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Supplement

East Europe

HUNGARY:
Antall Government's Economic Program
(The Kupa Plan)

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Hungary: Antall Government's Economic Program (The Kupa Plan)

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Antall Government's Economic Program: The Kupa Plan

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[“Text” of “Government Program for the Hungarian Economy's Changeover and Development (Stabilization and Convertibility)”]

[Text]

Summary

The change of regimes and the economy's transformation are processes that are mutual preconditions of one another. While the creation of a parliamentary democracy that is capable of functioning embodies the political transformation, the change of economic systems requires more time and its positive effects will become widely perceptible only over the longer term. The purpose of the economic program for the coming years is to create a market economy and thereby give everyone opportunity for advancement and ensure equitable distribution that will protect the poorer strata of our society.

We are not starting out with a clean slate; we have inherited, among other things, also a heavy debt burden. One of the cardinal rules of a market economy is that one's word is his bond, and we will have to abide by that rule if we wish to join Europe. Therefore we are attaching fundamental importance to meeting our foreign obligations also in the future. At the same time the government is seeking a solution that will not saddle our future generations with debt, yet will keep tolerable the present generations' burden.

The existing structure of our economy is a serious problem from the viewpoint of catching up with the European level. We will attain the level of the developed market economies by means of a structure that will have been modernized with the help of privatization. With our Central and East European neighbors we share a common interest in economic and social stability. By utilizing our given historical, economic, and geographic conditions, we will strive for reliable market relations with them. Under the present set of conditions, the Hungarian economy is stagnating. The purpose of the economic policy program is to extricate the country as soon as possible from stagnation and start it off on a course of growth. A policy against inflation is a key element of economic policy, but at the same time, it is also necessary to manage the unemployment inevitably arising from restructuring the economy. The main way of managing unemployment is to retrain the persons who have lost their jobs and to direct them toward new job opportunities, while helping them preserve their social identity, which also gives them social security. A social safety net must be strung for those who, through no fault of their own (the elderly, children, the sick), are unable to participate in these programs.

In transforming the economy, economic policy is relying also on civil society's independent initiatives. Local governments, trade unions, various civic groups and charities play an important role in the success of the changeover. This role is reinforced by consistent continuation of the government's policy of denationalization and deregulation. To function properly and in the interest of protecting its citizens as well, the democratic system will need an efficient, professional state administrative apparatus or civil service.

The creation of an educated, independently thinking and acting society is a prerequisite for achieving our economic objectives. A higher level of education facilitates the retraining that is necessary for restructuring. A closer link than what now exists between education, research, and practical application is a prerequisite for technological progress that is indispensable for our development. The government is striving to persuade every social stratum that, in the interest of the eventual gains, it is worth shouldering the short-term difficulties that the program of economic policy points out. The program does not copy yet another model, instead, it offers a way out by relying on Hungary's natural traditions, geographic conditions, and brainpower.

That purpose can best be served by an economic structure in which, besides our traditional farm production, also tourism, financial, and other services are strengthened to aid economic growth. The world fair to be held at the middle of this decade will also contribute in large measure toward the essential upgrading of the infrastructure and the improvement of the state of the environment.

A. INTRODUCTION

1. Elaboration of the government's four-year action program of economic policy has been necessary for the following reasons:

- The conditions of our foreign economic relations have changed, requiring a new course and timetable for our economic policy.
- Specific solutions must be found for the controversial issues (privatization strategy, restructuring of the welfare systems, and the management of inflation).
- Utilizing the experience it has gained since coming to power, the government wishes to make its actions more predictable.

In its first two years, the four-year action program of economic policy, which is based on the principles formulated in the Program of National Renewal and on the three-year agreement concluded with the International Monetary Fund, will put in place the legal and institutional framework for creating a market economy and for stabilizing the economy.

For 1993-94 the program provides a forecast of the economy's development, of the pace of our adaptation to Europe, and of the state's role in the economy.

2. The government regards as its fundamental strategic objective the creation of the conditions for a social market economy.

It will treat preferentially the transformation of the structure of assets and ownership within the economy, the attraction of foreign capital, and the abatement of poverty.

3. Our objective is to join the European Economic Space as completely as possible. We deem it important to develop further our relations with the Group of 24. We will strive for balanced economic relations with the Soviet Union and with our northern and southern neighbors.

4. The government wants above all to strengthen and mobilize our human resources. This program is basing its success on minds educated in the humanities and technical sciences, on bold and gifted entrepreneurs, ingenious managers, diligent peasants reinstated in their rights of ownership, well-trained, blue-collar workers proud of their workmanship, retired persons who worked hard and endured a lot during their active years, and on young people willing to shoulder also burdens in the interest of their objectives.

B. INITIAL CONDITIONS

Before formulating what needs to be done, a brief review is necessary of where the changeover to a market economy stands after 1990, what we have achieved so far, and what difficulties have yet to be overcome.

State of the Economy, Society, Culture, Environment

5. The institutions of parliamentary democracy were in place by 1991, and work continued on developing the legal prerequisites for the changeover to a market economy. But it became evident that an entire series of general conditions and laws indispensable for the economy's rehabilitation had to be created as soon as possible. Of equal importance for the functioning of the economy and society is the establishment of a suitable infrastructure.

6. The process of the economy's changeover has brought to light that employment policy, too, is under pressure as a result of the practice of overfull employment in years past. But last year it was also demonstrated that the rehabilitated enterprises and the start-ups have contributed toward helping four-fifths of the nearly 270,000 workers laid off last year find new employment fairly quickly.

7. By international comparisons, the economy's income producing ability is modest, and the existing capacities' degree of utilization is extremely low. Our loss of position in the world economy and our technical and technological lag stem from causes whose effects will be felt also in the long run. In terms of their background, the problems plaguing our country are equilibrium related, structural and social.

8. Although close to 29 percent in 1990, the rate of inflation has not exceeded the manageable level. The causes of inflation are the obsolete production structure, distorted price structure, and the curtailment of price subsidies that, to a large extent, had missed their intended purpose.

9. The economic processes in recent years affected various population groups differently. The incomes and financial situation of a proportion of the population worsened to a varying extent. Meanwhile, an able entrepreneurial stratum has improved its income situation by taking advantage of the opportunities that have arisen so far. As a result, society's polarization has accelerated.

10. Our economic backwardness and social situation stem from belittling and squandering our human resources, our skills, and professional knowledge.

11. Destruction of man's environment has assumed dangerous proportions and could become an obstacle to economic growth. That the obsolete infrastructure is hampering the functioning of the economy and of entire society is a result of long years of wrong economic and political decisions.

External Conditions

12. The decline of our trade with the countries of East Europe has compelled a proportion of our enterprises to change markets. It is encouraging that our export to the markets of industrialized countries has undergone dynamic expansion; the number of small companies and private enterprises newly granted the right to export, and hence also their export volume, have increased significantly. For the first time in many years, the favorable visible and invisible balances of our nonruble denominated foreign trade have been able to cover our annual interest payments.

13. The development of trade with the former CEMA, including the considerable decline of trade with the Soviet Union, is a serious trouble spot of economic policy for the coming years. The power system's one-sided development leaves the Hungarian economy exposed. The loss of markets is obviously unfavorable over the short term but could have a beneficial effect in the long run, by accelerating the forced restructuring of the Hungarian economy.

14. Because of our economic results in 1990 and the methods we have used so far to solve our social conflicts, there will be continued support on the part of the international monetary organizations, the governments of many prominent countries and foreign private capital, for Hungary's efforts to restructure and rehabilitate its economy.

Economic Equilibrium

15. The economy is in disequilibrium. The loss of Eastern markets is causing production cutbacks. The country's financial disequilibrium is caused by inadequate production of income and by the high costs of servicing the

foreign debt, which is closely related to the former. Overgenerous distribution systems, budget deficits, and payment orders held up by the bank pending sufficient funds characterize the domestic financial situation.

16. From the viewpoint of economic and financial equilibrium, inflation is one of the gravest dangers. It scares off domestic and foreign investors, throws social and economic relations into disarray, makes the future of families and individuals unpredictable, and thereby encourages wasteful behavior and taking a short view.

Economic Structure

17. By areas and branches, the Hungarian economy's structure lacks balance. Within the structure of ownership, the state sector's once considerable share has declined in recent years.

18. Reorganization of the still existing monopolies will produce smaller, independent economic units. Consolidation of new enterprises of medium size has not complemented the feverish establishment of small businesses.

A Halfway Market Economy

19. The greatest lag appears to be in creating the statutory foundations of a market economy. Laws pertaining to ownership relations, affecting finances and the state budget, protecting the interests of consumers and employees, underpinning the functioning of local government, and regulating individual industries have yet to be enacted.

20. By and large, the market's system of institutions is in place, but is weak or plagued by functional disorders. The conditions of competition (import liberalization, and a system of free prices) are guaranteed as a matter of form, but the market is strongly monopolized, and free enterprise and free trade are still encountering a variety of bureaucratic obstacles.

Principal Indicators of Economic Growth (percent change from year before, at comparable prices)

Indicator	1990	1991	1992	1993	1994
Gross production	Approximately - 5	- 4.5 to - 4	2 to 3	Approximately 4.5	Approximately 6
Of which: industries	- 5 to - 4	- 10 to - 5	1 to 3	3 to 5	5 to 7
Plants with fewer than 50 employees	70 to 100	Approximately 80	Approximately 35	Approximately 20	Approximately 17
Agriculture, food industry	- 3 to - 2	- 1 to 0	- 1 to 0	0 to 1	0 to 1
Construction industry	Approximately - 2	Approximately - 1	Approximately 2	2 to 3	3 to 4
GDP	- 5 to - 4	Approximately - 4	Approximately 3	Approximately 5	Approximately 6
Domestic expenditure of GDP	- 6 to - 5	Approximately - 5	0 to 1	Approximately 3	5 to 6
Final consumption	Approximately - 4	- 5 to - 4	Approximately 1	Approximately 2	Approximately 4
Of which: personal	Approximately - 4	Approximately - 5	Approximately 1	2 to 2.5	4 to 5
Public	Approximately - 4	Approximately - 3	- 1 to 0	Approximately 0	Approximately 0
—Excluding financial institutions	- 9 to - 8	- 8 to - 7	- 6 to - 5	- 6 to - 5	
Total investment	- 8 to - 6	- 5 to - 4	Approximately 0	Approximately 5	5 to 6
Government investment*	Approximately - 24	Approximately - 50	- 17 to - 16	Approximately 5	3 to 4
Local government projects	- 19 to - 18	- 24 to - 23	- 10 to - 9	2 to 3	Approximately 4
Business, private investment	- 5 to - 3	4 to 5	4 to 5	6 to 7	Approximately 7
Trade turnover: total export	- 5 to - 4	- 6 to - 5	6 to 7	Approximately 7	Approximately 7
—Central, East Europe**	- 27 to - 25	Approximately - 25	7 to 8	Approximately 7	Approximately 7
—Rest of the world	Approximately 10	4 to 5	Approximately 6	Approximately 7	Approximately 7
Total import	- 6 to - 5	- 7 to - 6	2 to 3	3 to 4	Approximately 8
—Central, East Europe**	- 19 to - 17	Approximately - 25	Approximately -/n3	Approximately -/n2	6 to 7
—Rest of the world	Approximately 3	7 to 8	5 to 6	6 to 7	8 to 9

* According to the new structure introduced as of 1991.

** Meaning the countries with which trade formerly was denominated in rubles.

21. Among the countries of East Europe, we are producing the best results in privatization to give the economy momentum. In the absence of a national privatization strategy and of ideas on how to transform the sphere of large enterprises, however, privatization is plagued by uncertainties and is making little progress.

The gains made by entrepreneurs using a new approach are one of the phenomena that justify high hopes for the Hungarian economy. While the outputs of large enterprises in industry and agriculture have declined by 6 to 9 percent, the number of small businesses and their performances have doubled.

22. The reconciliation of interests, which is of fundamental importance for the smooth operation of a market economy, is functioning merely in principle at present. The participants' role, the circle and relative weights of those whose interests are represented, and the different levels of the reconciliation of interests remain unclear. The situation is especially difficult in collective bargaining, which has a strong influence on the economic processes and the expectations regarding inflation.

The problem of how to handle poverty still remains unanswered. Among the tasks of putting a social safety net in place, we have solved only the question of unemployment so far.

Due to the state sector's preponderance, the degree of centralization is very high, and it is difficult even for the independent business funds to raise resources and to gain access to them; there is much less movement of capital than what would be necessary. Our economic backwardness is also a contributing factor in that our human resources, our skill and professional knowledge are belittled and squandered.

C. ECONOMIC POLICY'S KEY POINTS

In solving the tasks confronting our country, the primary function of the government, of the state, will be to create and regulate the general conditions that influence the decisions of the economy's players. This requires first of all the unambiguous clarification of ownership relations and of their legal framework, as well as the implementation of a series of measures to modernize institutions and to streamline organization. The development of production technology is an important precondition for greater competitiveness and expansion of export; it will require a closer link between science, R & D activity and education, as well as practical application of the results.

