functions, organisations providing physical services and more concentrated and restricted allocation of staff - Controlling social security legal status - Mandatory accounting statement - Transformation of the medicine subsidy system - Extending the scope of the new performance indicator-based financing of public education institutions <ul style="list-style-type: none"> - Financing agreements concluded with higher education institutions for a three year period - Structural transformation of the core number of state-financed students - Transformation of the pension system - Transformation of the disability welfare system
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Reinforcing active labour market policies to improve the labour market situation of disadvantaged groups. Reducing permanent regional disparities in employment.	<ul style="list-style-type: none"> - Supporting the integration of young people in the labour market (18) - Preserving the labour market participation of older employees (18) - Increasing the employment rate of women (18) - Active labour market policies (19) <ul style="list-style-type: none"> - Improving the labour market situation in the most disadvantaged micro-regions (19) - Employment of disadvantaged people at infrastructure investments funded by the EU (19) - Programmes promoting the employment of Romas (19) - Facilitating the employment of persons with disabilities (19) 	<ul style="list-style-type: none"> - Active labour market policies and programmes - Decentralised programmes promoting the employment of disadvantaged persons
Ensuring access to high quality education and training for all, upgrading skill levels, and increasing responsiveness of education and training systems to labour market needs	<ul style="list-style-type: none"> - Equal opportunity through integrated education and eliminating segregation in schools (24) - Introduction of competency-based education (24) - Higher education output adjusted to market demands (24) 	<ul style="list-style-type: none"> - Supporting on-job trainings - 'One Step Forward' Programme - Development of key labour market competencies - Development of a career orientation system - Curriculum and training quality development - "New Career" Programme - Further development of the Regional Integrated Vocation Training Centre network - Equal opportunity in public education - Competency-based education - Curriculum and organisational development in higher education
Country-specific points to watch		
It is necessary to continue the reform of the public research network by improving the effectiveness of state R+D expenditures, as well as by strengthening the R+D network of relations between state-financed and private organisations	<ul style="list-style-type: none"> - Transformation of the STI institutional system, including the reform of HAS, and joining international R+D+I networks (STI) (7) - More effective and coordinated use of public-financed R+D+I programmes (STI) - More efficient elaboration of the incentive scheme of the Innovation Fund (STI) (7) - Expanding the scope of higher educational R+D+I+O capacities underpinning the establishment of integral cooperation with enterprises (7) 	<ul style="list-style-type: none"> - Implementation of the STI strategy and plan of measures – 2007-2010 - Expanding higher education R+D+I+E capacities – 2007-2013

<p>It is necessary to reduce and transform state aid</p>	<ul style="list-style-type: none"> - Stimulating market competition in the energy sector (13) - Preparation for the market opening of postal services (13) 	<ul style="list-style-type: none"> - Market opening of the electricity market – Act LXXXVI on electricity entered into force on 1 January 2008. - Market opening of the gas market – in accordance with the draft legislation anticipated to enter into force on 1 January 2009; an operational model similar to one currently in effect on the electricity market will be introduced on the natural gas market - Review of the regulated electricity market - Feasibility study underpinning the government postal strategy; the review of the scope of universal postal services and service provision indicators has been completed; the selection of the financing model for universal services is currently under preparation; necessary legislative amendments – expected to be ready by 2010
<p>It is necessary to develop the regulatory environment by further reducing administrative burdens and simplifying legislation</p>	<ul style="list-style-type: none"> - Deregulation Programme (14) - Assessment of administrative burdens of entrepreneurs by applying SCM (14) - Government programme targeting the reduction of administrative burdens, simplification and acceleration of procedures (14) 	<ul style="list-style-type: none"> - Deregulation Programme: the programme highlights 11 areas relevant for citizens and enterprises – in progress - SCM: the measurement of administrative burdens commenced in 2007 in 11 key areas defined in compliance with so-called fast track areas specified by the European Commission – in progress - Development of the IT system supporting legislation drafting; setting up a standardised, transparent, public web-based consultation system operating on the basis of voluntary registration and the objective selection of partners; setting up a complex system assisting the assessment of the impact of legislation – in progress - Fine-tuned to Business Programme – simplification of company and tax administration; increasing legal security of enterprises; improving financial conditions; making competition cleaner and more transparent – in progress

