

Ministry of Finance

**Report on the measures taken in response to Council
recommendation of 7 July 2009
under Article 104(7) of the Treaty**



September, 2009

Content

1.	INTRODUCTION	1
2.	MACROECONOMIC DEVELOPMENTS	2
	RECENT DEVELOPMENT.....	2
	OUTLOOK.....	3
3.	BUDGETARY DEVELOPMENTS	5
	BUDGETARY DEVELOPMENTS IN 2009.....	5
	BUDGETARY DEVELOPMENTS IN 2010.....	7
4.	PUBLIC DEBT	9
5.	STRUCTURAL MEASURES	11
	PRICE SUBSIDY TO NATURAL GAS AND DISTRICT HEATING	12
	EMPLOYMENT	12
	PUBLIC ADMINISTRATION.....	12
	LOCAL GOVERNMENTS	13
	EDUCATION.....	14
	PUBLIC TRANSPORT.....	14

1. Introduction

The Government made a commitment in the convergence programme of 1 September 2006 to submit reports on a six-monthly basis to the Commission and the Council on the progress made towards the correction of the excessive deficit¹, including on structural reforms². The Government has so far submitted 5 progress reports.

The aim of this report is to present, since the May 2009 report, the macroeconomic and budgetary developments; it also gives an overview on the progress made in measures underlying the budgetary path and implemented since the submission of the December 2008 convergence programme.

This progress report on the implementation of the convergence programme:

- *presents the updated macroeconomic forecast for 2009 to 2010,*
- *updates the budgetary projections for 2009 based on figures of the first eight months,*
- *presents the budgetary plan for 2010 based on the budget bill 2010,*
- *gives an overview on the implementation of the structural reform measures since the May 2009 report.*

The report³ was adopted by the Government on its meeting of 23 September and, following the submission to the National Interest Reconciliation Council, submitted to the European Commission and the Council on 24 September 2009.

¹ The excessive deficit procedure for Hungary was launched by the Council on 5 July 2004, as a consequence of the budget deficit higher than 3%.

² Council recommendation:

„The Council welcomes the commitment of the Hungarian authorities in the adjusted convergence programme update of 1 September 2006 to submit reports on a six-monthly basis to the Commission and the Council examining progress made in complying with this recommendation, including on structural reforms. The first report is expected by mid-April 2007. The Commission and the Council will analyse these reports with a view to assessing progress made towards the correction of the excessive deficit.”

The Council revised the recommendation issued on 10 October 2006 under the excessive deficit procedure on 7 July 2009, and reinforced the commitment to submit reports:

„The Council continues to welcome the commitment of the Hungarian authorities announced originally in the adjusted convergence programme update of 1 September 2006 to submit reports to the Commission and the Council examining progress made in complying with this recommendation on a six-monthly basis.”

³ The cut-off date of the report was September 21, 2009.

2. Macroeconomic developments

Recent development

The global economic outlook has improved somewhat since the publication of the previous report in May 2009. The global growth outlook, hard data and the recently published forecasts suggest that the economic decline in the world reached its lowest level, although the recovery to the normal growth pattern will be prolonged and gradual. Global liquidity problems seem to be easing, but the lending activity of the financial system is still weak due to the long-lasting recession. As a result of the combined effect of the increasing risk appetite and the crisis related measures of the government, the risk assessment of Hungary has improved significantly, which is proved both by the decreasing yields and the appreciation of the currency.

In the second quarter of 2009, the Hungarian economy continued a rapid adjustment process to economic downturn. Gross domestic product fell in the second quarter by 7.4%% adjusted for the calendar effect.

The decline of household final consumption expenditure, commenced in the last quarter of 2008 continued in 2009, in Q2 the volume of consumption expenditure was 6.6%% lower than a year earlier. In falling demand, headcount loss of the business sector had a crucial role coupled with lower earnings of those employed in the public sector, tighter lending conditions and lower demand for consumption-related loans. In parallel to demand cut, the structure of consumption also changed. In particular, demand for durables (cars above all) made a drastic drop while slowdown of consumption of non-durables (foodstuff above all) was smaller. At the same time, the figure of the second quarter, which showed an improvement compared to the first quarter, may suggest that households' expectations concerning their own financial position in the near future improved, making a positive influence upon the demand for consumption as well. Furthermore, increase of VAT and excise taxes to take effect in July moderated the fall in consumption due to purchases carried forward.