Economic policy is concentrating on maintaining the economy's external and domestic equilibrium, and on managing the serious social problems. The state's role in the economy and particularly in business will be curtailed considerably; it will be limited predominantly to crisis management.

Competition will be assigned an ever greater role in the economy. The government will enhance competition by reviewing the state's tasks and the circle of institutions

providing public services, by reforming public finance, through privatization and the liberalization of import, by significantly curtailing bureaucratic restrictions and, in the human sphere, by supporting spontaneous private organization. Economic processes in the competitive sphere will develop in accordance with the specific decisions of employers, trade unions and other interest-representing organizations. The government's task is to make possible on the one hand, and to compel on the other, acceleration of the changeover to a market economy, of organizational streamlining, of improving the efficiency of capital, and of the observation of fair business practices.

The government will define its own tasks more clearly and make its work more efficient. The objective is to create a highly trained professional civil service, and to improve cooperation and the flow of information between government agencies and the branches of government.

The key points of the government's economic policy can be summed up as follows:

Ownership

23. One of the most urgent tasks is to transform ownership relations and reduce the proportion of state ownership, by increasing the proportion of private ownership. The principal means of achieving this is privatization. To speed up privatization, we urgently need a detailed privatization strategy. Furthermore, the work of the State Property Agency needs to be made more efficient, and the process of privatization has to be decentralized.

24. From the viewpoint of managing property that will be retained permanently or temporarily in state ownership, a distinction must be made between government (nonbusiness) property and the state's business assets. The state's business assets will acquire new, marketable forms.

25. In the national privatization strategy it is necessary to specify those areas where the state's right to intervene or a state concession will have to be maintained over the long term (in the case of natural resources, and certain parts of transport, the infrastructure, the power industry and heavy industry, for instance) or where Hungarian majority ownership is in the national interest (in the mass media or in an industry that is a national asset, for example).

26. Foreign capital plays an important role in privatization. Employee share ownership, credit schemes to finance privatization, compensation, and the development of modern forms for cooperatives will accelerate privatization.

27. A prerequisite for the development of cooperatives of a new type is to convert cooperative property into private property. The new Cooperative Law and the new Land Law will already be based on the system of private ownership.

28. The government is creating a favorable climate for the influx of foreign capital into our economy and is enhancing this process through the gradual and carefully considered liberalization of the regulations governing the acquisition of equity, concessions and real estate in Hungary by foreigners, the maintenance of their domestic accounts, and their stakeholdings in financial institutions.

29. To make the economy more competitive, the government intends to support, regardless of their forms of ownership, businesses of small and medium size that are the most flexible in adjusting to changing market conditions.

Competition, Market Institutions, Infrastructure

30. The government is reviewing the system of licensing, registration and administration that is hampering the formation of ventures and their operation; it is also curtailing or abolishing restrictions and is proceeding with deregulation. The government also intends to facilitate the international movement of labor and capital, in line with the practice that has evolved in the developed countries.

31. The government is strengthening competition through the further, carefully considered liberalization of the price, wage, export and import regulations, and by reviewing the rules of procedure.

32. Accounting and supervision rules patterned on European standards, the introduction of tax and depreciation rules suitable for a market economy, simplification of the rules of procedure in cases involving taxes and fees, revision of the tariff system, amendment of the Foreign Exchange Code, and the earliest possible adoption of product grading systems (including environmental standards) will serve to create greater legal and managerial certainty.

33. The government will help the creation of new jobs. It will provide central resources for the expansion of employment in depressed areas and depopulated villages, and assistance for those who are willing to undergo retraining and for persons whose ability to work is impaired. The government will encourage businesses that offer further training, process information or create new jobs. In addition to the funds that provide allowances and benefits for the unemployed, the government will be relying also on the work of local governments and independent charities.

34. Due to the structural nature of unemployment and to its concentration in certain trades and geographic areas, an increase is unavoidable in the number of persons forced to the fringes of society. Society will care for these individuals under its policy on poverty.

35. Curtailment of the state's role in welfare policy can proceed only at the rate, and to the extent, that the new social security system and the nonprofit, church and charitable organizations are able to take over the welfare

tasks. The government intends to use the available resources with due consideration for every group that finds itself in a difficult situation.

36. Rehabilitation of the system of interest-representing organizations is in the nation's interest. We need a stable and orderly situation, and strong organizations for the representation and safeguarding of interests. The government's support for, and statutory regulation of, the system of worker councils will institutionalize at the workplaces the workers' say and right to participate in decisionmaking, and their freedom to organize.

Stabilization Strategy

37. Inflation, unemployment, economic growth and the balance of payments appear in the government's economic policy jointly, in their interrelations, but varying in their relative importance. During the first two years of the program's horizon, the government considers fulfillment of international obligations and the fight against inflation as its most important tasks. Its principal tools in the fight against inflation are as follows: disciplined fiscal and monetary policy; reform of the state budget and financial system; circumspect setting of official prices; closer supervision of the monopolies' behavior in the marketplace, legal action in the case of abuses, and the liquidation of monopoly situations; an exchange rate policy that enhances the forint's stability; a liberal import policy; curbing the wage-and-price spiral within the framework of reconciling interests; and the encouragement of savings.

38. An important objective of economic policy is that the increase in domestic demand generated by the trade surplus resulting from the expansion of export lead to an increase of domestic production, rather than to inflation. The economy's supply response has to be improved by putting in place the economic conditions for entering the market and expanding production.

39. Economic policy promotes the uncovering of the economy's latent reserves through services that help to implement an active policy on employment, and through nonmaterial infrastructural investments or investments of human capital.

40. Raising the material infrastructure to the European level is a key question of the economy's development and international integration. The set of financial and technical conditions for this can be in place by the second half of the four-year period.

Debt Policy, Convertibility

41. The underlying principle of the economic policy concepts regarding the management of our debt is that, if we get the foreign (moral and material) support which we realistically may expect, we will be able to meet our international financial obligations regularly and in full, by relying on our own efforts.

42. The government does not regard as realistical, and therefore rejects, the ideas regarding individual cancellations of varying amounts of our debt, its rescheduling, and the reduction of interest rates. According to the breakdown of our loan agreements and their system of clauses, debt rescheduling would be technically very difficult or not at all feasible. Because of our partial or complete loss of the private money markets' confidence, rescheduling would do the country more harm than good. Paradoxically, cancellation of a portion of our debt or its rescheduling would even increase our burden of debt servicing. That way it would not be possible to finance even the reduced payments from new loans, and the immediate withdrawal of income from the national economy would necessarily increase.

43. At the same time, in its negotiations with international monetary institutions and various governments, with state and professional or economic community organs and with private banks, the government is doing everything possible to secure more favorable terms for

long-term cooperation. It has been urging closer international cooperation that would facilitate the collection of a larger proportion of its claims past due. The Hungarian Government's representatives will actively participate also in the future in all international negotiations on alleviating and solving the worldwide problem of debt.

44. The government will introduce [the forint's] convertibility without endangering external and domestic stability. It intends to continue the recently adopted measures so that the lifting of restrictions will not jeopardize its ability to finance the balance-of-payments deficit, and the convertible forint's introduction will not cause runaway inflation, either. The government deems it necessary to declare convertibility, and it expects to receive international monetary assistance for the formation of the reserves that convertibility will require.

45. First the task of liberalizing import must be continued, and an interbank market for foreign exchange must be created. In 1993 it will be possible to declare the forint's complete domestic and foreign convertibility, except in the case of personal capital transfers.

Principal Indicators of External Economic Relations

Indicator	Units	1990	1991	1992	1993	1994
Foreign Trade Turnover						
Total	\$ million		- 200 to - 100	300 to 400	Approximately 900	Approximately 900
—Central, East Europe(*)	\$ million	Approximately 0 (R million)	- 1100 to - 1000	Approximately - 600	Approximately - 200	Approximately - 200
—Rest of the world	\$ million	Approximately 950	800 to 900	900 to 1000	Approximately 1100	Approximately 1100
Index of Change in Terms of Trade						
Jointly	%	100 to 101	Approximately 88	99 to 101	99 to 101	99 to 101
—Central, East Europe(*)	%	Approximately 103	78 to 79	99 to 101	99 to 101	99 to 101
—Rest of the world	%	Approximately 98	Approximately 100	99 to 101	99 to 101	99 to 101
Balance on current account:						
Jointly (1990 only \$)	\$ million	100 to 200	- 1200	- 650	- 50 to 0	Approximately 0
—Central, East Europe(*)	R million	Approximately 500				
Net balance of tourist receipts						
Total (1990 only \$)	\$ million	350 to 400	400	450 to 500	500 to 550	550 to 600
Debt servicing (1990 only \$):						
Net interest payments	\$ million	1500	1600	1650	1700	1750
Repayment of principal	\$ million	2480	2350	2780	2610	2980
Jointly	\$ million	3980	3950	4430	4310	4730
Debt servicing	% of GDP	12 to 12.5	11 to 11.5	11 to 11.5	Approximately 10	Approximately 10

* Meaning the countries with which trade formerly was denominated in rubles.

Denationalization, Fiscal Policy

46. In conjunction with the introduction of the new system of public finances—and due in part to reduced demand for central redistribution, and in part to changes in the state budget's functions and in the institutions' roles—significant changes can be expected in fiscal policy in the coming years. The governing principle behind these changes is that the state should retain only those functions which can be performed more efficiently by it than by individuals or by their associations and businesses established on a territorial or occupational basis.

47. Although the state's functions will be curtailed only gradually, the effects of their curtailment will be perceptible to society nevertheless. The objective is to reduce the proportion of redistribution by 1994 (from 64 percent of GDP today, to between 55 and 57 percent). First of all, the allocations of central resources to the budgetary organs, the subsidies for domestic enterprise, the price subsidies, and the separate state funds can be expected to shrink. This will make possible the lowering of budgetary revenue as a percentage of GDP, and hence also lower levels of taxes, while by 1993 we will have essentially a balanced budget.

48. The narrowing of the scope of state functions will temporarily have an unfavorable effect on wide masses of the population. This is why curtailment of the state budget's redistributive role is proceeding in harmony with overhauling the social policy system.

49. With the social policy system's modernization the social policy tasks of the state, local governments and social security insurance will be distributed more evenly and will become clearer. The government's objective is to assign insurance a greater role in the operation of welfare systems, and to make room for welfare institutions organized by nonstate (but receiving state aid) independent charities, public associations, foundations, churches and societies that do welfare work on various levels and pursue various interests.

50. The purpose of the new laws regulating the operation of so-called large income distribution systems is to rearrange the state's assumed role. The pension system and the housing system will be changed, and the system of health care and the educational system will be reformed.

Monetary Policy's Growing Role

51. In monetary policy the Hungarian National Bank, within the framework of its independence guaranteed by law, devotes special attention to defending the value of the forint and to attaining a desirable balance-of-payments position. To that end the direct financing of the state budget by the central bank will diminish, and the set of tools for regulating the money market will expand and become more uniform.

The proportion of refinancing automatically provided for the commercial banks will decline, the role of open market operations will increase, and within them foreign currency transactions between the Hungarian National Bank and the commercial banks will assume greater significance. The growing role of monetary policy and the commercial banks' greater independence will hopefully lead to lower interest rates.

52. To improve competition, there is a need also within the banking system to unify the regulations and obligations, and to increase the number of players in the marketplace.

53. Privatization and the participation of foreign capital are desirable also in the case of financial institutions, parallel with tightening the system of bank regulation. The government supports the development or expansion of the individual financial services that banks provide—export credits, product warranties, the system of insuring loans and deposits, mechanisms for handling the risk of exchange rate fluctuations, and mortgage lending, for instance—and is helping to abate also in this manner the share of the rising risk that the economy's players must bear.

54. Realization of the market economy's purpose cannot be imagined without developing as soon as possible the financial institutions' information system and the infrastructure of their services.

International Economic Strategy

55. A structural policy geared to external economic relations is a must for the Hungarian economy. Therefore we are employing also subsidies and export incentives that are acceptable to GATT and the international monetary organizations, respectively. The expansion of our export is based on a sound foundation when production takes place under the conditions of a market economy. The granting of loans from foreign sources to finance the switching of markets, the development of a system for extending and guaranteeing credits that satisfies the banks' requirements, and the introduction of a reconsidered system of bidding for export [licenses] serve to provide such a foundation.

56. Foreseeably in 1992, Hungary will become an associate member of the European Community, and also the free trade agreement concluded with the EFTA will become operational. Thereby Hungary will belong to a free trade zone covering practically all of Europe. The agreements will provide considerable trade advantages (duty-free and unrestricted access to markets for industrial products, easier access for agricultural products); they will also encourage European capital to invest in Hungary and will provide wider employment opportunities in Western Europe for Hungarian experts. Parallel with efforts in the area of economic diplomacy, the Hungarian economy's linkup with Europe must be enhanced also by gradually harmonizing the instruments

for managing the economy (taxes, duties, fees, standards, quality control procedures, competition rules, etc.) with the European norms.