Introducing further incentives to work and to remain in the labour market	<ul style="list-style-type: none"> - Preserving the labour market participation of older employees (18) - Increasing the employment rate of women (18) - Strengthening incentives to work in the social benefit system (19) - Transformation of the disability pension system (19) - Active labour market policies (19) - Employment of disadvantaged people at infrastructure investments funded by the EU (19) - Programmes promoting the employment of Roma (19) - Facilitating the employment of persons with disabilities (19) 	<ul style="list-style-type: none"> - Active labour market policies - Decentralised programmes promoting the employment of disadvantaged persons - Development of crèches (2008-2010) <ul style="list-style-type: none"> - START Programme - START Extra and Plus Programmes - Transformation of the disability pension system - Transformation of the pension system
Ensuring better reconciliation of work and private life	<ul style="list-style-type: none"> - Increasing employment rate of women (18) - Exploiting employment opportunities for parents on maternity or childcare leave (21) 	<ul style="list-style-type: none"> - Development of crèches (2008-2010) - START Plus Programme
Completing the establishment of the integrated employment and social services system	<ul style="list-style-type: none"> - Strengthening incentives to work in the social benefit system (19) - Transformation of the disability pension system (19) - Continuing the development of the integrated employment and social services system (20) 	<ul style="list-style-type: none"> - Supporting the rehabilitation and employment of persons with disabilities - Transformation of the disability pension system
Transforming undeclared work into formal employment	<ul style="list-style-type: none"> - Reviewing regulations adopted in connection with casual work (21) <ul style="list-style-type: none"> - Package of measures for combating informal employment (21) - Reducing social security contribution paid by employers employing people with labour market disadvantages (21) - Strengthening labour inspection (21) - Raising employee awareness (21) 	<ul style="list-style-type: none"> - START Programme - START Extra and START Plus Programmes
Implementing the life-long learning strategy	<ul style="list-style-type: none"> - Training individuals with low-level qualifications (23) - Development of vocational training systems (23) 	<ul style="list-style-type: none"> - Supporting on-job training - One Step Forward Programme - Development of key labour market competencies - Curriculum and training quality development <ul style="list-style-type: none"> - "New Career" Programme - Further development of the Regional Integrated Vocation Training Centre network

Recommendation defined in Council Conclusions approved on 13-14 March

<p>We shall indicate the performance status of national R+D investment objectives for 2010, as well as how the connecting R+D strategies contribute to the operation of the European Research Area.</p>	<ul style="list-style-type: none"> - Establishing an efficient national innovation system (8) - Facilitating the integration of foreign-owned R+D units; strengthening cooperation between Hungarian R+D institutes and Hungarian enterprises (8) - Sector innovation and R+D strategies and programmes adjusting to the European technological platform (8) 	<ul style="list-style-type: none"> - Implementation of the STI strategy and plan of measures – 2007-2010 - Elaboration of concepts and development policy programmes to increase the competitiveness of knowledge-intensive industrial sectors (priority sectors)
<p>It is necessary to set ambitious national goals in connection with access to broadband Internet for households; in the case of schools, the objective should relate to reaching 100% penetration</p>	<ul style="list-style-type: none"> - Broadband Action Plan 2008-2011 – BAP (9) - E-Hungary Programme 2.0 - Setting up network infrastructure’ – Development of broadband telecommunication infrastructure in underdeveloped regions (9) - Implementation of the Digital Literacy Action Plan (DLAP) (9) 	<ul style="list-style-type: none"> - Broadband Action Plan - 2011 Q4’ Setting up network infrastructure’ - 2008 Q4 - E-Hungary Programme 2.0 - 2012 Q4 - DLAP implementation - 2010 Q4
<p>It is necessary to make further efforts to consistently implement the Services Directive</p>	<ul style="list-style-type: none"> - Screening and de-regulation of relevant Hungarian legislation (12) - Setting up the electronic single window system and connecting the competent authorities to the system can be launched in 2009 (12) - Decision will be made in connection with Hungarian structure of the Internal Market Information System (IMI) in the second half of 2008 (12) 	<ul style="list-style-type: none"> - Adaptation of the Directive: preparation and endorsement of the framework regulation – second half of 2008 and first half of 2009 - Elaboration of the concept, schedule and feasibility study for integrating authorities taking part in electronic single window administration in the electronic single window system – end of 2008 - Setting up the national structure of the Internal Market Information System, namely, IMI-NET– first half of 2009
<p>Substantial reduction of the number of young people who cannot read properly and the number of early school leavers. Improvement of the achievement levels of learners with a migrant background or from disadvantaged groups.</p>	<ul style="list-style-type: none"> - Training individuals with low-level educational qualifications (23) - Equal opportunity through integrated education (24) 	<ul style="list-style-type: none"> - Integration Fund - One Step Forward Programme - Development of a career orientation system - Equal opportunity in public education - Curriculum and training quality development - Competency-based education
<p>Attracting more adults, particularly low-skilled and older workers into education and training and further facilitating geographic and occupational mobility</p>	<ul style="list-style-type: none"> - Training individuals with low-level educational qualifications (23) - Development of the vocational training system (23) - Supporting re-organisation of casual work into permanent employment (21) 	<ul style="list-style-type: none"> - One Step Forward Programme - Development of key labour market competencies - Supporting on-job training - "New Career" Programme - Further development of the Regional Integrated Vocation Training Centre network