Both **social transfers in kind** and **government consumption** showed a small growth, the latter in a smaller extent, in the first six months of the year. The development of the government consumption has been effected by the "Pathway to Work" program which increases the headcount (due to public work) in local government.

In Q2 of 2009, due to rising construction investment, the fall in **gross fixed capital formation** (-3.3%) was less than expected. The growth of construction investment comes from building projects of roads, motorways financed from EU sources particularly, more intensive implementation of other public infrastructure and developing real estates. These positive processes could only partly offset the sharp fall of manufacturing investment of major weight.

In the context of unfavourable global economic environment, the decrease of foreign trade activities continued in Q2. Given the relatively high import-content of Hungarian exports, the fall in domestic demand and the substantial de-stocking, the negative adjustment in imports weak more pronounced than in imports. Exports dropped by 14% (y-o-y) in Q2, somewhat less than in the previous quarter. The fall in imports was 22.6%, similar to the figure recorded in Q1. Thus, the growth contribution of net exports was very strong in Q2.

Increasing unit labour cost and decreasing profitability were, in line with economic downturn processes, marking the **business sector** labour market from 2008-end.. Accordingly, both market services and manufacturing sector showed intensive headcount adjustment in the first six months of 2009. In order to cut cost and possibly avoid lay-offs, the firms continuously increase the number of part-time employees. Regular earnings in the business sector developed in a moderate manner, in line with profitability and productivity.

In parallel to evolving global recession, inflation worldwide decelerated as well from mid-2008. This was also reflected in the Hungarian inflation rate strongly falling in the second half of 2008. Disinflation continued in Q1 2009, however, weakening Hungarian forint and some one-off effects (such as fast-growing prices of unprocessed foodstuff) caused the inflation rate to turn into increasing from a falling trend in Q2. The indirect taxes (VAT, excise) were increased in July, which were only partly reflected in the July and August figures. This is explained by the fact that economic actors could not shift off the whole tax increase into the prices because of the weak demand.

Hungarian external position has improved considerably from the previous period. The current account deficit decreased to EUR 0.6 billion, 3% of GDP in Q1 2009. The deficit dropped by EUR 1.1 billion from the reference period. External financing capacity, including the capital account, reached a 1.4% of GDP surplus, the first time for over a decade.

Outlook

The growth prospect of the Hungarian economy is influenced by two conflicting processes in the next quarters. On the one hand the effect of the budgetary consolidation will be strongly visible in the second half of the year, which will be materialised in the decrease of the household consumption. Beyond the factors above, cuts of cash benefits and the increase of consumption taxes will restrain consumption. In 2009 as a whole, the volume of consumption expenditure may be 8% lower than a year earlier. In 2010, we could expect further decline in consumption expenditure, even with rising real wages, but at a rate significantly lower than this year. Real wages will be higher next year while non-wage labour income fall as foreseen due to tax changes involving the other compensation elements. In addition, fiscal adjustment will adversely affect government consumption.

On the other hand positive developments can start in the economies of the Hungary's main export markets (first of all in Germany), which can give a momentum to export. Hungary's improved competitiveness – being reflected in both the depreciating real exchange rate and the reduced unit labour cost – may also enhance the performance of export sector. Thus, the volume of exports may increase by around 3%. The difference between the increase of exports and imports will be lower in 2010 than this year, but the contribution of net exports should remain significant due to the poor domestic demand.

Since the last forecast update in May 2009, growth projection has not changed, the economic development in 2009 is affected by the economic crisis and the fiscal consolidation. Slow and gradual improvement should start from Q4 and from the second half of 2010, with the phasing out of the consolidation measures, the Hungarian economy will resume to grow. Overall, a declining performance of Hungarian economy by 6.7% and 0.9% in 2009 as a whole and in 2010, respectively, is expected.

The adjustment in headcount and wages in the private sector started at the end of 2008 has continued in 2009. The current projection expects a decline of 3.5% and 2% in employment in

the private sector as an annual average in 2009 and 2010, respectively. Thus the unemployment rate will be close to 10% in 2009, and 10 to 10.5% in 2010. The increase of gross wages in this sector would be moderated by the worsening profit outlook this year and the sharp decrease of the PIT burden in 2010. The headcount in the public sector has increased continuously over the last months, unlike in the private sector. This development is explained by the effect of the “Pathway to work” programme. The forecast for 2010 calculates unchanged employment level in the public sector. Gross wages are projected to remain stable in nominal terms, although net wages keep their real value as a consequence of the changes in the PIT.