57. The government will actively participate in the development of regional relations within the framework of the Pentagonal, and in the establishment of an open free trade zone jointly with the Czech-Slovak Republic and Poland.

58. The government's economic diplomacy enhances the further perfection of our existing relations with the overseas industrialized countries (the United States, Canada and Japan) whose role is important from the viewpoint of technology transfers, imports of operating assets, and debt financing.

59. A world fair organized as a business venture would enhance the participation of foreign capital and the infrastructure's development. If Expo is held, we can expect a significant expansion of opportunities for development (foreign operating assets, investment, tourism, job opportunities, etc.).

60. It is in our fundamental interest to retain our East European markets and the Soviet one in particular, to streamline the structure of our trade with these markets, and to create an institutional background for real, market cooperation.

61. As a part of its strategy for foreign economic relations, the government intends to establish a new type of organization for economic diplomacy and foreign trade, and to combine this with the development of the information system serving the organization. The government wants to aid also in this manner the influx of advanced technology and operating assets, the expansion of export markets, and the fullest possible utilization of our comparative advantages.

D. AN OUTLINE OF THE ECONOMIC PROCESSES IN THE COMING YEARS

The government intends to realize its concept of economic policy on the basis of the action program whose details are presented in the Appendix. The schedule of measures is detailed for 1991-92, but contains mostly indicative tasks for 1993-94. Obviously, in the coming years it will be necessary to continually update the "matrix." To accelerate the development of a market economy environment, the government deemed it necessary to plan an extremely tight legislative program for 1991. At the same time the government is aware that the feasibility of the program's realization demands from itself and the National Assembly more goal-oriented operation and cooperation than heretofore.

This chapter presents an essential description of economic policy in the coming years, based on situations and conditions varying over time. According to the key points of economic policy, 1991 will be the year of

reorganization and privatization; 1992, of fighting inflation and of convertibility; 1993, of stability and starting; and 1994, of growth and adaptation to Europe.

Obviously, alternation of the key points will be less tied to specific calendar dates than what appears in an outline of this kind. And it likewise goes without saying that the effects of some measure—of putting a law into effect, for instance—will not necessarily make themselves felt in the same calendar year. The outline is arranged according to the dates of the measures.

1991

62. The process of putting the market economy's system of institutions and legal system in place will be completed during the year. Essential laws regulating the transformation of ownership relations will be enacted, and a stable set of conditions for privatization will evolve. The Public Finance Law, the Law on the Central Bank and the Law on Financial Institutions will provide better statutory regulation of the tools of fiscal and monetary policy. The Accounting Law, the Bankruptcy Law and the Law on Financial Institutions will serve to tighten business and payments discipline. The Law on Investment Funds and the Law on Venture Capital Companies will create new tools for the flow of capital. The increasing business risks require also the insurance industry's development, the framework for which will be provided by the Insurance Law.

63. Reform of the large income distribution systems—the pension system, housing system, health care system, and educational system—will be the purpose of the new laws regulating their operation and defining the state's role in them. In addition, work will have to begin also on the economic and legal underpinnings of developing the human and the production infrastructures.

64. Ninety percent of import is already liberalized, and those actors in the economy who have the necessary forints are able to import freely within this circle. An interbank foreign exchange market—albeit a limited one for the time being—will develop; borrowing of foreign exchange will be decentralized; foreigners will be able to open forint accounts and make transactions in forints.

65. Besides these steps by the government to change the economic system, a task of fundamental importance is to overcome the difficulties in trade with the one-time CEMA countries. By our estimates, the worsening terms of trade with these countries and the dropout of export are causing a loss of \$2 billion; consequently, an increase of our total debt in 1991 will be unavoidable. The loan agreements concluded with international organizations (EEC, OECD, IMF and the World Bank) will enable us to work off this loss over a period of three or four years, rather than in a single year; and after 1991 we will be able to do so by improving the economy's performance and expanding export, rather than through domestic belt-tightening.

66. Due to the contraction of the one-time CEMA markets, and also because the increased performance of the profitably operating businesses does not yet compensate for the performance dropout in the activities that are becoming unprofitable under real market conditions, economic performance in 1991 will decline within the circle of players observed under the present system of statistical reporting. If total export drops further because exports to East Europe decline at a faster rate than what has been forecast, then—even in case of the continued rapid expansion of exports to the West—there will be a considerable decline also in domestic expenditure of national income, i.e., in personal consumption, and net capital formation. Then it will become necessary to employ the specific programs for crisis management.

1992

67. Closely linked to the processes of 1991, the main tasks of changing the economic system in 1992 will be to establish harmony among the market economy's newly created institutions, and to make the legal and organizational corrections that become necessary along the way.

The relative weight of private ownership will increase significantly under the influence of privatization and the influx of foreign capital. The changes in the set of conditions for economic activity will compel also the enterprises remaining under state ownership to operate more efficiently. The streamlining and perfection of the financial institutions' (banks and insurance companies) operations, the liberalization of wages, and the commencement of reforming public finance (including changes in the tax system's essential elements) will contribute toward creating more room for entrepreneurs.

68. The liberalization of export and import, with the exception of a few commodity groups, will become complete. In the foreign exchange market operated jointly by the commercial banks and the central bank, the enterprises and entrepreneurs will be able to obtain the foreign exchange they need for their activity, and will be able to sell there the foreign exchange they earn through their exports. The separation of transactions in foreign exchange and in forints will cease.

69. We expect that the agreement granting Hungary associate member status in the European Community will be concluded in 1992. In conjunction with this, substantial changes will have to be made in our tax, customs and other regulations, in our standards, and rules of supervision and procedure, for instance. This will create the prerequisites for our access to markets, and for the further expansion of our opportunities for foreign trade and for obtaining employment abroad.

It may be assumed that, after the through reached the preceding year, new general conditions for trade with East Europe will emerge and the market mechanisms will become stronger.

70. After developing a relatively stable export base for which there is market demand, and building up the central

bank's reserves that provide security, it will be possible to tackle inflation more decisively. We cannot expect a sudden surge of inflation due to one-time factors, like the one in 1991; or, even with the start of reforming public finance, the rate of inflation will be lower than before. Consistent regulation of supply and demand at the macro-economic level, the appearance of new competitors as a result of privatization and import liberalization, and the substantial reduction of the state budget's deficit will provide a realistic chance of lowering the inflationary expectations and conditioning, and of reducing the rate of price rises to a level close to 20 percent.

71. Because of the expected rise in social hardships, it will be necessary to centralize more resources than previously for supporting the strata driven to the fringes of society and for alleviating mass unemployment.

1993

72. This can be the first year of perceptible economic growth, made possible by the further expansion of export and by the improvement of the economy's ability to produce income. This way it will be possible to arrest the rise of our total debt, while simultaneously importing more.

73. All this will provide the basis for a rise in personal consumption, for improving the level of infrastructural services, and for a perceptible expansion of intensive investment activity that meets the market's requirements. Within the increase of domestic expenditure, additional resources will have to be made available to help provide work for the unemployed even during a recovery. The state budget's deficit will continue to shrink. As a result of the progress in the economic system's transformation, of a rise in performances that are acknowledged also by a demand for them in the world economy, and of lowering the inflationary expectations, it will be possible to reduce significantly the rate of rise in consumer prices, to a level between 10 and 15 percent.

1994

74. On the basis of the foreign and domestic economic conditions that can realistically be considered at this time, economic growth by the end of the year will be based also on an expansion of domestic demand, and therefore the growth of GDP will be able to recover and become stable. For the first time since the 1970's, domestic expenditure will be able to increase at the same or nearly the same rate as production, without the danger of disequilibrium. In a differentiated manner and to a modest extent, it will be possible to narrow the production infrastructure's lag in significant areas. Personal consumption, too, will increase substantially.

75. All this will make single-digit inflation possible, as well as reduction of the unemployment rate to the average for developed market economies. By then the business mentality of actors who are not state owned and behave in accordance with the market's reasoning could be decisive in the economy. Even with the budget

balanced, the proportion of redistribution by the state will drop approximately to between 55 and 57 percent of GDP.

The drafters of the program are aware that the tasks to be carried out during the next four years will require serious effort both of individuals and of society as a whole. But we will be able to achieve our objectives only if we take off our rose-tinted or dark glasses, so that we may consider realistically our situation, given conditions and existing possibilities. We must cease to be mistrustful of one another and must abandon the aimless, endless arguments. Personal successes serve as the basis of entire society's success, and the Hungarian economy's rise will lead to prosperity for private individuals. The country's cart can make headway only if we all pull it in the same direction. Because it will not roll by itself.

APPENDIX

Macroeconomic Forecasts

The factors that basically determine the development of economic processes are as follows:

- The financeable balance-of-payments deficit;
- The terms of trade;
- The growth rate of export;
- Development of import demand for production and final use; and
- Changes in the efficiency of productive inputs.

The forecasts, each version of which projects a probable course of the economy's development between 1991 and 1994, are based predominantly on these factors, and also on assumptions regarding the development of additional factors that influence the former ones.

In other words, we are dealing with particular forecasts. In the case of some factors we have to start out from assumptions concerning external conditions (the terms of trade as well as the world market's business cycle, which influences the growth rate of export) that change considerably also in our time; in the case of other factors, from assumptions regarding the processes of structural change (import intensity, change in efficiency, improvement of the ability to export) that have already started in the economy; but the financeable balance-of-payments deficit is a sort of mandatory element in every forecast. Under the given assumptions regarding the development of external and domestic factors, then, the examined courses of the economy's development show what combination of production and domestic expenditure is in line with the balance-of-payments deficit that is considered to be financeable. Through suitable regulation of aggregate domestic demand, economic policy must ensure that also production and domestic expenditure develop in accordance with the economy's given course, and that imports are kept at a level which will ensure a certain trade surplus if the forecast export is realized.

Regarding the development of the balance of payments, the forecasts have been based on the assumption that

there may be deficits of \$1.2 billion in 1991 and \$650 million in 1992, while in 1993 and 1994 the balance of payments would be essentially in equilibrium.

Due to the changed conditions of trade with the former CEMA countries, we reckoned with a substantial worsening of our terms of trade for 1991, by about 12 percentage points overall. (The 79-percent index assumed in trade with the Soviet Union basically influences this estimate.) The forecasts for the 1992-94 period assumed that the terms of trade would not change, but they also show what effects possible changes in the terms of trade would have.

According to the forecasts, the export volume will decline further in 1991 (by about 5 or 6 percent), because the attainable expansion of export to other markets cannot yet compensate entirely for the 25-percent drop in export to the former CEMA countries (including a 30-percent drop in export to the Soviet Union). A further decline is caused by the fact that, as a result of the changing conditions of trade, the portion of our traditional hard currency export that was based on exporting, after minimal processing, cheap raw materials obtained from ruble-denominated import is becoming uneconomic under the new conditions.

(According to experts, it is very likely that in 1991, taking also the indicated changes into consideration, export to the East European region, primarily to the Soviet Union, may decline by even more than what is being forecast. To examine the effects of this possibility, we performed also computations assuming that export to the Soviet Union would decline by 35 to 40 and 45 to 50 percent, respectively. Although a decline of such magnitude is in itself unfavorable, it would nevertheless have also a positive effect: Without the export and import items that would drop out, our terms of trade would worsen by less. On the basis of the aforementioned assumptions regarding the decline of our export to the Soviet Union, total export can be expected to be lower by 7 or 8 percent and by about 10 percent, respectively. From the low starting base of export in 1991, faster growth may be assumed for 1992-94 in the case of the basic version. On this occasion we will dispense with a detailed discussion of the forecast growth.)

For 1992 the basic version assumes 6.5-percent growth of total export. The reasoning behind this assumption is that the dynamic expansion of export to the traditional hard currency markets will continue, and also export to the former CEMA markets will continue to grow after its 1991 low point (when this export will sink to half of its 1989 volume). We assumed 7-percent growth for export in 1993 and 1994. This growth rate may be regarded as realistic on the basis of the growth rate we achieved in 1990 for hard currency export. If the market economy's development, the structural changes and the economy's transformation continue in accordance with our assumptions, and if economic pressure remains strong, even faster growth might be achieved.

An improvement also in the efficiency of investment activity must support this rapid growth of export. The Hungarian economy's capital-output ratio and its marginal efficiency of fixed capital, the two indicators that reflect the capital intensity of production, worsened throughout the entire past decade. If a more sensible investment policy is able to arrest the worsening of these indicators, the fixed assets base necessary for the growth of production and expansion of export can be ensured even without any increase in the volume of investment.