Promotion of higher overall labour force participation and tackling segmentation in order to ensure active social inclusion	<ul style="list-style-type: none"> - Supporting the integration of young people in the labour market (18) - Preserving the labour market participation of older employees (18) - Increasing the employment rate of women (18) - Employment of disadvantaged persons at infrastructure investments funded by the EU (19) - Programmes promoting the employment of Roma - Facilitating the employment of people with disabilities (19) <ul style="list-style-type: none"> - Reducing social security contribution paid by employers employing people with labour market disadvantages (21) - Regulating national minimum wages and guaranteed wage minimum (22) - Bilateral agreement on sectorial and professional wages (22) 	<ul style="list-style-type: none"> - Decentralised programmes promoting the employment of disadvantaged persons - Development of crèches (2008-2010) <ul style="list-style-type: none"> - START-Programme - START Extra and Plus Programmes - Transformation of the disability pension system
Implementation of the agreed common principles on flexicurity	<ul style="list-style-type: none"> - Reviewing regulations adopted in connection with casual work (21) <ul style="list-style-type: none"> - Supporting re-organisation of casual work into ongoing employment (21) - Exploiting employment opportunities in the case of parents on maternity or childcare leave (21) - Regulating national minimum wages and guaranteed wage minimum (22) - Bilateral agreement on sectorial and professional wages (22) 	<ul style="list-style-type: none"> - see 'flexicurity' chapter under guideline 21
Strengthening consistency between and coordination of economic, employment and social policies to improve social cohesion	<ul style="list-style-type: none"> - Strengthening employment promotion in the social welfare system (19) 	
<i>Earlier Council Recommendations</i>		

Full-scope implementation of internal market codification	<ul style="list-style-type: none"> - Screening and de-regulation of relevant Hungarian legislation (12) - Setting up the electronic single window system and connecting the competent authorities to the system can be launched in 2009 (12) - Decision will be made in connection with Hungarian structure of the Internal Market Information System (IMI) in the second half of 2008 (12) 	<ul style="list-style-type: none"> - Adaptation of the Directive: preparation and endorsement of the framework regulation – second half of 2008 and first half of 2009 - Elaboration of the concept, schedule and feasibility study for integrating authorities taking part in electronic single window administration in the electronic single window system – end of 2008 - Setting up the Internal Market Information system and the Hungarian structure of the IMI-Net – first half of 2009
Improving the start-up conditions of the single window system	<ul style="list-style-type: none"> - Deregulation Programme (14) - Assessment of administrative burdens of entrepreneurs by applying SCM (14) - Government programme targeting the reduction of administrative burdens, simplification and acceleration of procedures (14) 	<ul style="list-style-type: none"> - Deregulation Programme: 11 priority areas have been stipulated within the framework of the programme, which areas are relevant for citizens and enterprises – in progress - SCM: the measurement of administrative burdens was launched in 2007 in 11 key areas defined in compliance with so-called fast track areas specified by the European Commission – in progress - Setting up the IT system supporting the drafting of legislations; setting up a transparent, standardised web-based consultation system operating on the basis of voluntary registration and the objective selection of partners; setting up a complex system supporting the impact assessment of legislation – in progress - Fine-tuned to business programme: simplifying company and tax administration; increasing the legal security of enterprises; improving financial operational conditions; promoting clean competition and transparency – in progress

<p>Defining the national target value in connection with the reduction of administrative burdens</p>	<ul style="list-style-type: none"> - Government Decree approved in 2008 aimed at decreasing the administrative burdens of market and non-market players and simplifying and speeding up procedures. The programme has set the target of gradually decreasing administrative burdens by 25% up to 2012, accompanied by preventing the re-production of administrative burdens. 	<ul style="list-style-type: none"> - Making conducting a preliminary impact study mandatory - Review of official authorities - Simplifying public administration official procedures - Wider scope application of the electronic path <ul style="list-style-type: none"> - Measuring and reducing administrative burdens - Simplifying site permit procedures - Introducing single window permit/authorisation procedures - Simplifying tendering procedures
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PARTNERSHIP

Partnership and NAP public consultation

The National Development Agency coordinates the organisation and operation of the partnership process in collaboration with specific ministries. Within the framework of wide-scope and open public consultation, we also integrate key economic, social, scientific, interest representation and non-profit organisations in the planning process, in order for NDA to elaborate all development policy documents within its scope of responsibility by taking social needs into account.

NDA arranged the public consultation of the National Action Programme in close cooperation with the Economic and Social Council (ESC), since the member organisations of ESC are exceptional important interest representation organisations of the economy and society alike. In the spirit of cooperation, NDA – beyond issuing opinions in connection with documents – counts on the support of ESC primarily in connection with the successful execution and technical work of thematic workshops organised within the framework of social debate.

Methodology

- Ø Forum online submission of opinions: it is possible to submit opinions in connection with the documents via the Partnership Forum set up on the NDA website (a separate sub-page), which, following registration, ensures the opportunity to make remarks and present opinions in connection with document sections by following the structure of the programme.
- Ø NAP consultation at the meetings of macro-forums relevant in terms of the theme.
- Ø Convening the National Development Committee of the National Interest Reconciliation Council.
- Ø Technical workshop consultation in priority themes organised by ESC.

Following the wide-scope public consultation of NAP, presentation of the document detailing the results of this; holding a closing (official) conference to discuss the experiences of the

consultation process with the participation of leading opinion-shaping organisations.

Feedback for individuals issuing opinions: compiling responses addressed to the specific individual issuing the opinion on the basis of „the responses of planners“. Response letters to be sent via email or post.

Summary of the results achieved in connection with partnership in the National Action Programme

Altogether 30 remarks were sent in to the website of the National Development Agency; in addition, a series of organisations presented their respective opinions. We assessed these on an individual basis and a decision was made on the mode of handling recommendations on the basis of the opinions issued by the concerned ministries.