Fundamental disinflation processes rooted in the recession including particularly the sharp decline in domestic demand and the re-strengthening exchange rate would, in the second half of 2009, result in steadily decreasing price indices. However, the raise of indirect taxes with entry into force from July will have a substantial impact on the disinflation path. Thus, CPI is expected to slightly exceed 6.0% by the end of 2009. On annual average, consumer price inflation could be 4.5% in 2009. In line with the phasing out of the effect of the increases of indirect taxes, the rate of inflation, still high at the beginning of 2010, may fast plunge from the middle of next year to decelerate to 2-3% by the end of the year. Average inflation of 2010 is expected at around 4.1%.

Hungary’s external position has improved considerably from the previous period, mainly due to the significant improvement of the balance of goods and services. The balance of real economic transactions is expected to reach a considerable surplus also in the remaining period of the year, positive net exports will be further strengthened by terms of trade improvement in the second half of 2009. The current account deficit can decrease to 3% of GDP, the external financing need to around 1% of GDP in 2009. In line with the slow recovery starting in 2010, the surplus in the balance of real economic transactions might slightly decline, accordingly, the current account deficit can be higher by 0.5 percentage points than this year.

Main macroeconomic indicators, 2008-2010

	2008	2009	2010
	<i>Fact</i>	<i>forecast</i>	
	<i>annual percentage change</i>		
real GDP	0,6	-6,7	-0,9
Domestic demand	0,4	-8,2	-1,8
Household consumption	0,1	-6,6	-2,1
of which: consumption expenditures	-0,5	-8,0	-2,4
Gross fixed capital formation	-2,6	-9,3	0,6
Exports (goods and services)	4,8	-15,1	3,0
Imports (goods and services)	4,7	-17,2	2,0
Gross average wage	7,5	0,4	2,5
Net average wage	6,8	1,1	7,3
Real wage per earner	0,7	-3,3	3,1
Employment	-1,2	-2,2	-1,3
Unemployment rate (ILO), %	7,9	9,9	10,5
Consumer price, annual average	6,1	4,5	4,1
	<i>in % of GDP</i>		
Current account deficit	8,4	3,0	3,4
External financing need	7,4	0,9	1,0

3. Budgetary developments

Similar to the macroeconomic forecast, the budgetary projection has basically not changed since the report published in May. Deficit targets remained unchanged, however, the internal composition of revenues and expenditures have modified somewhat. As a consequence of the expenditure cuts, which partly offset the revenue shortfall due to the recession, the public deficit goes up only slightly in 2009 (to 3.9% of GDP), while it will diminish a bit already in 2010 (to 3.8% of GDP). Since the economy performs well below its potential, taking into account the widening negative output gap the structural balance can improve by more than 2 percentage points over two years.

Budgetary developments in 2009

In 2009 budgetary revenues will be lower than the budgeted figures and that of 2008 due to the more severe recession than it was assumed at the time of the budgetary planning. The decline of the tax and contribution revenues, in accrual term, can be close to 4% comparing annual figures. The outcome of the regular refunding of the corporate income tax and the lower advance payment of the CIT in the second half of the year suggest that the revenue shortfall will be larger than it was expected in May, although the shortfall of consumption taxes will likely be less.

The outcome of the intra annual figures underpins the expected deterioration of the deficit in 2009. Over one year ending at 2009 Q1 ESA deficit increased to 4% of GDP according to the CSO government statistics. At the end of the second quarter the accumulated financing need of four quarters reached 4.7% of GDP, according to the preliminary financial account statistics of the MNB⁴. The budgetary forecast assumed that the time profile of deficit development will be different than it was prevailing in the previous years. In the fourth quarter instead of having deficit, surplus is expected at the central government's level, because the expenditure cutting measures set out in May Report (cut in the wage compensation of the public sector, cancellation of second instalment of 13th months pension benefits, changes in the housing subsidy system, freezing in the expenditures of budgetary chapters, etc.) will have effects mainly in the second half of the year, more precisely over the last months. Taking into consideration these developments, the aggregate cash based deficit of the central budget, the social security funds and extra-budgetary funds can be higher at the end of the third quarter than the yearly budget, but the improvement of the balance at the end of the year makes possible to meet the budgetary target.

In line with expectations, the cash based deficit reached HUF 914 billion (being 92% of the yearly forecasted deficit figure) until end of August. Compared to the first 8 months of 2008 the decline in tax and contribution revenues exceeded slightly 4%. The yearly cash based projection assumed somewhat higher decline, taking into consideration the uncertainty surrounding the end year revenue from the corporate income tax⁵ and the decision of the European Court of Justice concerning VAT repayment.