As a result of liberalization, the import demand for production and final use is increasing in many areas. Meanwhile, in the branches whose imported-material intensity is above average, primarily in individual industries, the import demand is falling as a result of the decline in production and export. Thus, according to the forecasts, the proportion of imported materials within the total consumption of materials will be around the 18-percent level that evolved in 1990.

In the forecasts we included a slow improvement of GDP as a percentage of output, one of the basic indicators of economic efficiency. The curtailment of loss-making activities, the increasing relative weight of services as well as of small enterprises and private businesses (when measured by this indicator, they are more efficient also in the light of official statistics) support our assumptions regarding the gradual improvement of this ratio. According to the basic version, the ratio of GDP to output will increase from 38 percent in 1990 to 38.5 percent in 1994.

The forecasts show that the ratio of the net stock of fixed capital to GDP, which was 37 percent in 1990, will decline in the next two years and will climb back to the 1990 level only in 1993. The results of more efficient investment activity will really begin to make themselves felt only in 1994, and the ratio that year will rise above 38 percent.

Under the presented conditions, in 1991 it will not yet be possible to turn around the process of declining economic growth [rates] that has been going on for several years, and it is very likely that GDP will shrink by about 4 percent.

(In the two more pessimistic cases that reckon with substantial drops in export, however, GDP's decline could reach as much as 5 or 6 and 8 percent, respectively, under the same external equilibrium requirements.)

Thus domestic expenditure will have to be held within narrow limits this year because of the losses resulting from the worsening terms of trade, which will necessitate a 5-percent reduction, sharper than the drop in GDP. Which means that we can expect cuts of between 4 and 5 percent, both in personal consumption and investment. Public consumption will have to be reduced faster than personal consumption (by 7 or 8 percent, if financial institutions are excluded).

(In the versions anticipating sharper declines, even bigger cuts (of 6 or 7 and 9 percent, respectively) are necessary under the constraints of external equilibrium. Within this, personal consumption would be reduced by 6 to 8 percent, while the volume of investment could, at best, reach merely 85 to 90 percent of its 1990 level.)

In 1991, numerous factors are exerting an influence toward inflation's further acceleration. The adjustment of energy utilization to the international conditions, the higher costs of formerly ruble-denominated import, as well as individual measures that are necessary for the changeover to a market economy (the curtailment of subsidies, and liberalization, for instance) are causing large one-time rises in the price level. In preparing the price forecast, we started out from the assumption that the higher import prices, the forint's devaluation, and the approximately 22- or 23-percent rise in before-tax pay would raise the producer price level by about 30 percent, and the consumer price level by even more, 33 to 35 percent, due to the curtailment of price subsidies. The danger of runaway inflation could be reduced by regulating aggregate demand in line with the economy's performance, but the price-curbing effect of restricting demand will be able to make itself felt only if we make progress in ending the monopolistic supply situation. If market constraints do not permit passing on the entire cost increase in the prices, the price level's rise could be smaller than its forecast rise.

The reduction of domestic expenditure, and thereby a drop of 6 to 7 percent in total import, will be achieved if nominal incomes rise more slowly than the inflation rate.

According to the forecast based on this condition, aggregate income (GDP at current prices) produced in the economy in 1991 will increase by about 22 percent. The explanation of this significantly slower growth than the rate of inflation is primarily the fact that the changeover to clearing in dollars is accompanied by a significant worsening of our terms of trade, and therefore the specific consumption of materials at current prices can be expected to increase by 1 percentage point, in other words, profitability will worsen significantly.

Before-tax wage income can be expected to increase by 30 to 32 percent, and within this an increase of 22 or 23 percent in the annual before-tax wage bill can be forecast.

Social entitlements in cash will increase at nearly the same rate as before-tax wage income. Due to rising interest rates, income from interest payments also is expected to grow very rapidly. Personal income available for consumption, capital formation, and savings will increase, foreseeably by 28 or 29 percent. According to the forecasts, income in the economic sphere (primary income) will grow by 17 or 18 percent because of the faster rise of wages than the growth of GDP; and within this, gross profit (profit + depreciation) will increase by 13 percent. The economic sphere's disposable income

will increase by about 23 percent, because the taxes payable from profit will rise at slower rates than the growth rate of profit itself.

If income formation proceeds as outlined above, and if a strict monetary policy is pursued, a net debt of about 110 billion to 120 billion forints can be forecast in the economic sphere. Which means that, compared with the 90 billion to 100 billion forints of net personal savings, the resources of domestic recipients of income will not be sufficient to finance the state budget's deficit. Indeed, the economic sphere's borrowing requirement will tie down even a proportion of foreign resources.

Since in 1991 we expect to obtain from abroad about \$1.2 billion of foreign resources, which is the equivalent of between 85 billion and 95 billion forints, about 60 billion to 70 billion forints will be available to finance the budget deficit. Taking this into consideration, a deficit of 75 billion to 80 billion forints may be allowed in the central budget.

The forecasts of the economic processes for 1992 are based on the assumption that we will be able to expand our 1992 export to East European markets by more than 6 percent, whereby our total export would expand by between 6 and 7 percent; thus, besides a financeable deficit of \$600 million to \$700 million in our dollar balance of payments, a 1- to 3-percent expansion of import would be possible. If the external conditions develop in this manner, the economic decline of several years' duration could be arrested, and economic growth could resume. But the expanded production of income can be realized only in foreign trade; due to the need to increase our export surplus by about \$500 million (for foreign investment), it will not be possible to increase domestic expenditure.

After the through of 1990-91, from 1992 on primarily industry and services can be expected to serve as the sources of economic growth. In industry, also in conjunction with privatization, significant restructuring will have to be carried out. As a result, the output of plants employing fewer than 50 persons each will grow rapidly. The proportion of such plants within industry will double each year and might reach between 30 and 40 percent by 1994. Meanwhile, the output of large plants will drop sharply at first, and then moderately. With the proliferation of small businesses, the signs of which are already evident also in 1990-91, a considerable improvement can be expected in the construction industry's efficiency. With an increase in housing construction and infrastructural investments, by the end of the period also the growth of the construction industry's output could exceed the average growth rate.

In 1992, according to our forecast, not only the economic decline can be arrested, but the acceleration of inflation as well. That will be feasible because the one-time great price shocks, still occurring in 1991, will not be repeated. Reckoning with a rise of less than 14 or 15 percent in import prices, and with a rise of slightly more than 20

percent in before-tax earnings, the producer-price level can be expected to rise by about 17 percent. Due to the further curtailment of price subsidies and to the VAT system's reform, the consumer-price level's rise can be expected to be 4 or 5 percentage points higher, i.e., 21 or 22 percent.

In accordance with the objectives of reforming public finance, the state budget's redistributive function will decline. Parallel with the resumption of economic growth, according to the forecasts, the state budget's expenditure will fall below 60 percent of GDP.

In 1993 we expect the growth rate of export to stabilize at about 7 percent, in our East European and other markets as well. That is both a realistic and a necessary condition for arresting the rise of our foreign indebtedness, but it will permit a nearly 4-percent expansion of import even without violating the requirements of equilibrium. And, assuming that in the meantime the progress in privatization and the intensifying market competition increase the economy's aggregate income producing ability, a 5-percent growth of GDP and a nearly 3-percent growth of domestic expenditure seem attainable. That will make possible an increase of 2 to 2.5 percent in personal consumption, and an increase of about 5 percent in the case of investments.

According to our views regarding the development of inflation in 1993, the rate of rise in producer prices could drop to 9 or 10 percent, at a 13-percent rise in wage costs and a rise of about 10 percent in the cost of imported materials. The rate of rise in consumer prices will be higher than in the case of producer prices also that year; in harmony with the development of personal incomes, it can be forecast as about 13 percent.

Curtailement of the state budget's distributive function will continue in 1993. As a share of GDP, revenue will be lower by 1 percentage point than in 1992; and expenditure, according to preliminary estimates, will be 1.6 percentage points lower. Thus, the state budget's revenue position will improve further; and the amount and proportion of the deficit will decline.

In 1994, at a 7-percent expansion of export, the growth rate of GDP could already be about 6 percent; and domestic expenditure could increase at about the same rate, because by then it will no longer be necessary to increase the trade surplus for the sake of balance-of-payments equilibrium. The rapid expansion of export and the rapid growth of GDP could be based on the preceding period's investments and on the improvement of economic efficiency.

According to the forecast that constitutes the basic version, inflation can be reduced to a single digit also in the consumer price index. The pressure exerted by production costs will diminish. The lowering of inflationary expectations and the suitable functioning of the mechanism for the reconciliation of interests might ensure that a rise in the level of real wages could occur even at a rise of about 10 percent in the level of nominal

wages. With the suitable regulation of aggregate domestic demand's other elements and with a balanced budget, single digit inflation could be supported also from the demand side.

The faster growth of GDP in 1994 will have a favorable effect on balancing the state budget. By taking advantage of the opportunities that the reviving economy provides, the narrowing of the state budget's scope will continue. As a percentage of GDP, the state budget's expenditure will fall from nearly 64 percent in 1991 to around the 57-percent level in 1994. And the state budget's deficit will shrink to a minimum.

In addition to the cases that depart from the basic version in the direction of the less favorable, we examined also what effects would result if the conditions of foreign trade, they basically determine our future possibilities and their main points are clearly definable already now, were to develop more favorably than what we have been anticipating so far. Even small success in cushioning the decline of export or the worsening of the terms of trade would boost both income production and domestic expenditure.

For there is some chance that the terms of trade might develop more favorably than has been assumed. After

all, their calculated worsening has never been experienced; it far exceeds the effects of the 1973-74 oil price shock; and the underlying price level and structural changes are so drastic that a deviation by even 5 percentage points is readily imaginable. In that case even a more moderate curtailment of import (by 2 or 3 percent) would be sufficient to achieve the same trade surplus.

The attraction of more foreign capital for additional investments to develop our export potential, in a way that also ensures foreign financing, would have a similar effect.

If the conditions outlined above were realized, the decline of GDP would be minimal, and this would enable us to maintain domestic expenditure at last year's level. In other words, further curtailment of personal consumption could be avoided, and a perceptible increase of investment would be possible already this year. Naturally, this would shorten the time needed to stabilize the economy and to set it on a course that follows a definite trend of growth.

SUPPLEMENT

THE GOVERNMENT'S ACTION PROGRAM AND PROGRAM OF ECONOMIC LEGISLATION

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
1. TRANSFORMATION OF OWNERSHIP RELATIONS						
a) Creating the legal framework and guarantees of ownership						
	As a result of nationalizations, the economy is based predominantly on state ownership. The ownership relations that have to be created to ensure the preponderance of private ownership have yet to be clarified. The spheres of authority in exercising state ownership are chaotic. All this is hampering the development of businesses and foreign investment.	Development of clear ownership relations, and institutions that ensure the legal conditions for secure ownership. Guaranteed equal opportunity for all forms of ownership. Attraction of more foreign capital into the economy.	—To elaborate the government's privatization policy and strategy.		1991	PM [Ministry of Finance], AVU [State Property Agency]

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To specify the circle of assets that will remain in state ownership also over the long term, and to define state property.	Regulation of state property	1991	PM, IKM [Ministry of Industry and Commerce]
			—To regulate the ownership of land.	Land Law	1991	FM [Ministry of Agriculture]
			—To designate the circle of church property and to schedule its transfer.	Law on Church Property	1991	MKM [Hungarian Cable Works]
			—To regulate the right to use and administer various properties.	Civil Code, Law on State Property, Local Government Law, Enterprise Law, Cooperative Law, and Land Law	1991	IM [Ministry of Justice], PM, EM [Ministry of Construction], IKM, PM

b) Privatization of the state's business assets

	The transformation of state enterprises and the privatization of state assets have begun. A State Property Agency has been created to implement and direct privatization.	Perfection or development of the organizational, financial and legal conditions that will ensure the acceleration of the privatization of state assets.	—To organize programs for the privatization of state assets.		Continually	AVU, IKM
			—To implement preliminary privatization.		Continually	AVU
			—To widen and encourage privatization initiatives by enterprises and private investors.		Continually	PM, MNB [Hungarian National Bank]
			—To sell off the state's stakeholdings.		Continually	AVU

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)						
Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
c) Institutional and financial support of privatization						
	The circle of owners (proprietors) is narrow, and the propensity to form capital is low. In comparison with the required rate of privatization, the effective domestic demand is small. The system of institutions for savings and investment opportunities is sketchy, and the level of money- and capital-market services provided for individuals is inadequate.	Expansion of the legal, financial and institutional opportunities that will enable wide social strata (small and medium proprietors, local communities, investment companies, retirement funds, property-management organizations) to become owners.	—To solve the problem of special securities for the purchase of state assets, and the expedient administration and trading of such securities.		1991	PM
			—To establish a special fund that will reduce the risks in conjunction with privatization.		1991	MNB, PM
			—To pay partial compensation for nationalized property.	Compensation Law	1991	IM
			—To create conditions enabling employees to purchase stock on favorable terms, and to provide the legal conditions for organizations that manage employee stock ownership plans.		1991	PM
			—To encourage investments and savings, and to protect the value of savings.		Continually	MNB
			—To operate a privatization-related lending scheme that provides seed money for persons setting up small businesses.		Continually	PM, MNB