Among others, the following organisations presented opinions in connection with documents within the framework of technical and social consultation:

- Ø Hungarian Academy of Sciences
- Ø Hungarian Association of Craftsmen's Corporations
- Ø Clean Air Action Group
- Ø Hungarian Banking Association
- Ø Chamber of Hungarian Healthcare Professionals
- Ø John von Neumann Computer Society
- Ø Association of Competitive Micro, Small and Medium Enterprises
- Ø Mayor's Office, City of Budapest
- Ø Economic and Social Council
- Ø Association of Industrial, Science, Innovation and Technology
- Ø Hungarian Association for Innovation

The National Interest Reconciliation Council (NIRC), Economic and Social Council (ESC), National Council for Regional Development (NCRD) and the Hungarian Academy of Sciences (HAS) discussed the document. The Hungarian Academy of Sciences presented their position in connection with the document in a detailed written report, following which separate consultations were held with HAS representatives. NIRD, ESC and NCRD fundamentally backed the document. Beyond acknowledging the undoubtedly required steps specified by the document, HAS also presented missing considerations and critical remarks.

ESC – whilst agreeing with the document – highlighted the need to define a Hungarian development policy concept that could serve as a guideline for establishing a strategic framework for specific development policy documents. In their view, the National Development Concept does not ensure this. Moreover, ESC emphasised the need for „bold reforms” by highlighting that these are reforms that need to be implemented in every EU member state. Representatives of the agricultural sector highlighted the implications of the measures tying in with rural development.

Within the scope of its critical remarks, the Hungarian Academy of Sciences drew attention to the need to establish the grounds of reform measures. Beyond the requirement of presenting these steps in the document compulsory to compile, according to the Academy, the document does not go beyond these. The Academy emphasised their concerns in connection with developments currently taking place in the field of education and declared that the way sciences take a back-seat presents a risk. The Academy questioned certain components stipulated in connection with R+D, in particular, the role of the Academy and presented their objections regarding the reform of the Academy.

Pursuant to our request, the competent organisational unit of the European Commission initially evaluated the Hungarian document by issuing an informal opinion. In accordance with the Commission's request, we explicitly tied the substantive points stressed in the document to EU country-specific recommendations and priorities set by the Council within the framework of the documents it has issued. The European Commission (similarly to the Hungarian Academy of Sciences) pointed out shortfalls associated with internal mobility and regional disparities arising in the context of employment. The Commission specified the need to develop a strategy underpinning the policy for active aging and lacked the presentation of concepts tying in with complementary funding for universities in the programme. In their view, the presentation of measures aimed at improving the effectiveness of active labour market policies is also missing.

The National Development Agency will reply in writing to each issues raised by organisations presenting opinions.

We used a substantial part of remarks made by partners during the course of the finalisation of NAP and integrated these in the document.

Public consultation of the implementation report of the National Action Programme

Public consultation of the implementation report submitted on an annual basis in connection with the National Action Programme will be held on every occasion with organisations corresponding to NAP.

15 June 2009 – 15 September 2009 and 15 July 2010 – 15 September 2010

- Ø Negotiating the draft version of the implementation report of the National Action Programme with non-governmental players. Sending a letter on the launch of consultation to organisations registered on the NDA website.

Methodology:

- Ø Presenting online forum opinions: it is possible to present opinions in connection with the documents via the partnership forum set up on the NDA website (on a separate sub-page), which, following registration, ensures the opportunity to make remarks and present opinions in connection with document sections by following the structure of the programme,
- Ø NAP consultation at the meetings of macro-forums relevant in terms of the theme.
- Ø Convening the National Development Committee of the National Interest Reconciliation Council.
- Ø Sending response letters personally addressed to individuals presenting opinions following the submission of the implementation report to the European Commission.

COORDINATION

The Minister for National Development and Economy is responsible for coordinating the implementation of the Lisbon Strategy. The Minister for National Development and Economy also assumes the Lisbon Strategy coordinator function. Funding made available within the framework of EU cohesion policy makes up the substantial part of funding that can be used on the basis of the National Strategic Reference Framework. It is therefore particularly important for the Minister for National Development and Economy to also supervise the use of cohesion funding, which significantly facilitates the coordinated planning and implementation of the various development programmes. The way in which the National Development Agency also undertakes the coordination of the National Strategic Reference Framework alongside the National Action Programme ensures harmonised coordination at an operational level.

As a result of the coordination mechanism set up in Hungary, the coordination of the National Action Programme and National Strategic Reference framework which plays a key role in Hungarian developments is integrally connected at a strategic and operational level alike.

Chapter coordinators will be designated for coordinating the specific chapters of the National Action Programme. The Ministry of Finance will coordinate macro-economic implications, the competent organisation of the Ministry for National Development and Economy will coordinate micro-economic implications, whilst the Ministry of Social Affairs and Labour will coordinate the employment chapter. The concerned public administration bodies have set up the Lisbon Coordination Working Group (LCWG) with the aim of ensuring conditions for cooperation; this Work Group has been designated with the task of ensuring a forum for cooperation between the various institutions.

We have set up the Lisbon Coordination Working Group (LCWG) with the aim of facilitating cooperation among the concerned state administration players.