Among the big items on expenditure side the balance of revenues, expenditures and budgetary paying in of budgetary institutions and chapter administered appropriations (deficit increasing effect of the institutions) declined by HUF 45 billion up to the end of August compared to the previous year. The freezing in the appropriations and the introduction of the treasurer system will ensure that expenditures, unlike in the previous years, will not jump at the end of the year, thus significantly higher savings are expected over the whole year. The treasurers, nominated by the prime minister according to the 169/2009. (VIII. 26.) government decree, have an oversight role on the financial operation of the chapters (and the budgetary institutions belonging to them) and the extra-budgetary funds, in order to avoid unnecessary payments and commitments. The treasurers started their operation in every chapter.

One temporary effect is present in the eight months decrease of family subsidies and social benefits (payments were forwarded before the start of the school year in 2008), nevertheless over the whole year expenditure will not increase (in comparable structure). Pension payment has increased only 2.5% so far, because only a reduced 13th month pension was paid in the first half of the year. As a consequence of the cancellation of the part due in the second half of the year, pension expenditures in 2009 can be lower than last year. The expenditure on curative preventive care increased only slightly (1.5%) over the first 8 months compared to the previous year.

⁴ The intra-annual figures on accrual based deficit differ to some extent between the non-financial accounts statistics of the CSO and the financial accounts statistics of the MNB, however, gaps disappear looking at the whole year.

⁵ Businesses fill the gap between the intra-annual advanced payment and the effective tax expected to pay for the whole year in December, thus major part of the revenue materialises at the end of the year.

Taking into consideration the first 8 months figures and the measures, the projection made in May for the cash based account of the central government is still valid. Nevertheless, based on the preliminary intra-annual figures, the balance of the local governments can be better than expected before. Since the gap between cash and accrual based figures can be smaller according to the revised data, the ESA95 deficit target remains unchanged, 3.9 percent of GDP.

Changes of the 2009 deficit forecast

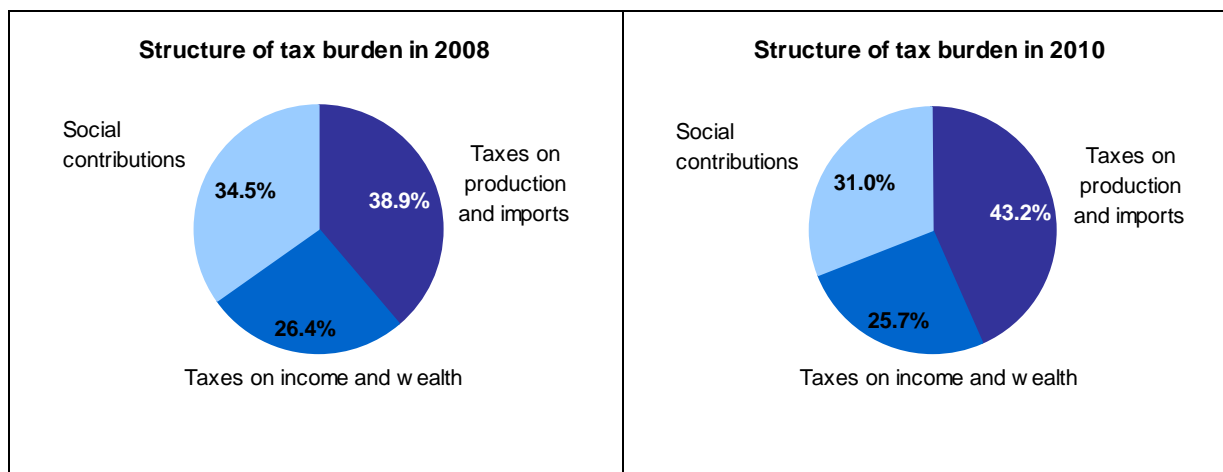
in% of GDP	convergence programme (December 2008)	May 2009 forecast	September 2009 forecast
Cash based deficit of the central government	2.3	3.8	3.8
Cash based deficit including local governments	2.8	4.3	4.1
ESA95 deficit of the general government	2.6	3.9	3.9

Budgetary developments in 2010

The expenditure cutting measures and other legislative changes were built in the budget proposal 2010 submitted to the Parliament. In spite of the fact that, after the sharp decline of the economy, the GDP is expected to decline again, however in a smaller extent, thanks to the fiscal consolidation the ESA deficit will decline to 3.8% of GDP and the primary surplus will amount to 0.7% of GDP.