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To broaden the legal framework and regulations that will ensure wider participation of foreign capital.		Continually	PM, NGKM [Ministry of International Economic Relations], AVU
			—To aid the development of property-management organizations.			
			—To elaborate the conditions for the formation and operation of investment funds, retirement funds and investment associations.	Law on Investment Funds; Social Security Insurance Law	1991	PM, NGKM; NJM [expansion unknown]
			—To create conditions enabling the foundations that finance public institutions (universities and colleges, for instance) to acquire income-producing property.			NKM [expansion unknown], PM

d) Efficient operation of the enterprises retained in state ownership

	A specified circle of business organizations will remain state-owned, and many of them are in a critical situation. An efficient system of institutions for the operation of state-owned property has not been developed so far.	The streamlining of the supervisory, management and operating structures of the enterprises that will remain permanently state-owned. More efficient operation of the enterprises that will remain temporarily in state ownership, and their readying for privatization. Rehabilitation of the enterprises operating in economically depressed areas.	—To perfect the organizational structure and to decentralize.	Law on Operating the State's Business Assets	1991 and continually	PM
			—To create property-management organizations.			The government agencies concerned

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To elaborate programs for crisis management.			The government agencies concerned

2. DEVELOPMENT OF THE MARKET ECONOMY'S INSTITUTIONAL SYSTEM, BUSINESSES AND COMPETITION

a) The intensification and regulation of competition

	Monopolies and market-dominating situations are widespread in the competitive sphere. Adjustment to market forces is slow. The conditions for entrepreneurship have improved (the restrictions on activities, on the number of employees and on foreign trade have ceased). The new Competition Law is in force as of 1991, and an Office of Economic Competition has been established.	Stimulation of competition, an end to monopolization that impedes competition, and enforcement of the Competition Law. Introduction of uniform commercial regulations.	—To introduce measures that stimulate competition:		Continually	PM
			—To coordinate the tax and financial measures		Continually	PM
			—To operate favorable lending schemes (Ecu loans, Enterprise Foundation, etc.)		Continually	PM
			—To monitor competition: to act against abuses by dominant firms, to regulate cartels, and to control mergers.		Continually	GVH [Office of Economic Competition]
			—To break up or regulate by statute the existing monopoly situations that have evolved in industry, the construction industry, trade and within the infrastructure, as a result of regulation or of founding state enterprises.		1991-92	The government agencies concerned, GVH

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To elaborate proposals for abolishing the monopolies created by unwarranted regulation, and for a possible framework within which a monopoly's activity could continue.		1991 and continually	The government agencies concerned, GVH
	The business infrastructure is primitive.	Development of conditions for institutions that support businesses, and help in creating equal opportunity for small and medium enterprises.	—To help develop business consulting and a business information system.		Continually	The government agencies concerned, PM
			—To improve the conditions for property assessment, accounting and financial services.	Accounting Law	1991	PM

b) Liberalization, deregulation

	The administrative restrictions that limited the scope of economic activity have been lifted to a considerable extent; 90 percent of import and of domestic prices has been liberalized; participation in foreign trade has become an entitlement. Exchange controls are essentially still in place.	Development of conditions of regulation that conform to a mature market's conditions and to the international market's norms; the confining of direct state intervention to the sphere in which it is permanently warranted; and the ensuring of a level playing field in the economy.	—To complete the process of liberalizing import and export, in line with the international norms.		1992 and continually	NGKM
			—To lift exchange controls and to gradually introduce the forint's convertibility.	Foreign Exchange Law	1991-92 and continually	PM, MNB, NGKM
	The elements and basic mechanisms of a domestic capital market have developed.		—To relax the restrictions that hamper the flow of capital, and to develop its mechanisms.	Law on Investment Funds, and Law on Venture Capital Companies	1991-92	PM, NGKM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	The licensing of the import of operating assets has ceased. The regulations that have been holding back the founding of businesses have been relaxed. Infrastructural problems and undeveloped mechanisms are making the influx of operating assets more difficult.		—To further improve the conditions for the influx of foreign operating assets; to allow the acquisition of real estate; to aid the supply of information; and to make the granting of concessions possible.	Law on Concessions	1991	PM, IKM
	The tariff system is not uniform. There are departures from the GATT rules. The duty on advanced technology is excessive.	Perfection of the tariff systems, in accord with the market's requirements and our international obligations.	—To lower the level of customs duties, in line with our international agreements, integration efforts and Hungary's given structural conditions.	Tariff Law	Continually	NGKM, PM
	There are built-in barriers in the wage mechanism.	Letting agreements between owners and employees determine the development of wages.	—To completely liberalize wages.		1992	MuM [Ministry of Labor], PM

c) Institutional system for reconciling interests

	The evolved system of the Council for the Reconciliation of Interests does not reflect real interest relations, and distorted interests are appearing. The institution of reconciling interests has not developed as yet.	Harmony among the interest representing organizations and among the interests. Separate articulation of the state's interests as owner and as employer. Development of multilevel and multilateral mechanisms for the reconciliation of interests.	—To reform the institutional organs for the reconciliation of interests:			MuM, PM
			—Among the government, the employer and the employees; and		1991	BM [Ministry of the Interior]
			—Between the central government and local governments			
			—To coordinate the interests of different trades			

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To establish the legal and institutional conditions for protecting the interests of consumers		1991	IKM
			—To organize and regulate by statute the protection of the interests of employees.	Updating the statutory regulations governing the operation of trade unions.	1991	MuM
d) Business discipline, economic perspicuity						
	The accounting system does not meet the requirements of a market economy. Liquidation and bankruptcy are not functioning, and there are long queues of payment orders held back by the banks pending sufficient funds. It is possible to report profit that has not been realized.	Development of systems that meet international norms; promotion of openness regarding businesses and their real financial situation; reduction of the volume of bad debt, and shorter queues of payment orders.	—To modernize accounting.	Accounting Law	1991	PM
			—To regulate the liquidation of businesses.	Bankruptcy Law	1991	PM
			—To streamline the circulation of money.	Law on the Central Bank	1991	MNB

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
3. PUBLIC FINANCE						
	<p>Redistribution through the state budget is excessive (64 percent of GDP) and is distorting market relations. As a result:</p> <ul style="list-style-type: none"> —The state is taxing income recipients at an excessive rate —The state undertakes functions that it is unable to perform efficiently. —The pressures in financing the state budget are intensifying. Restriction in state finance is not selective. 	<p>A substantial reduction of the proportion of redistribution.</p>	<p>To curtail export subsidies, subsidies to domestic enterprises, and consumer price subsidies; to place certain state functions off budget, performing them not as a public authority, and making it possible to contract them out to entrepreneurs, respectively. To develop a public administration apparatus and a system of institutional financing that are in line with the new system of public finance. To modernize the public administration apparatus.</p>	<p>Laws on the annual state budgets</p>	<p>1991-95</p>	<p>PM; As specified in Item 9</p>
	<p>The level of the services that the state's system of institutions provides is low and deteriorating.</p>	<p>Improvement of the level of services, despite the paucity of resources.</p>	<p>To reform the distribution systems.</p>	<p>Laws regulating the distribution systems</p>	<p>1991-94</p>	<p>As specified in Item 9</p>
	<p>The rules of procedure and administration in public finance are chaotic, and there are auditing problems. In preparing the state budget for 1991 in the spirit of the Public Finance Law, there was sufficient detail and the procedural and administrative rules were clearer.</p>	<p>Elaboration of unambiguous rules regarding accountability, authority and procedure. An audit trail of the handling of public funds.</p>	<p>To develop a rule-of-law state's system of public finance.</p>	<p>Public Finance Law and related statutory regulations. Law on the Central Bank.</p>	<p>1991</p>	<p>PM, MNB</p>

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	The state budget's information system is not functioning properly.	A correct and reliable information system.	To review the entire information system and develop a suitable computerized information system, on the basis of new principles, to meet the state budget's needs and the requirements of control.	Statutory regulations on the state budget's system of report balances.	1991-92	PM
	The public debt is huge, and the cost of servicing it is one of the most rapidly growing items of expenditure in the state budget. By 1991 there is openness regarding the amount of public debt, and its individual elements are being managed as prescribed by law.	Reduction of the amount of public debt and of its servicing cost. The dominance of market-conforming methods in financing the state budget's deficit.	To combine the reduction of the state budget's deficit with privatization, by reducing the public debt.	Laws affecting privatization and budgeting. Law on the Central Bank. Public Finance Law.	1991 and continually	PM, MNB

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
4. TAX POLICY						
	<p>The introduction of individual income tax, VAT and business profit tax has improved the tax system. At the same time, the wide range of tax exemptions on various grounds (or the 0 rate in the case of VAT) have contributed significantly toward the evolution of very high nominal tax rates. The legal and technical tools of tax control, and the personnel and methods have not been able to keep pace with the sudden increase in the number of taxpayers, the introduction of new taxes, and requirements of the wider range of legal remedies now available in tax cases. The loss of tax revenue due to tax evasion is also estimated as substantial.</p>	<p>Approximation of the tax solutions employed by countries with developed market economies.</p>	<p>To elaborate a concept of tax policy.</p>		<p>1991</p>	<p>PM</p>
		<p>—Sharp curtailment of the individual income tax and VAT exemptions, and of the favorable tax brackets.</p>	<p>—To change the ratio of VAT revenue to consumption-tax revenue, in favor of VAT. To narrow the range of VAT rates and abolish the 0 rate, without any significant increase in the average amount of VAT.</p>	<p>Tax laws</p>	<p>1991</p>	<p>PM</p>
		<p>—Broader bases of assessment, to make the distribution of the heavy tax burden more even.</p>	<p>—To bring the tax on business income and private income in harmony. To abolish for individual entrepreneurs the option to pay tax either on business (or partnership) profit or on individual income, in order to minimize the tax burden. To bring the tax on individual elements of income (wages, earnings, dividends, capital gains, etc.) closer to one another, and to unify accounting for costs in different types of business. In the case of business profit tax, to determine the basis of assessment in accordance with the actual profit of the business; to achieve, through a gradual transition, an end to taxing depreciation and bad debt.</p>			

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
		—A reduction, if possible, of the tax burden as a percentage of GDP, in accordance with the reduction of public expenditure and the financeable budget deficit's development, respectively.	—To prescribe the filing of complete property returns. To modernize the tax authorities' organization and the methods of tax auditing.			
			—Improvement of the efficiency of tax collection, and reduction of the scale of successful tax evasion.			

5. MONETARY SUPERVISION, FINANCIAL INSTITUTIONS

	The central bank controls money supply predominantly through refinancing loans. The scope of monetary policy and credit policy is strongly limited.	Increased importance and role of monetary policy and credit policy. Gradual dominance of market tools in regulating aggregate demand.	a) To establish the Hungarian National Bank's autonomy.	Law on the Central Bank	1991	MNB, PM
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Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	<p>The organized money market and credit market are underdeveloped. The banking and financial system is inflexible and not differentiated; institutions specializing in individual financial services (for instance: mortgage lending, collateral loans, etc.) are lacking. The system's operation, under the influence of earlier decisions, is proceeding along a forced path in many respects, and its influence is limited. On top of this there are the forced measures made necessary by fiscal disequilibrium.</p>		<p>b) To develop the central bank's set of means:</p> <ul style="list-style-type: none"> —To employ market interest rates; —For short-term loans; —Unified level of interest rates charged by the central bank —To increase the role of open-market operations; —To auction refinancing loans —To buy and sell government securities with long maturity dates; —To correct the reserve ratios and curtail the role of refinancing loans —To develop the banks' information system. 		<p>1991</p> <p>1993</p> <p>1991 and continually</p> <p>1991 and continually</p> <p>1992 and continually</p> <p>1991 and continually</p>	<p>MNB</p>
	<p>The portfolios of the largest commercial banks do not meet requirements. Their holdings of treasury stock and their retained earnings are low, and there is significant interlocking stock ownership. Their technical conditions are obsolete. A giro system is lacking. Their systems of collective security and guarantees are not solved, either.</p>	<p>Introduction of new financial services.</p>	<p>c) To regulate anew the operations of financial institutions:</p>	<p>Law on Financial Institutions, Accounting Law</p>	<p>1991</p>	<p>Inspectorate of Banking</p>

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To create order in the portfolios of the large commercial banks			
			—To modernize the system of bank statements and clearing			
			—To increase the proportion of retained earnings and the formation of reserves.			
			—To encourage the participation of foreign capital, but reserving the government's right of approval on a case-by-case basis		1991	PM
			—To promote the participation of private capital.			
			—To bring the operations of domestic banks closer to those of foreign banks			
			—To regulate the extent of interlocking stock ownership.			
			—To reorganize the State Development Institute		1991	PM
			—To regulate uniformly the founding and operations of investment and venture-capital companies.	Law on Venture-Capital Companies	1992	PM, MNB, Securities and Exchange Inspectorate
			d) To develop the insurance industry:	Insurance Law	1992	PM, Insurance Inspectorate
			—To put in place a system of deposit insurance.			
			—To develop the legal and institutional conditions for credit insurance.			
			—To aid the introduction of new types of insurance.			