Lisbon Coordination Working Group

LCWG convenes meetings as required, however, generally holds meetings every two months. The competent executive responsible for NDA Lisbon coordination convenes the meetings. Not only chapter coordinators attend this forum, but all concerned state administration bodies shall also be present at these meetings. Chapter coordinators may also operate – as required – separate coordination working groups according to chapters. The Lisbon Coordination Working Group undertakes the following tasks:

- Ø Defines the main frameworks of the Lisbon National Action Programme (NAP);
- Ø Makes decision in connection with implementing partnership cooperation;
- Ø Discusses disputable issues arising, makes recommendation for dealing with these and preferably resolves these;
- Ø Reviews information published in connection with the Lisbon Strategy by various national and international forums (with special regard to the meetings held by the national Lisbon coordinators and the work of the competent Council groups);
- Ø Undertakes NAP monitoring and initiatives intervention, if required.

MONITORING

Our national monitoring and evaluation activities adjust tightly to similar Community-level activities. Instead of opting for parallel solutions, during the course of coordination we endeavoured to establish the national monitoring and feedback system by taking advantage of and strengthening available methods. The information required to be included in the table of measures ensures an adequate opportunity for monitoring specific programmes (measures) and making decisions in connection with potential interventions.

Our monitoring activity follows the methodology applied at an EU-level; we assess the implementation of the programme prior to submitting reports on the basis of this methodology.

The competent Hungarian individuals designated begin to compile the report once they gain knowledge of the framework conditions established at the Council meeting held in March; the first version of the report is compiled by the end of May. As the next step, the Lisbon Coordination Working Group reviews implementation and defines areas in which further action needs to be taken. Wide-scope professional and social consultation follows the monitoring phase; results achieved during this phase are taken into account during the course of implementation. By taking advantage of informal meeting opportunities offered by the European Commission, we would like to cooperate with the competent EC individuals even within the scope of assessment preceding the submission of the report.

Our monitoring activity consists of two main steps: first, the Government verifies programme compiling/implementation, following which the draft version of the report is presented to technical and social partners. The European Commission is integrated in the second phase in an informal manner.

Potential changes concerning implementation are made on the grounds of findings identified during the course of monitoring. We need to submit the implementation report finalised in accordance with the above to the competent EU organisation by 15 October; this organisation will perform the Community-level analysis of the report.

We evaluate our performance with the help of monitoring indicators by comparing our performance to the target indicators specified in the table of measures. The following schedule has been defined for planning-implementation-monitoring-feedback cycles:

March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
EIT meeting on the Lisbon Strategy	Monitoring - 1	First version of the Implementation Report		Monitoring - 2		Implementation Report			Monitoring - 3	Finalising feedback	

Monitoring - 1

This will be performed within the context of a government framework in the Lisbon Coordination Working Group. The first version of the implementation report is compiled on the basis of feedback received following monitoring.

Monitoring - 2

Using the outcomes of preliminary professional-social partnership consultation and reconciliation with the European Commission for monitoring purposes. The second (final) version of the implementation report is compiled on the basis of feedback received following monitoring.

Monitoring - 3

EU-level monitoring on the basis the Commission's evaluation of the implementation report. Feedback finalised for the Council meeting held in March closes the implementation cycle, on the basis of which the same forum launches the next implementation/planning cycle.

USING COHESION INSTRUMENTS

We shall present the plans for the 2007-2013-period in the case of cohesion instruments, since the National Strategic Reference Framework covers these. Interventions will take place in the following areas of Lisbon objectives:

1. Developing electronic public administration

- Ø Renewal of electronic public administration processes;
- Ø Improving access.

2. Economic development

- Ø Supporting R+D and innovation;
- Ø Enterprise development (with special regard to SMEs);

- Ø Developing the business environment;
- Ø Financial instruments for improving the financing of SMEs.

3. Energy management

- Ø Increasing the use of renewable energy sources;
- Ø Improving the efficiency of energy use.

4. Transport development

- Ø Improving international access to the country and regional centres (road, railway, waterway);
- Ø Connecting transport modes; developing the inter-modality and transport infrastructure of economic centres;
- Ø Developing urban and suburban community transport.

5. Human resource development

- Ø Improving employability, promoting entry into the labour market;
- Ø Improving adaptability;
- Ø Ensuring quality education and access for everyone;
- Ø Developing the curriculum and organisational structure of higher education in order to establish a knowledge-based society;
- Ø Strengthening social inclusion and participation;
- Ø Preservation of health and developing human resources in healthcare.

The majority of decisions regarding the use of cohesion funding are made on a **regional level**. We use our resources for reaching Lisbon Objectives in the following areas in the six convergence regions:

- Ø Economic development, competitiveness;
- Ø Transport development;
- Ø Development of human infrastructure.

In addition to the above-three listed areas, we have also allocated funding for environmental protection sustainability in the Central Hungary region falling under the scope of the competitiveness objective.

48.5% of cohesion funds envisaged to be invested in the 2007-2010-period will be directly used for reaching Lisbon Objectives.