The deficit, although only slightly, will moderate in nominal terms compared to the 2009 target. Total consolidated expenditure of the central sub-systems (without the spending financed from EU funds and own resources) will be lower by 8% than the ceiling defined by the fiscal responsibility law.

In 2010 the tax centralisation (accrual based tax and contribution revenues as a proportion of GDP) can decline by some decimal percentage points due to the macroeconomic developments, since the big tax bases (gross wage bill, consumption expenditure) will increase with a lower pace than the nominal GDP growth. As a result of the essentially revenue-neutral tax reshuffling starting in the second half of 2009 and continuing in 2010, the structure of the revenues will change: the weight of the income related taxes and contributions will decrease and the that of the consumption and wealth related taxes will increase. The tax changes, through decreasing the burden on labour, mitigate the adverse effect of the crisis on the employment and improve the competitiveness.



Apart from the expected decline of the tax centralisation to 39.5% of GDP and the total revenue to GDP ratio by 0.5 percentage point, expenditure cuts contribute to the improvement of the fiscal balance. The primary expenditure to GDP ratio will be lower by 0.8 percentage point than it was in 2009, the redistribution rate (total spending/GDP ratio) will decline from 50.1% of GDP, expected for this year, to 49.4% of GDP.

The most important elements of the budget bill 2010, which result in tightening expenditures, are the followings:

- Wages in the public sector will not increase. 13th month salary will be abolished (gross wage bill will remain unchanged for two years). Taking into consideration the financing of the public work under the “Pathway to work” programme and the effect of the cut in employer’s contribution, spending on wages and contributions compared to the GDP will decline by 0.5 percentage point;
- Pensions will grow only at the pace of inflation and the 13th month pension is abolished;
- Family subsidies and social benefits become more targeted, thus expenditures on this will moderate compared to 2009;
- As a consequences of the strengthening of the targeted nature of the housing subsidy, it will drop off sharply (by its ¾);
- Legislative changes could result in a more than 10% shrink in sick payments;
- Expenditure on gas and district heating price subsidy drop to one-third of the 2009 level. It will be financed from the income tax paid until 2010 by the energy provider companies (so called “Robin Hood” tax). Other price subsidies (pharmaceutical and consumer price subsidy) will increase only marginally compared to 2009;

As a result of the above-mentioned measures social payments and social transfers in kind can moderate by more than ½ percentage point of GDP.

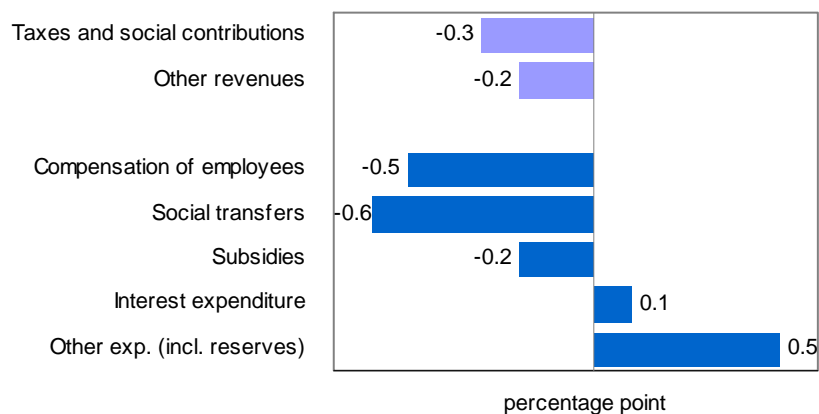
During the budgetary planning of the budgetary institutions strict economical considerations have to be in the focus. (central government institutions, local governments, public transport companies):

- The effect of the freezing and other reductions will be built in the expenditures of the budgetary chapters. The budget bill includes more than HUF 150 billion lower level (almost by 7%) appropriations than in 2009;

- Saving in local governments will be materialised in cutting the number of mandatory tasks, creating more flexible condition for operation, and increasing fees for beneficiaries. Compared to the appropriation of 2009 adjusting with the effect of the cutting in contributions, decreasing the number of pupils, transferring certain tasks to the central budgetary chapters, etc the subsidy appropriations of the local governments (central budgetary subsidies and part of the personal income tax together) will decrease by 6%;
- The next year budget includes about HUF 40 billion (by 20%) less appropriation than that of 2009 for the case-by-case and normative subsidies of enterprises. The savings can come from the restructuring of the organisation and operation of the long distance public transport.