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To solve inherited problems (for instance: farm insurance, and export credit insurance).			
			—To license the establishment of private and foreign insurance companies.			

6. CURBING INFLATION

	The price level's rise is accelerating and was close to 30 percent in 1990. The main factors behind this are: weak market environment, macroeconomic disequilibrium, surfacing inherited inflationary pressures, domestic prices have caught up with import prices, curtailment of subsidies, inflationary expectations, the wage-price spiral. The consequences are: declining confidence in the currency (compulsion to spend, low rate of savings), economic relations in disarray, the short-term approach, uncertainties in costing, and chronic social dissatisfaction.	The lowering of inflationary expectations, suppression of the factors whose effects are temporary, increased confidence in the forint's value. The slowdown and reduction of the extent of the price level's rise, in line with the lowering of inflationary pressures, and single-digit inflation by the end of the period.	—To stimulate entrepreneurship and competition.		Continually	IKM, FM, PM, KHVM [Ministry of Transportation, Telecommunications, and Water Management], MNB
			—To continue the economy's liberalization and to dismantle the barriers hampering import competition. To stimulate investment and savings, and to protect the value of savings.		Continually	PM, MNB, MuM, NGKM, the government agencies concerned

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To liquidate monopoly situations and to take strict action against abuses.	Law on the Central Bank	Continually	The government agencies concerned, GVH
			—To let monetary policy increase the money supply, keeping its increase lower than the increase in demand for money.		Continually	MNB
			—To pursue an exchange rate policy that also helps to curb inflation but is based increasingly on market forces.		Continually	MNB, PM
			—To shrink the state budget's deficit by cuts in expenditure, and to limit the state's role in distribution. To exclude a part of inflation when planning state expenditures. To finance an ever greater proportion of the budget deficit (borrowing requirement) by borrowing in the domestic money market.	Laws on the annual state budgets and on the distribution systems; Law on the Central Bank	From 1992 on, continually	PM, MNB; As under Item 9; MNB
			—To slow down the wage-price spiral, through meaningful reconciliation of interests.		Continually	PM, MuM
			—To slow down wage-price inflation, in the state's capacity both as employer and as owner.		Continually	PM, MuM, BM, the government agencies concerned

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
7. CONVERTIBILITY, FOREIGN EXCHANGE MARKET, FOREIGN EXCHANGE POLICY						
	Foreign trade has been liberalized considerably (70 percent of import in 1990). The commercial banks' right to conduct foreign exchange operations—payments in foreign exchange, relations with correspondent banks, accepting savings and maintaining accounts in foreign exchange—has been broadened.	Introduction of external and domestic convertibility, according to a schedule worked out for the program's duration.	In 1991, to prepare a comprehensive schedule for convertibility, and to accelerate the process:	Regulation of foreign trade Foreign Exchange Law	1991 1991-92	
	Operating assets and their profit can be freely transferred and repatriated.	In harmony with the market economy's development, the dismantling of the barrier between the domestic and the foreign economy; assertion, in mechanism-like fashion, of the international system of values; allowed transfer of resources. Free integration into the foreign economic environment, and putting in place the domestic conditions for joining the EC.	<p>In the first half of 1991:</p> <p>—To liberalize more than 90 percent of import, and to extend import liberalization to trade with East Europe; to decentralize the liberalization of import to the sphere of commercial banks.</p> <p>—To further liberalize for foreigners the possibility of maintaining forint accounts in Hungary (while retaining the restrictions on cash investments and on exporting and importing domestic currency).</p>			<p>NGKM, PM, IKM, FM, KHVM, MNB</p> <p>PM, MNB</p>

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	Exchange controls are essentially still in place, market instruments are underdeveloped, exchange rates are set officially, the system of relations between the domestic and the foreign markets are burdened by elements of red tape, and the informal black-market mechanisms are widespread.	The stabilization of expectations regarding inflation and the development of exchange rates.	In the second half of 1991:			MNB, PM
			—To develop an interbank foreign exchange market with control of the market exchange rates.			
		Introduction of the forint into the foreign exchange market and stabilization of its role in foreign markets.	—To develop the Hungarian National Bank's mechanisms for managing debt, influencing exchange rates and participating in the foreign exchange market.			MNB
			In 1992, to broaden the operation of the interbank foreign exchange market.		1992	MNB
			—To create a market for biddable foreign exchange futures and rates			MNB
			—To pay competitive real interest rates on forint deposits.			

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To organize a special fund (international support).		1992	PM, MNB, NGKM
			—To complete the liberalization of import.			NGKM, PM, IKM, KHVM
			—To integrate foreign exchange and forint transactions into the financial and monetary system			PM, MNB
			—To simplify the system of currency allowances for tourists			PM, MNB
			—To develop control mechanisms for monitoring foreign claims in forints.			MNB
			—To enable foreigners to maintain forint accounts with financial institutions abroad.			MNB
			In 1993, to make domestic convertibility complete:		1993	
			—To give individuals access to the foreign exchange market (the liberalization of acquiring foreign exchange).			PM, MNB
			—To abolish the licensing of borrowing foreign exchange.			NGKM, PM
			In 1994, to expand the forint's convertibility abroad.			MNB, PM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			—To introduce the forint in international foreign exchange markets, with interventions by the Hungarian National Bank, and to ensure harmony between the foreign and the domestic exchange markets, respectively.			

8. PROMOTION OF INTERNATIONAL INTEGRATION

a) Development of international relations

	Traditional CEMA cooperation has disintegrated, and its new forms have not emerged. The change of markets has begun, but the possibilities in the short term are limited.	Multilateral development of economic relations. With the EC, conclusion of a treaty granting Hungary associate member status, and preparations for full membership. A free trade agreement with the EFTA. Development of regional cooperation (Pentagonale, and Czech-Slovak, Polish and Hungarian cooperation). New arrangements for cooperation with the Soviet Union, based on market principles.	To bring the system of rules and regulations closer to the European norms. With the EC and the EFTA, to dismantle asymmetrically the barriers to trade. To launch cabinet-level initiatives for closer cooperation among Hungary, Czech-Slovakia and Poland, and for framing a free trade agreement. To develop direct relations with the Soviet republics.	Review and amendment of the statutory regulations and standards, in order to conform to the EC.	Continually	NGKM, PM, the government agencies concerned
			To conclude international agreements for protecting investors and avoiding double taxation.			PM, NGKM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
b) Expansion of export						
	Despite the Hungarian economy's openness, the competitiveness of our export to industrialized countries is low, its structure is obsolete, and our presence in Western markets is marginal. At the same time, we must dynamically expand our export because of debt servicing and the necessity to change markets.	Improvement of our ability to export, and significant improvement of export's commodity and market structures.	To help create viable financial and business-law mechanisms and frameworks in East Europe. To modernize the commercial sections of our legations, to support the establishment of mixed chambers of commerce and of trading houses, and to develop the system of market information. To expand or develop a system of export financing and of export credit insurance. To modernize the system of bidding for export [licenses].		1991 and continually	NGKM, PM, MNB
c) Promotion of the influx of operating assets						
	The influx has started and has accelerated considerably in 1990; its scale is the largest in East Europe. Unclear property relations and uncoordinated regulations are slowing down the influx.	Acceleration of the influx to strengthen the economy's restructuring, the development of a business culture, and improvement of the conditions for market entry.	To regulate ownership relations unambiguously, to provide information and services, to operate an Investment Fund. To aid the formation of investment associations. To improve the supply of information for foreign investment.	Foreign Exchange Law, and laws pertaining to the transformation of ownership.	1991 or continually	NGKM, PM, MNB, IKM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
9. PROTECTION, UTILIZATION, DEVELOPMENT OF HUMAN RESOURCES						
a) Employment policy						
	As the earlier overfull employment comes to light, and while the structures of the economy and of institutions are undergoing change, there is a growing shortage of jobs and increasing unemployment (in 1990, 2 percent of the employed persons of work age).	Anticipation and resolution of the economic and social conflicts arising from the shortage of jobs and from unemployment. Enhancement of manpower mobility and of adjustment to the labor market. Management of unemployment's social welfare effects.	To develop, expand and operate the active and passive tools and the institutions of employment policy:	Labor Code, Civil Service Law, Employment Law		Mum, IM, FM, NGKM
			—To update the statutory regulation of contracts of employment.		1991	
			—To develop the labor market's institutions.		1991	
			—To stimulate the creation of jobs, to help the unemployed become entrepreneurs, to aid retraining and further training, to organize public works programs, and to widen the opportunities for finding employment abroad.			
			—To put in place the institutions, resources and regulations for the management of unemployment.			