1. Developing electronic public administration

The operational programme directly ties in with **Guideline 9** (promoting the dissemination and use of info-communication technologies and full-scope establishment of the information society), more specifically, the application of ICT in the area of public administration and public services, helps develop digital contents and the IT and communication sector, establish network information security and inter-operability and implement actions tying in with the establishment and use and availability of broadband infrastructure. This connects to Priority 1 of the operational programme – **developing internal procedures of public administration and public administration services.**

The operational programme indirectly supports a series of other measures set out in the National Action Programme, primarily associated with the business environment.

The programme contributes to providing better quality workplaces for individuals employed in the public service by developing IT equipment used for work. It therefore, benefits the quality and not the quantity side to employability.

Nearly all EEOP resources contribute to the attainment of the Lisbon Objectives.

Objectives and strategy

The **comprehensive objective** of the operational programme is to **improve the performance of public administration**.

The implementation of the following two **specific objectives** underpins the implementation of the comprehensive objective:

- Ø Improving the effectiveness of public administration services;
- Ø Increasing operational efficiency.

The quality and effectiveness of the role of the state equally impacts the business environment and the competitiveness of enterprises, as well as the quality of life of the population; consequently, the transformation of the provision of state functions helps implement **Lisbon Objectives**.

Developments

To be able to establish an efficiently operating client-centric service-oriented state, it is necessary to create coordination between relevant institutions and processes. It is necessary to standardise and connect various databases or ensure the opportunity for data sharing and data connections, naturally, by taking account of legal and economic criteria. We need to improve the quality of available services (by transforming services, if required), introduce new services, ensure access to services by enforcing equal opportunity criteria, as well as by reducing costs and time demands relating to the provision of services to the lowest possible level.

2. Economic development

R+D and innovation for competitiveness

This priority promotes industrial research and experimental development activities implemented in the context of close innovation-related cooperation between enterprises, universities and research institutes that can be used in the economy. Supporting innovation projects (product

development and marketing) that also benefit the joint interests of enterprises and implemented within the framework of pole programmes – connecting to prioritised cities – constitutes an integral part of the above, as does supporting research services provided for enterprises by organisations undertaking R+D activities. We promote the establishment of new enterprise R+D research units, as well as innovation and R+D activities undertaken independently by enterprises within the framework of a separate scheme.

Complex development of enterprises (SMEs in particular)

The key objective of this priority relates to the comprehensive development of enterprises with growth potentials, increasing their income-generation ability and improving their market position. Investments implemented in disadvantaged and so-called most disadvantaged micro-regions may be granted a higher rate of funding. Within the framework of individual projects, integrating the development of the organisational structure and human resources of enterprises, use of ICT technologies and applications and business and market operations is exceptionally relevant. We envisage strengthening the efficiency of internal company processes, improving network security and the quality of services and contributing to setting up and harmonising various company management and other business systems and solutions (supporting executive decisions and enabling information, electronic document handling, provision of services and client contacting, team work, distant work, etc.). Our goal equally relates to increasing the volume of electronic commercial transactions within the Hungarian SME sector.

Strengthening the modern business environment

This measure provides funding for developing the external operating environment of enterprises. (In actual fact, the regulatory measures defined in the National Action Programme also underpin this goal.)

It is necessary to establish state-of-the-art ICT network infrastructure and promote access to broadband networks in order to improve competitiveness. Small settlements situated in disadvantaged and economically underdeveloped regions are the target areas of this

development; by ensuring funding, our aim relates to closing the development gap in these regions, increasing the competitiveness of these regions and help integrate the population living in such regions into information society.

A well-established logistics infrastructure and access to high standard complex logistics services contributes to enterprises being able to focus on their core activities. Foreign investors are also keener on setting up sites in a country capable of offering these types of services. In order to achieve this, it is necessary to strengthen the development of the logistics sector and extend the scope of services provided by logistics centres (intermodal and regional logistics centres, in particular) and the standard of these (including ICT applications as well).

Funding prioritises attracting both new investors and promoting the reinvestment of profit generated by operating enterprises, as well as services promoting entry into foreign markets

Financial instruments

In compliance with the JEREMIE mechanism of the European Commission, we plan on improving the external funding potentials of small and medium enterprises through various types of financial instruments (micro-financing, guarantees, equity support) and consultancy tying in with these. We have placed the funding earmarked for the operational programme in a so-called holding fund, which improves financing opportunities for SMEs decisively through the re-financing or co-financing of financial mediators operating in the private sector.

3. Energy management

The Lisbon Strategy of the European Union for the 2008–2010-period continues to emphasise increasing the use of renewable energy resources and supporting investments geared at improving energy efficiency. The technologies in question play a key role in reducing greenhouse gas emissions and tackling the challenges of climate change.

Out of the 8 priorities set out in the NHDP Environment and Energy Operational Programme, 2 integrally tie in with Lisbon Objectives, namely: increasing the use of renewable energy resources and increasing energy efficiency.

The most important objective of the priority „**increasing the use of renewable energy resources**” primarily relates to supporting heat and/or electricity production to be implemented by enterprises, local governments and business organisations owned by the local government (e.g. distant heating service providers), as well as the production of bioethanol, as a result of which the ratio of heat and electric power produced by using renewable energy resources increases within the scope of overall national energy consumption, hence contributing to reducing CO emissions accompanying the use of fossil energy resources. The vast majority of measures implemented within the framework of the priority provide funding for small or medium-size projects (several hundred), which rate of funding may range between 10% and 50%, in line with the investment return parameters of the given project, equivalent to a total of 17.2 billion HUF in value.