The budget proposal includes higher reserve than in the previous year (together with the specific reserve it amounts to HUF 261 billion, 1% of GDP). In addition, for the stake of being more prudent, interest payments consists a HUF 50 billion buffer.

Expenditure and revenue changes in 2010
(compared to 2009, in per cent of GDP)



4. Public debt

According to revised financial accounts data at the end of 2008 government debt amounted to HUF 19,330.3 billion. Public debt slightly increased due to the modification of the preliminary data published in April. The debt ratio stood lower than the earlier published 73% – it was 72.6% in terms of GDP due to the revision of nominal GDP data.

During this year the volume of public debt was (except the net financing need of the government) highly influenced by the HUF/EUR exchange rate, which significantly modified the HUF value of foreign exchange denominated debt elements. Gross debt was also considerably influenced by the change of state deposits, which were drawn down from international institutions and held at the MNB. It can be attributed crucially to the aforementioned that the gross public debt decreased to HUF 19,967 billion till the end of June after reaching HUF 21,789 billion in the end of the first quarter.

Considering processes of this year's end and next year, it can be stated that, especially in 2009, nominal GDP – which is forecasted to fall considerably this year– has a substantial effect on the debt ratio. Calculating with the forecasted financing need, the weaker technical exchange rate assumption and the stock-flow adjustments the debt ratio will increase in 2009 compared to the end of 2008 and will slightly grow further in 2010.

The increasing 2009 public debt can be explained by two essential factors. First the nominal level of the public debt has been increasing because of the budget deficit; second diminishing nominal GDP has been raising the debt ratio. Stock-flow adjustments have neutral effect on the debt dynamics as a result of two tendencies having opposite effect: the weaker technical exchange rate assumption is offset by using some part of the state reserves – that were drawn down from international institutions and kept with the MNB – for financing purposes.

The so-called netted debt ratio (in terms of GDP) will rise 2.6 percentage points in 2010. The growth of gross debt ratio is considerably lower: its increase in terms of GDP is 0.4 percentage points. In 2010, slightly growing nominal GDP will have a reducing effect on the debt ratio. According to the projection, stock-flow adjustments have a significant effect on the diminishing debt, since it assumes that a part of state reserves kept with MNB will be used for debt financing in 2010 – in line with calculations of the budget bill.

Debt financing costs relative to the GDP will rise 0.2 percentage points in 2009 and further 0.1 percentage point in 2010 compared to the previous year owing to the increasing debt.

In comparison with the report published in May, the present prognosis forecasts a lower debt path in 2009-2010. Assumptions influencing debt dynamics are summarized in the table below:

Main assumptions in the convergence reports

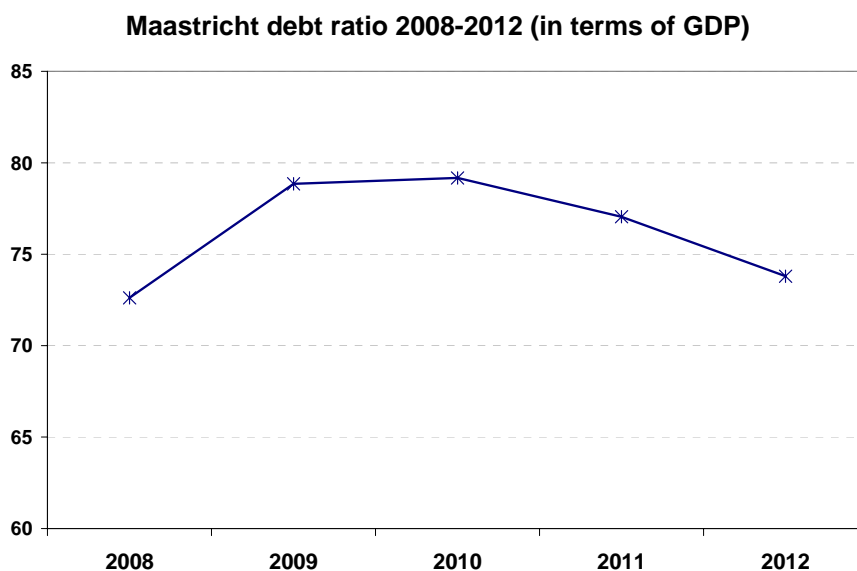
		2008	2009	2010
<i>Nominal GDP growth (%)</i>	<i>May 2009</i>	4.1	-2.1	1.2
	<i>Sept 2009</i>	4.7	-3.1	2.0
<i>End year exchange rate (HUF/EUR)*</i>	<i>May 2009</i>	264.8	295	
	<i>Sept 2009</i>	264.8	272.1	
<i>Government deficit (in terms of GDP)</i>	<i>May 2009</i>	3.4	3.9	3.8
	<i>Sept 2009</i>	3.4**	3.9	3.8
<i>Gross debt rate</i>	<i>May 2009</i>	73.0	80.2	82.2
	<i>Sept 2009</i>	72.6***	78.8	79.2
<i>Netted debt rate</i>	<i>May 2009</i>	67.4	75.8	78.6
	<i>Sept 2009</i>	67.0	73.6	76.2