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
b) Education						
—Public education						
	The educational system is standardized in terms both of content and of organization.	A flexible educational system that meets the needs of society as well as of the individual, and also satisfies professional aspirations. Growing variety in educational services. Expansion of the circle of nonstate (nonprofit) schools. Competition among schools (and teachers), and publicizing the differences in educational levels.	To regulate teaching anew, in line with the Public Finance Law and the Local Government Law.	Law on Public Education	1991-92	MKM
			To support the elaboration of alternative curricula. To introduce a new system of examinations (that will permit evaluation of the performances of the students, teachers and schools).		1991, 1992	MKM
	The low prestige of teaching as a profession.	Positive selection among teachers.	To gradually adjust teachers' salaries.		1991-	MKM, FM
—Vocational training						
	The structure of skills and trades is obsolete and outdated. The system of vocational education is geared to the earlier needs of large enterprises.	A system of vocational education adapted to the needs of a market economy. (Basic training in public education, followed by separate, market-sensitive vocational training.)	To regulate vocational training anew. To establish a new kind of cooperation between the schools and the economic units. To clearly define the roles of the state budget and local governments, respectively.	Vocational Training Law	1991-92	MuM
	Specialization begins too early, and is rigid and narrow.	Imparting knowledge that is convertible and helps vocational mobility.	To strengthen general education and the development of skills.		1991-	MuM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	Enterprises are losing interest, and there is unequal shouldering of the burden.	Greater interest in vocational training among the potential users of manpower.	To incorporate the scheme of a Vocational Training Fund into the new system of regulating vocational training.		1991	MuM, PM
	Youths and adults receive vocational training separately, and there are level differences between the two forms of vocational training.	An integrated system of vocational training that offers a wide range of opportunities.	To establish, by counties, model centers of vocational training for youths; and, linked to the county centers, also regional centers for the vocational training of adults.		1991-	MuM
	Vocational training must be provided for large age groups. Unemployment among youths is rising.	An outlet for the demographic bulge. Extended training for those who were unable to find jobs.	To improve teaching conditions (within entire secondary vocational training).		1991-	MuM, MKM, PM
—Higher education						
	Administrative and institutional conditions are hierarchic and rigid.	A circumscribed state role, university autonomy, and academic freedom.	To regulate anew the conditions of higher education.	Law on Higher Education	1991-92	MKM
	Financing employs the base period approach.	Mostly normative state support.	To elaborate standards for each profession.		1992	MKM, PM
		The students' keener interest and greater sense of responsibility.	To elaborate a system of tuition fees, education related tax benefits, and student loans. To develop a government program for streamlining the organization of higher education.		1992	MKM, PM,
	Dismembered organization and supervision.	Regional, multifaculty state universities (in addition to which higher education on a business basis could be freely formed).			1991	MKM
	The number of participants in higher education is relatively small.	Expansion of enrollment.	To increase freshman enrollment by 20 to 25 percent each year.		1991-	MKM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
c) Scientific research						
	The state supported research institutes (of the Academy and ministries) are too large. Research is divorced from higher education.	The streamlining and narrowing of the network of state research institutes.	To provide government incentives for reorganization.		1991	TPB, MKM, MTA [Hungarian Academy of Sciences]
			—To dismantle the state-administrative role of the Hungarian Academy of Science, and to form scientific bodies sponsored by local governments.			
			—To integrate many areas of research into higher education.			
			—To convert individual research institutes into enterprises, and to promote their privatization.			
	Mostly the base period approach prevails in the financing of institutions.	In basic research, program financing that sets performance criteria. In applied research, the strengthening of market relations.	To elaborate new methods of financing research programs.		1991	TPB, MKM, PM
	The system by which the government directs research is complicated.	A sensible division of labor in directing research.	To define the government agencies' spheres of authority. To coordinate scientific research and technical development.		1991	TPB, OMFB [National Technological Development Commission], MKM, MTA
d) Culture						
	The state's role is extensive, but not effective. Monopoly situations and unregulated conditions of competition are typical of many areas.	Widespread regulated competition, parallel with the assumption by the state of a narrowing but effective role.	To clearly define the state's functions. To elaborate the rules of competition.	Press Law	1991	IM
				Radio and TV Law	1991	IM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
				Public Education Law	1992	MKM
				Law on Public Collections	1992	MKM
	The financing of institutions is perfunctory, state subsidies are dissipated, and there is subjectivism in distribution.	More goal-oriented state subsidies. Expedient division of the available budget among the recipients.	In the distribution of state subsidies, to give preference to financing by tasks, a system of competitive bidding, and foundations. To establish a new type of state patronage of the arts. To regulate anew the tax benefits for cultural activity and donations.	Law on the National Cultural Fund	1991-92	MKM, PM
e) Social security insurance						
	Independence is perfunctory; financing is unstable, despite the high contributions; some elements are not compatible with social security.	Separation of the branches, by the types of contribution and benefit; a permanent financial balance, based on actuarial computations; democratic oversight.	To modernize administration, and to shed gradually the incompatible elements.	Social Security Insurance Law	1991	NM [Ministry of Social Welfare], FM, OTF [expansion unknown]
—Pension system						
	The retirement age is low; too many persons are receiving disability pensions; despite the high contributions, the stability of the pensions' value is not ensured.	In the case of old pensions, a more stable system of adjusting pensions to prices; in the case of new pensions, a lower level of starting pensions for lower contributions, and guaranteed stability of the pensions' value; establishment of independent retirement funds.	To announce a new system as of 1992, and to provide a suitable transition through partial measures; for the long-term soundness of the system's development, to set up individual records of the contributions paid; to introduce a flexible retirement age, and to raise it by the end of the period.	Pension Law	1991-92	NM, PM, OTF
	Too many persons are receiving disability pensions.	Integration of the disabled into gainful employment.	To devise a new system of rehabilitation.	Statutory regulations on rehabilitation	1992-93	NM, MuM, OTF, PM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
—Health care						
	The hospital-centered network providing health care is rigid and hierarchic.	Improvement of basic health care, preventive care, and standards of personal health care.	To elaborate new basic principles for in- and out-patient care. To ensure harmony with the Public Finance Law and Local Government Law.	Health Care Law	1991-92	NM
	Financing by social security insurance is merely perfunctory. The population is passive and vulnerable. Incentives are lacking, one-sided or distorted.	Gradual introduction of insurance elements and methods. Reinforcement of every participant's interest in health care.	To make the Health Care Fund independent by splitting the social security contribution. To determine the extent of subsidies from the state budget. To regulate the operation of medical insurance funds.	Social Security Insurance Law	1991 1091-92	NM, PM, OTF NM, PM
	Base period approach to financing the institutions.	Gradual application of financing linked to performance criteria.	To elaborate cost norms and performance measuring methods.		1992	NM, PM, OTF
	The state sector's relative weight within the network providing health care is excessive.	Consolidation of a multisectoral network providing health care, and the spreading of nonprofit organizations.	To abolish the restrictions on the choice of doctors. To elaborate methods for privatizing health care, and to introduce sector-neutral financing, on the basis of contracts that the social security system concludes with state providers of health care.		1992 1991	NM, OTF PM] IM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
f) Housing policy	<p>Construction costs, apartment prices and the real costs of rental units, as well as differences in wages and incomes, make unaffordable the actual price or real rent of an average dwelling that meets socially acceptable standards of housing. The system of subsidies maintains this situation through the central redistribution of resources, because it makes subsidies available not just to the truly needy but to most people. The truly needy do not always receive subsidies or not in sufficient amounts.</p>	<p>From its income, savings and obtained loans, the majority of the population should be able to freely make decisions about buying or renting a dwelling whose quality is commensurate with the given person's income, or with the proportion of his income that he spends on housing. Those strata who are unable to afford even housing that meets the minimal socially acceptable standards should receive means-tested assistance from local governments, openly and with public participation.</p>	<p>With the help of centrally developed methods, local governments will develop a system of means-tested assistance and will decide, for the stock of rental housing they own, the duration of the lease, the allocation of units, the amount of rent, and all questions pertaining to privatization. To finance the construction and purchase of housing, a system for providing loans must be created, under which the amounts of the installments are determined commensurately with the changes in average incomes, and the amount of the principal increases commensurately with the price changes (double indexation of loans). The system of social welfare policy subsidies will be retained, and the proportion of the subsidy will not decline.</p>	Housing Law	1991	NM, BM, PN [expansion unknown]

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
g) Social welfare policy based on the principle of need						
	Persons living below the poverty line and the unemployed are increasing in number, and the normative systems of social welfare policy are unable to cope with them. An assistance mechanism that employs a uniform approach and is geared to the individual's situation is lacking. Local governments are not adequately prepared, and the material resources are being dissipated.	Family-centered assistance combining maintenance in cash and in kind, based on the state welfare system supplemented by voluntary, nonprofit (church, private, charitable foundation) forms of assistance.	To modernize the computation of the poverty line. To develop a system of assistance that supports the welfare activities of local governments.	Social Welfare Law	1991	NM, PM
h) Environmental protection						
	The country's environment is deteriorating. Air pollution in the settlements is causing perceptible damage to health. Our sources of drinking water are endangered.	Reduction of air pollution, treatment of waste waters, and solid wastes rendered harmless.	To create the economic background of environmental protection (a system of economic regulators, customs and tax preferences, fees and penalties).	Environmental Protection Law	1991-92	KTM [Ministry of Environmental Protection]
	With its profligate use of raw materials and energy, industry is "producing" much waste.	A perceptible slowdown of the environment's degradation in settlements and regions that are exposed to combinations of pollutants.	To adopt environment-friendly technologies in transportation and power generation.			

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	Soil quality and the health of the forests are deteriorating.	The reduction, proportionately over time, of the harmful emissions (sulfur, nitrogen oxides, and substances destroying the ozone layer) to which Hungary has agreed in international treaties. Approximation of the European Community's environmental regulations, standards, and infrastructural and production technologies.	To elaborate a program of technical, legal and economic regulations and government subsidies for aiding the realization of priorities. To elaborate programs for the effective use of the environmental assistance provided by international organizations and individual countries.			

10. THE FINANCES OF LOCAL GOVERNMENTS

	Democratically elected local governments were formed at the end of 1991 [as published]. The Local Government Law, and the Law on the 1991 State Budget determine their fiscal rights and available resources. But the scopes of functions and authority of the individual types of local government have not been regulated finally.	Consolidation of the local governments' economic foundations, and development of their ability to engage in business.	To regulate the questions left open by the Local Government Law.	In harmony with: —The laws defining the functions and authority of local governments and their organs, of the republic's regional prefects, and of individual organs subordinate to the central government —The laws pertaining to the Budapest metropolitan and the Budapest district governments, the Land Law and the law regulating the real estates held by the State Office of Church Affairs.	1991	BM The government agencies concerned
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Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	Regulation has begun of the sources of revenue, and of local taxes as the main source of revenue. In addition to their own revenues and their share of central revenues (individual income tax), local governments are entitled to standard block grants from the state budget for their mandatory functions, and to specifically targeted or special purpose grants-in-aid for their major investments.	Further strengthening of the active incentive to collect revenue.	In the interest of increasing the proportion of local taxes, to gradually develop a harmonized system of local taxes, shared central taxes that constitute local government revenue, and central taxes.	Tax laws	1991-94	PM
		The ensured viability of local governments.	To aid the local governments disadvantaged through no fault of their own:	Laws on the annual state budgets	Continually	PM, BM
			—At the beginning of the period, to enable them to remain viable			
		Help to close the gap.	—In the second half of the period, through development grants that will help underdeveloped regions to close their gap.			
		Retention of the system of grants, and guarantees for the performance of the local governments' mandatory functions.	To review the scope and costs of "state" functions to be performed by local governments.	Public Finance Law	1991	PM, the government agencies concerned

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
11. TECHNICAL DEVELOPMENT, INVESTMENT						
a) Technical development						
	Due to inefficiently organized and stimulated research and development activities, the Hungarian economy's technical and technological level is lagging increasingly behind the level of the industrialized countries.	Creation of a technology intensive economy of high income producing ability, by exposing R&D activities to market forces and by the state's assuming a controlled and effective role.	To support research.	Laws on the annual state budgets	Continually	PM, OMFB, MTA
			To stimulate applied research.	Statutory regulations pertaining to the formation and distribution of the National Technical Development Fund, the National Scientific Research Fund, and the Fund for the Development of Higher Education; and devising a system for the operation of the National Technical Development Competition.	1991	PM, OMFB, the government agencies concerned
			To modernize the network of institutions for R&D. To aid the practical application of research results.	Regulation of innovation.	1991	OMFB, IKM
				Elaboration of the conditions for the operation of nonprofit organizations and their use in the area of applied research.	1991	PM, OMFB, MTA, IKM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	Scientific, technical and technological cooperation with European countries is random at present, and Hungary's participation in various international committees is not regulated.	Utilization of the potential opportunities for cooperation offered by the EC.	To make use of PHARE aid, and to join the COST and EUREKA programs.		1991-92	OMFB, PM, NGKM
		Participation in the work of European professional organizations.	To sign a cooperation agreement with the European Space Agency, to join CERN, and to introduce the uniform European standards in Hungary.		1991-92	OMFB, MTA

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
b) Investment						
	State intervention is excessive and inefficient.	Definition of the state's role.	Using central resources, the government will assume a role in the financing of the following tasks:	Public Finance Law, Law on the Annual State Budget	1991 and continually	PM
			—Nationally significant investments in health-care and educational facilities and in scientific research institutes			
			—Within production's infrastructure, certain preferential investments for the management of water resources, and in transport, the national media and infrastructural public works			
			—Within defense and public order, the tasks stemming from the new doctrine of defense and public order, and investments in state administration and information technology			
			—Job-creating and infrastructural investments in underdeveloped regions, and investments for environmental protection, nature conservation, forestation, and the preservation of historic monuments.			

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	The basic decree regulating the system of investment decisions, and the financing of, accounting for, and keeping records on investments has been rescinded. The categories of decisions and the resources for state investments have changed, necessitating corresponding changes in accounting and recordkeeping. The absence of these changes is hampering the continuity of investment activity and the control of budgetary expenditures for investments.	The elaboration of regulations that will ensure the continuity of investment activity and will make possible the control of budgetary expenditures for investments.	To devise new categories corresponding to the new system of decisionmaking, and to modernize the regulations on the financing of investments.	Public Finance Law	1991	PM
			To elaborate a new system of accounting.	Accounting Law	1991	PM
			To modernize recordkeeping.	Law on Statistics	1991	KSH [Central Statistical Office]

12. AGRICULTURAL POLICY

	Farm production is primarily large-scale, with unsettled property relations, worsening market conditions and income situation, and high interest rates. Therefore individual farms and small private farms are spreading slowly. Because of the mass bankruptcies that can be expected in 1991, the conditions for the continuation of farm production in these areas are unsolved.	An agriculture with mixed ownership, but with the largest possible proportion of private ownership; it is more competitive and able to use inputs more efficiently. Management of the situation after bankruptcies in the case of farm production based on private ownership.	To settle the ownership of land.	Compensation Law Land Law	1991	IM, PM FM
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Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
			To settle cooperative ownership and to regulate conversion into a new type of cooperative.	Cooperative Law	1991	FM
				Law on the Conversion of Agricultural Cooperatives	1991	FM, IM
			To devise a set of tools to stimulate entrepreneurship and to accelerate the formation of individual and small private farms.	Reorganization Program	1991	FM, PM
	State ownership is the dominant in the food industry and in certain phases of produce marketing.	An increasing share of private ownership and the spreading of joint ventures (with foreign capital participation) in the food industry. The breakup of monopoly situations.				
	Under stricter market conditions and with the state's role diminishing, mechanisms are lacking to provide protection against income fluctuations.	Developed special mechanisms providing protection against losses due to natural and biological causes.	To elaborate a new insurance system.	Insurance Law	1992	PM Insurance Inspectorate
	Loss of markets, difficulties caused by switching markets, and a less competitive product structure. Subsidy competition in the foreign market.	Assistance in finding new markets and regaining the former socialist markets. The output of demanding, processed and competitive products. Compulsion to export in a competitive situation.	To devise an income-risk fund, pursuant to Section 4, Item h, of Law No. XCIX/1990. To perfect economic diplomacy and the Agricultural Marketing Rules. To approximate the European standards.	Regulation of the income-risk fund	1991	PM, FM
				Agricultural Marketing Rules	1992	Government, NGKM
				Law on Plant Diseases	1992	FM
				Law on Food Hygiene	1992	FM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	Uncertainty about the trend and extent of the orientation on foreign markets (whether to supply just the domestic demand or to produce more).		In foreign trade, to broaden liberalization in the area of agriculture and the food industry.		1992	NGKM
	A functioning system for the reconciliation of interests in agriculture and the food industry is not yet evolved.	Development of a two-tier system for the reconciliation of interests.		Law on the Economic Chamber	1992	IM
	Large-scale and small-scale farms are taxed at different rates.	A uniform land tax that is ownership-neutral.	To draft legislation.	Land Tax Law	1991	FM
	The regulation of forestry and game management is based on the dominance of state ownership.	Formulation of regulations adapted to the new ownership relations and economic conditions.	To draft legislation.	Forestry Law	1992	FM
				Game Management Law	1992	FM