According to plans, as an impact of the priority the volume of electricity produced by using renewable energy resources will increase to 676 GWh/year; use of renewable energy resources will increase to 28.8 GJ/year, whilst greenhouse gas emission will decrease by 1730 kt by 2010.

The objective of the priority „**increasing efficient energy use**” relates to promoting energy-saving and energy efficiency upgrading investments in buildings (primarily buildings used by central and local budgetary bodies and other public buildings, in addition to factory and office buildings owned by enterprises), as well as investment made by distant heating service providers and producers, in part by ensuring support with the help of financial schemes. This priority primarily provides funding for small or medium-size projects, which rate of funding may range between 10% and 50%, in line with the investment return parameters of the given project, equivalent to total of 27.24 billion HUF in value.

As an impact of the measures of the priority, by increasing energy efficiency, the annual volume of energy saved will increase to 4.2 PJ, whilst greenhouse gas emission will decrease by 255 kt by 2010.

4. Transport development

From among the Guidelines in connection with the EU Lisbon Strategy, Guideline 16⁷ focuses on upgrading European transport connections. In accordance with this guideline, the Transport Operational Programme (TOP) focuses on **improving access** and issues relating to connecting to the transport networks of neighbouring countries. Moreover, TOP indirectly also supports another micro-economic target, namely, developing the **production base**.

The objective of the priority „Infrastructure development and competition-based regulation” of the National Action Programme (NAP) relates to improving access by developing the transport infrastructure. NAP highlights the **development of passenger transport on public roads, the infrastructure of the railway network, as well as the connections of the transport network intermodal logistics centres**. These interventions are particularly prioritised within the framework of TOP as well, as a result of which the operational programme contributes to the implementation of NAP.

The **four concerned priority axes** of the Transport Operational Programme:

(1) Improving international road access to the country and regional centres

According to plans, approximately 320-340 km of highways and roads that can be upgraded to highways will be constructed within the framework of the development of the TEN network. First series of major projects launched: southern sector of M0, Szeged–Makó section of M47 and Balatonkeresztúr–Nagykanizsa of M7.

⁷ Extending, upgrading and connecting European infrastructure, as well as the implementation of cross-border projects.

(2) Improving international railway and waterway access to the country and regional centres

This concerns railway developments concentrating on stretches integrated in the TEN network, complimented by connecting IT and safety developments. Railway developments are envisaged (decisively upgrading-type developments) along a stretch approximately 500 km. First series of major projects launched: Budapest–Székesfehérvár stretch, Sopron–Szentgotthárd stretch and the GSM-R system. We do not envisage launching any major projects aimed at improving the navigability of the Danube up to 2010. (Technical consultations are still in progress.)

(4) Connecting modes of transport; development of the intermodality of economic centres and transport infrastructure

The objective relates to increasing national and regional inter-modality and establishing the intelligent transport organisation infrastructure. Prioritised area of development: Záhony and its surrounding region.

(5) Development of urban and suburban community transport

Major developments have taken place in Budapest, as well as rural cities and their agglomeration to improve access to and traversibility of cities, reduce congested city traffic, as well as transport safety risks. Projects planned: construction of Metro Line 4, construction of the tramway line in Debrecen, renewal and construction of the tramway line in Miskolc, modernisation and construction of the tramway and trolleybus network in Szeged, development of the suburban railway in Budapest.

The total funding framework of **TOP** is equivalent to 1.816 billion HUF; in line with the above, 74% of the framework of the operational programme, i.e., **1.346 billion HUF**, will **contribute to** the **fulfilment of NAP**. **All major investments** are expected **to start by 2010**.

5. Human resource development

The comprehensive objective of the Social Renewal Operational Programme (SROP) relates to **increasing the labour market activity levels of individuals at a working age**, without which it would not be possible to attain NHDP objectives aimed at increasing employment. SROP primarily envisages increasing activity levels by improving the quality of human resources (i.e., employability, adaptability, level of qualifications, competencies, state of health), as well as by promoting social solidarity. Measures targeting these areas primarily closely tie in with Part 2 of the National Action Programme, i.e. the integrated employment policy guideline, and contribute to the attainment of the development objectives set out under this section.

Several of the measures of SROP contribute to fulfilling the comprehensive economic policy guideline of the EU approved for the 2008–2010-period, more specifically, to reaching macro- and micro-economic targets. SROP measures play a key role in implementing the structural reforms set out in NAP, since they make it possible to finance necessary institutional development and re-training tasks. From among the structural reforms, SROP mostly helps continue the reform of social protection systems and the pension system and the transformation of the education, vocational training and adult training systems, in addition to executing the healthcare reform. These measures primarily contribute to the implementation of NAP Guidelines 1 and 2 (maintaining economic stability and maintaining economic and budgetary stability serving as a basis for increasing employment).

As regards the activities to be implemented in the chapter of NAP focusing on micro-economy (primarily in Guideline 7), SROP priority axis „Developing the curriculum and organisational structure of higher education to establish a knowledge-based economy” supports **promoting cooperation between the business sphere, research institutes and university research centres**, as well as technological transfer, and indirectly stimulates technology and knowledge-intense working capital investments.