* technical assumption. 272.1 HUF/EUR is the average of July's data that is fixed over the projection horizon.

** based on the Spring 2009 Notification

*** based on the revised MNB financial account

Debt ratio is expected to reach its peak in 2010. Owing to the accelerating economic growth and tight fiscal policy the debt ratio will follow a declining path from 2011.



5. Structural measures

Since the second six months of 2008, the Government has taken numerous measures aiming at ensuring sufficient short-term financing for the public sector in the short term, while increasing growth potential in the medium and long term; in particular, measures improving employment and competitiveness. These measures are partly related to the reforms implemented from the second half of 2006, in the fields of pension, healthcare, public administration, social subsidies and education, partly they go even beyond, since structural steps have also been taken in new areas, in particular in order to improving employment and efficiency of the social system.

The previous report published in May presented the structural measures in detail. This chapter is devoted to bring forward the progress made since the last report, and also the first experiences of the implementation of the report.

In May and June 2009 those legislations were published, which underpin the measures the implementation of which was presented in the previous progress report.

- Act XL 2009 stipulates the changes in the **pension system**. This includes measures such as increasing statutory retirement age, malus rule for early retirement, new rules of indexation, cancellation of disability pension correction planned for 2010, abolishment of 13th month pension benefit.
- Act LXXIX 2009 stipulates the changes in the fields of **social subsidies**. This includes measures such as restructuring child-care supports, modification of child-care aid (GYES) and child-care allowance (GYED) in context of eligibility period, modifying eligibility age of family allowance and reducing the rate of sick-pay by 10 percentage points.

- The suspension of the **housing subsidy** from 1 July 2009 is laid down in the 125/2009 government decree.
- Act LXXVII and LXXVIII 2009 include **tax measures** like the lowering the burden on labour (employer's contribution, personal income tax), and the increase of indirect taxes (VAT, exercise), and the introduction of wealth tax.

Price subsidy to natural gas and district heating

From 1 January 2009, fundamentals of the subsidy have not changed. The financing of the additional spending (by HUF 18.4 billion) of the appropriation for 2009 (HUF 62.8 billion) will come from a temporary special tax on energy companies (the so-called 'Robin Hood' tax). This contains also the payment carrying over to 2010. In 2010 HUF 20 billion is available for energy subsidies. This amount was budgeted with the assumption of a decreasing trend of the gas prices. The revision of the government degree, which defines the conditions of the application for subsidy is underway.

Employment

The December 2008 convergence programme and the May 2009 report presented in detail the "Pathway to work" programme. An important characteristic of the programme is that those who can be employed by the local government in public works may only work 4 months (6 hours a day) at most. Cost of their employment can be demanded from the central government budget for refund at 95%. In the public sector, the number of those employed in public works continuously grew in recent months to exceeded 80,000 in July. When assessing the number of participant in the programme, it should be taken into account that monthly figures can be very volatile due to the significant seasonality of the jobs.

The government put forward several measures to the Parliament benefiting from the experience of the first half of 2009 in order to improve the efficiency of the public work and ensure the attainment of the budgetary targets:

- The temporary rule effective in 2009, according to which those people who's availability allowance is lower than the regular social subsidy granted in 2008 the availability allowance should be calculated according to the social subsidy, will be abolished;
- There will be no longer possible to benefit from a part of the availability allowances after someone gets hired in the labour market;
- In one family in the same period of time only one person will be eligible to public work or availability allowance.

Public administration

The Parliament adopted the law on the status and management of government agencies. The most important objectives and principles of new regulation are lied down in the Convergence Programme of December 2008, and the expected result is presented in the May 2009 report. In close relation to this regulation the government adopted a new specialised order of tasks, which ensures an instrument for tasks based planning and operation.