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
13. DEVELOPMENT OF PRODUCTION'S INFRASTRUCTURE						
	The level of services shows a worsening trend. Its continuation is an ever greater obstacle to the modernization of production and of the economy in general.	Slowing down the worsening trend, and arresting it in the case of infrastructural activities directly linked to the branches of material production.	To unambiguously separate state and nonstate tasks and to define the state's role. To develop decisionmaking and financing mechanisms accordingly.	Drafting a new Telecommunications and Frequency Law.	1991	KHVM
				Amending the Highway Traffic and Railroad Law.	1992	
		Provisions for intensified development in some areas. Approximation of the West European level. Integration into the international network.	To accelerate privatization in telecommunications, highway traffic and a few other areas of transportation.	Regulating anew the system of financing highway construction.	1992	KHVM
				Amending the Inland Navigation and Civil Aviation Law.	1992	
		Development of market conditions and competition for the activities where suitable.	To define the tasks of local governments.	Updating the Water Conservancy Law.		
14. REGIONAL DEVELOPMENT						
	Considerable regional disproportions have arisen in the degree of the economy's and the infrastructure's development.	Resolution of the growing socioeconomic regional tensions in the wake of the economy's restructuring. Aid to the most backward regions.	To elaborate a new system of developing backward regions and of providing grants for job creating investments. To confine such grants to the backward districts the hardest hit by unemployment.	Government decree, issued under authority granted by the Law on the 1991 State Budget, on the system of grants for the development of backward regions and for job creating investments.	1991	KTM, PM, IKM
	The danger of the most disadvantaged regions' socioeconomic collapse is increasing.	Reduction of the socioeconomic tensions in the regions affected by mass layoffs.	To elaborate a new program for the development of the socially and economically backward regions, and to review the circle of regions where taxpayers may claim allowance on their business profit tax.		1991	

Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
	The regional crises associated with the economy's restructuring are spreading to new industrial regions and are appearing also in disadvantaged agricultural regions.	Stimulation of job creation and new businesses, and regional development of the market economy's system of institutions.	To elaborate in the new Employment Law the special tools available in regions hit by mass layoffs.	Law on Regional and Municipal Development	1992	KTM
			To devise a system under which the allowances that can be claimed in disadvantaged agricultural regions could be used to create alternative job opportunities outside agriculture.			

15. STATISTICAL INFORMATION SYSTEM

a) The institutional and administrative framework of the Statistical Service's operation

	Mainly the state administration has been using up to now the information obtained from state-owned economic units. Regulation of supplying and using information in harmony with a private enterprise economy's operation is lacking.	Development of a Statistical Service in line with an advanced society's institutional, legal and administrative conditions: data protection, openness of the data, obligation to supply information, regulation of state administration's access to personal data.	To develop the concept of an official Statistical Service's operation, and gaining social acceptance for it.	Law on Statistics	1991	KSH
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b) The statistical system and infrastructure

	Concepts and data gathering and processing methods that in many instances date back to the planned economy and lag behind the international standards are typical of statistical activity.	The adoption of statistical methods and nomenclatures that conform to the international recommendations and are a must for international integration (for EC membership, for instance). Development of the infrastructure that this requires.	To elaborate a program for the modernization of statistics. To cooperate with international organizations, and to develop our participation in the international exchange of statistical information.		Continually	KSH, organs of the official Statistical Service
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Government Actions To Develop the Market Economy's Institutions and To Stabilize the Economy (Continued)

Area of Economic Policy	State of Affairs, Problem To Be Solved	Objective	Government Tasks	Mode of Regulation	Schedule	Responsibility*
		Supply of the statistics that businesses and foreign investors need.	To provide coordination between statistics and the other areas within state administration (tax legislation, the information systems of public finance and of banking, etc.).			
		Development of an information system that is essential to making economic policy decisions.				
		Elaboration of a system of statistical index numbers that reflect the social and economic effects.				

***Key to abbreviations:**

AVU—State Property Agency
 BM—Ministry of the Interior
 EM—[Ministry of Construction]
 FM—Ministry of Agriculture
 GVH—Office of Economic Competition
 IKM—Ministry of Industry and Trade
 IM—Ministry of Justice
 KHVM—Ministry of Transportation, Telecommunications & Water Management
 KSH—Central Statistical Office
 KTM—Ministry of Environmental Protection
 MKM—Ministry of Culture & Public Education

MNB—Hungarian National Bank
 MTA—Hungarian Academy of Sciences
 MuM—Ministry of Labor
 NGKM—Ministry of International Economic Relations
 NKM—[expansion unknown]
 NM—Ministry of Social Welfare
 OMF—National Technical Development Commission
 OTF—[expansion unknown]
 PM—Ministry of Finance
 PN—[expansion unknown]
 TRB—[National] Science Policy Committee

Reform of Economic Legislation, 1991-92

Type of legislation	Property Reform, Privatization	State Finance, Distribution Systems, State Budget	Monetary Policy, Financial System	Market Development, Regulation	Management
I. CONSTITUTIONAL LAWS					
	a) Privatization Law. Comprehensive, new regulation of privatization. Deadline: May 1991.	a) Public Finance Law. Comprehensive, new regulation. The bill is ready. Its review and harmonization within the profession are nearing completion. The cabinet will consider the bill in April. Deadline: May 1991.	a) Law on the Central Bank. New, comprehensive regulation. The bill is ready. Its harmonization within the profession is in progress. Deadline: April 1991.	a) Statutory regulation of commercial activities. Professional debates, work in progress. Deadline: 1991-92.	a) Accounting Law. The cabinet has approved the bill and has introduced it in the National Assembly.
	b) Land Law's amendment. Several versions are ready. There is no consensus as yet within the profession on political, social and economic issues. Deadline: April 1991.	b) Law on Welfare Benefits. Comprehensive, new regulation. Its outline is being prepared. The cabinet will be discussing it in April. Deadline: September 1991.	b) Law on Financial Institutions. Comprehensive, new regulation. The bill is ready and its harmonization within the profession has essentially been completed. Deadline: April 1991.		b) Bankruptcy Law. The bill is ready. Professional debate has ended. Harmonization within state administration is in progress. Deadline: April 1991.
	c) Cooperative Law. The bill is ready. The Ministry of Justice has distributed it for comments and harmonization, after which it will introduce the bill in the National Assembly. Deadline: April 1991.	c) Social Security Insurance Law. Comprehensive, new regulation. Work by experts, professional debates are in progress. Deadline: 1991.			c) Regulation of innovation. The cabinet will consider the bill in May. Deadline: 1991-92.
	d) Regulation of government property. Work by experts, professional debates are in progress. Deadline: July 1991.	d) Law on Statistics. The bill's outline is ready. Its elaboration by experts is scheduled. Deadline: second half of 1991 or first half of 1992.			
	e) Law on Operating the State's Business Assets. Comprehensive, new regulation. The cabinet will consider the bill in April. Deadline: May 1991.				
	f) Law on Transferring Certain State Assets to Local Governments. Comprehensive, new regulation. Harmonized within state administration. The cabinet has already considered the bill. Deadline: March 1991.				

Reform of Economic Legislation, 1991-92 (Continued)

Type of legislation	Property Reform, Privatization	State Finance, Distribution Systems, State Budget	Monetary Policy, Financial System	Market Development, Regulation	Management
	g) Law on Church Property. The cabinet has approved the bill. Deadline: March.				
	h) Compensation Law. Introduced in the National Assembly. On the calendar for its February session.				
	i) Amendment of the Civil Code. After establishing the legal framework of new ownership relations and determining the system and course of privatization, appropriate changes must be made in the Civil Code. Deadline: Introduced in the National Assembly.				

2. ORDINARY LAWS

	a) Law on Concessions. The bill is ready. Its harmonization within the profession has ended. Submitted to the National Assembly, which will be considering the bill during its March session.	a) Modernization of tax laws (on individual income tax, VAT, business profit tax, etc.). The cabinet will be considering in May the main principles and conceptual directions of perfecting the tax laws. Deadline: June and September 1991, respectively.	a) Foreign Exchange Law. Professional work, harmonization of the experts' views have ended. Deadline: 1991-92.		a) Labor Code. Comprehensive, new regulation. Development of the market economy's conditions necessitates the enactment of a new Labor Code. The first draft is ready. Deadline: September 1991.
	b) Regulation of employee stock ownership. Preparations within the profession have begun. The cabinet will be considering the draft of the preliminary outline in March. Deadline: September 1991.	b) Land Tax Law. Comprehensive, new regulation. Professional work has begun. The cabinet will be considering the bill in March. Deadline: September 1991.	b) Water Conservancy Law. There is agreement on the outline. Professional elaboration in progress. The cabinet will be considering the bill in May. Deadline: 1991-92.		

Reform of Economic Legislation, 1991-92 (Continued)

Type of legislation	Property Reform, Privatization	State Finance, Distribution Systems, State Budget	Monetary Policy, Financial System	Market Development, Regulation	Management
	<p>c) Amendment of the Law on Business Associations. The bill is ready. The cabinet has considered it. Deadline: March 1991.</p>	<p>c) Law on Transferring Certain Assets to Local Governments. In conjunction with the reorganization of ownership relations, it is essential to regulate comprehensively the economic background and conditions of the local governments' operations. Deadline: April 1991.</p>	<p>c) Insurance Law. Professional work, harmonization of the experts' views are in progress.</p>		
		<p>d) Health Care Law, Higher Education Law, Housing Law. Comprehensive, new regulations. Elaboration, professional and expert substantiation and harmonization of the bills are in progress. The government will be considering the proposed outlines in the first half of 1991. Their finalization will be possible once ownership relations have been settled and the main issues of the reform of public finance have been decided. Deadline: second half of 1991, first half of 1992.</p>	<p>d) Law on Investment Funds. The bill is ready, its harmonization within the profession is in progress. Deadline: April 1991.</p>		
			<p>e) Law on Venture Capital Companies. Elaboration of the profession's views is in progress. Deadline: January or February 1992.</p>		
			<p>f) Laws on separate state funds. As of next year, it will be possible to establish and operate separate state funds only under authorization granted by statute. Consequently a law will have to be enacted on each fund whose operation is to continue. Deadline: 1991-92.</p>		

Principal Indicators Reflecting the Price Level's Development (percent change on year before)

Indicator	1991	1992	1993	1994
Foreign trade				
Export price index (forint based)	Approximately 47*	14 to 15	9 to 10	6 to 7
Import price index (forint based)	Approximately 67*	14 to 15	9 to 10	6 to 7
Producer price indices:**				
Industry	28	15	9	7
Economy as a whole		17	10	7
Consumption:				
Aggregate demand	22 to 23	20	13	11
Consumer price index (average)	33 to 35		13	8 to 9
Consumer price index (year-end)	29	17	9	5 to 7
Economy's income generation:				
Price index of GDP	27 to 28	19 to 20	11 to 12	6 to 7
Price index of domestic expenditure	32 to 33	Approximately 20	Approximately 12	6 to 7

* Including effects of changeover to clearing in dollars.

** Based on a \$20/barrel price of crude in 1991.

Changes in the State Budget's Proportions (in percent of GDP, excluding(*)

Item	1991	1992	1993	1994
Total revenue	61.1	58.4	57.4	57.0
Of which: profit tax	4.0	3.6	3.0	2.6
Social security contributions	17.2	17.3	17.5	17.6
Duty and import turnover tax*				
(In percent of import)	8.8	8.5	8.2	8.0
Other payments by enterprises	4.5	4.5	4.5	4.5
Consumption taxes	12.3	12.2	12.0	12.0
Payments by individuals*				
(In percent of before-tax wages)	15.2	15.0	15.0	15.0
Payments by budgetary organs	6.7	6.4	6.1	5.9
Other revenues	4.9	4.9	4.9	4.9
Total expenditure	63.6	59.8	58.2	57.2
Of which: export subsidies*				
(In percent of export)	4.2	3.5	2.0	1.0
Subsidies to domestic enterprises	1.7	1.3	1.0	0.5
Consumer price subsidies*				
(In percent of purchased consumption)	1.9	1.5	1.0	0.5
Capital formation expenditures	4.9	4.6	4.4	4.3
For social security	17.4	17.2	17.1	17.0
Budgetary organs' expenditures	27.8	25.9	26.0	26.0
Debt servicing	7.0	6.5	6.0	6.0
Other expenditures (incl. reserves)	2.2	2.3	2.4	2.5
Budget deficit	- 2.5	- 1.4	- 0.8	- 0.2