SROP most closely ties in with NAP Chapter 2, i.e. the employment policy guideline. In order to increase employment and activity levels, SROP explicitly prioritises **promoting job search, developing services helping job search, improving the employability of disadvantaged individuals, enforcing the promotion employment within the unemployment and social welfare system, establishing an integrated employment and social service system, as well as improving the health status of the population**. Moreover, in order to support **adaptation**, measures equally support developing **life-long learning** opportunities, continuing the establishment of the training structure adjusted to labour market demands and the **transformation of the vocational training system**, strengthening the **interrelatedness of vocational training and adult training**, as well as its coordinated operation, improving the effectiveness and quality of educational services and strengthening the consecutive structure of learning stages.

The planned EU funding framework earmarked for the Social Renewal Operational Programme for the 2007–2010-period is equivalent to 2 billion EUR.

Regional Dimension

Regional Operational Programmes

1. Competitive region – Central Hungary

Connection of CHOP development priorities and the Guidelines of the National Action Programme	
CHOP Priority	NAP Guideline No.
1. Innovation and enterprise-oriented development of the knowledge-based economy	7, 8, 10, 14, 15
2. Developing the framework conditions of competitiveness	16
3. Developing the appeal of the region	–
4. Development of the institutional system of face-to-face public services	19, 20, 24
5. Renewal of municipal areas	–

The comprehensive objective of Central Hungary Operational Programme (CHOP) promotes „increasing the competitiveness of the central Hungary region accompanied by enforcing the principle of sustainable development“, whilst the two specific objectives, namely, „developing key factors determining the competitiveness of the region“ and „developing the internal cohesion and harmonised spatial structure of the region“ support the implementation of the economic growth and employment objectives set out in the National Action Programme.

The innovation and enterprise-oriented development of a knowledge-based economy (Priority 1) contributes to promoting research and development (R+D), increasing and upgrading investment with a research and development objective, particularly in the private sector (Guideline 7) by promoting innovation, market-oriented and technological cooperation between universities, research institutes and enterprises by supporting the modernisation of micro, small and medium enterprises, strengthening the role they play in employment, developing their innovation capacities, strengthening the modern business environment and developing the external operating environment of enterprises; promoting all forms of innovation (Guideline 8); strengthening the competitive edge of the industrial sector (Guideline

10); promoting the establishment of a more competitive business environment and business initiatives by improving regulations (Guideline 14); as well as, disseminating entrepreneurial culture and establishing an environment that supports small and medium enterprises (Guideline 15).

The development of the framework conditions for competitiveness (Priority 2) and developing transport (e.g. development of Freeway M4) promotes the development of the railway, public road and water transport network enabling international connections aimed at improving European access (Guideline 19).

The development of public services provided by people (Priority 4) by developing infrastructure supporting labour market participation, establishing a vocational training and adult system flexible adjusting to labour market expectations, as well as by establishing the infrastructural and IT conditions of the integrated employment and social welfare system contributes to providing more and increasingly efficient assistance for job seekers and disadvantaged individuals (Guideline 19); modern employment services (Guideline 20); and education and training adjusted to labour market demands (Guideline 24).

2. Convergence regions

Connection of ROP development priorities and the Guidelines of the National Action Programme						
Regions	Development priorities - Guidelines					
	Regional economic development	Regional tourism development	Settlement development	Environmental protection	Transport infrastructure development	Human infrastructure, public services development
1. MTDR	3, 7, 10, 14, 15	-	-	-		9
2. WPR	7, 8, 15, 24					9
3. STDR	7, 8, 10, 14, 15		2			2
4. NGPR	3, 7, 10, 14, 15					9
5. SGPR	7, 10, 14, 15				16	9
6. NHR	3, 7, 10, 15					9

The general and specific objectives of the OPs of convergence regions support the implementation of the economic growth and employment objectives of the National Action Programme at a regional level.

From among the development priorities of these OPs, regional economic development and the development of public services and transport infrastructure ties in with the Integrated Guidelines of the Lisbon Strategy.

Regional economic development interventions help fulfil Guidelines 3, 7, 10, 14, 15 by developing the business environment of SMEs, promoting R+D investments and cluster formation, as well as by developing industrial parks.

The development of public services through the development of the electronic public services of local governments contributes to disseminating information technologies and promoting the use of these (Guideline 9).

As an addendum, it is necessary to note that although the funding of tourism has not been included under the scope of earmarking, which means that it does not officially connect to the guidelines, sustainable tourism development (used in the sense of „sustainable“ and not

„sustainable”) directly connects to Guideline 17 and indirectly to the growth objective through the positive impacts of growth and regional cohesion tying in with increasing employment, as well as rural income generation opportunities.

The same largely applies to the schemes targeting the development of main regional roads within the transport development priority, which can indirectly be linked to Guideline 3 („promoting the growth and employment-oriented efficient allocation of funds”), since the funding intended for closing the development gap in underdeveloped regions can be efficiently allocated in these regions if access to these regions and the transport system of conditions is also ensured in these regions.