The new rules concerning establishment, registration, transformation or termination ensure law security and transparent operations, applicable from 1 January 2009. To this end, statutes

of all the 13,000 government agencies had to be amended until 1 June based on uniform stipulations.

The government regulation, which would help the implementation of the act, is under negotiation and is planned to be adopted in October 2009. The regulation would be taken into effect from 2010, similarly to the provisions concerning new management rules. The regulation stipulates precisely, among others, the new procedure and content of the budgetary planning of the institutions (including two documents: feasibility and performance study), detailed rules of the application of the order of tasks and detailed rules for the new type of institutions and solutions.

Local governments

The savings in the local government are based on two instruments: on the one hand the scope of tasks to be performed by local governments narrows, on the other hand regulatory changes improve the operation of the local governments. The cut in mandatory tasks of the local governments requires modifications of several laws. The government submitted the necessary proposals to the Parliament.

In the budget proposal 2010 the legislative changes, which underpin savings in local governments concern the following fields:

- The “Pathway to work” programme (see in the Employment chapter);
- Creating more flexible conditions for operation of the institutions which provide social services. This would improve in short and medium term the adjustment capacity of the services provider to the effective demand for social services, both concerning the operation and development:
 - The signal based home care will be provided by the government from 2010, funding will be ensured via tender system by the Ministry of Social Affairs and Labour. The measure on the one hand alleviates the burden of the local governments, because it will be no longer under the responsibility of the local governments, on the other hand it contributes to a volume planning more adjustable to the real demand. All of this makes the provision of the basic task more sustainable and efficient both in short and medium term. As a result of the measure the beneficiaries (mainly older generation) can live longer in their homes;
 - Meal service will be no longer among mandatory tasks, therefore the possibility for parallel application is ceased to exist;
 - Better service can be provided by taking into account local aspects in the home type services (meal service, home care, long term care), this allows more suitable service provision for those who need help at their home in the everyday life. This measure also helps to the beneficiaries (mainly older generation) to live longer in their homes;
 - Changes in the service fee: introduction of a family/household based income evaluation, increase of the upper limit of the personal service fee (meal service and home care);
 - Contributions depending on the income situation of the beneficiary will be abolished, and simplification of the normative system, administration will be easier;
 - New service will be introduced in the field of child care protection: the “family child surveillance”, which creates significant savings when taking care of several children, thus improve the labour market prospects for women with small children;

- The eligibility period of the child protection after support will decrease from 24 to 21 year in case of people who discontinue their studies.
- Public education (see next chapter).

Education

In order to reflect the saving requirements in the public education in 2010, paying due attention also to the rational educational aspects, the government when preparing the budget proposal, taking into account demographic developments, cut funding in line with the budgetary effect of the decreasing number of pupils.

Beyond this, government proposes to amend the following laws in order to materialise further savings:

- Taking into consideration the financing capacity of the local governments, the requirement to fulfil the ‘kindergarten’ educational tasks will be postponed by one year to 1 September 2011;
- Conditions for creating classes and groups in schools will be more flexible in a manner it supports that children could go to school in one village (merged class can be created from 4 class years in stead of 3);
- The maximal number of children put the ‘kindergarten’ group, school class and dormitory can exceed by 30% in stead of 20;
- Taking into consideration the financing capacity of the local governments, the start of the language educational class years can be postponed from 1 September 2010 to the school year 2012/2013;
- The mandatory financing support to the teacher for buying professional books will be lower;
- Institutions can fulfil their commitments to ensure training for teacher by replacing it with self education, which was not possible before, just only with participating to certain courses;
- The spending on basic artistic education can be built in the service fee in a larger extent, funding from the budget will decrease accordingly;
- The fulfilment of the requirements concerning mandatory educational instruments is postponed to the school year 2012/2013.

Public transport

Ministerial commissioner prepares reorganisation proposal, which underpin the lower subsidy needs for public transport by HUF 40 billion. The government defines tasks in the government decision on the reorganisation of the long distance public transport no. 1133/2009. (VIII. 7.), which were published on 7 August 2009, concerning the reorganisation of the Group MÁV, the real estate management of the MÁV Zrt. and the regional reorganisation of the long distance public transport. The aim of the reorganisations is to improve the quality of the public transport, eliminate the duplications (Volán, MÁV parallel purchase orders) and decrease cost and the financing need from the State. The preparation of the proposals is under way according to the government decision.