



MINISTRY FOR NATIONAL
DEVELOPMENT AND ECONOMY

Government Measures to Stimulate Economic Growth & Attract Business to Hungary

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1. Macro Indicators





Hungarian Macro Indicators



Indicator	<i>Hard data</i>		<i>Forecasts for 2009</i>	
	Hungarian Central Statistical Office		Ministry of Finance Sept. 2009	EC Economic Forecast Nov. 2009
GDP growth (%)	-7.2	(2009Q1-Q3 p.)	-6.7	-6.5
Consumption (%)	-6.9	(2009H1)	-6.6	-7.4
Investment (%)	-4.8	(2009H1)	-9.3	-6.0
Unemployment rate (%)	10.4	(2009.Aug-Oct)	9.9	10.3
Export dynamic (%)	-23.2	(2009.Jan-Sept)	-15.1	-13.1
Inflation (%)	4.0	(2009.Jan-Oct)	4.5	4.3
Budget balance (GDP %)	-4.0	(2009. Jan-Oct)	-3.9	-4.1
Current account (GDP %)	0.2	(2009H1)	-3.0	-1.3



2. Hungary: SWOT Analysis

Strengths

Weaknesses

Opportunities

Threats



Hungary

- Small, open economy, especially sensitive to the deterioration of external (European) demand
- Dependent on external financing because of the high public debt (and external debt)
- Economic growth has slowed down before the crisis because of the fiscal correction
- Deterioration of confidence





Hungary in the Changing Global Environment

Strengths

- Wide range basic education, high inclination for further education
- Relatively flexible labour market regulations
- Continuous FDI-inflows and technology transfer
- Existing R+D capacities
- Advantageous agricultural, hydrographic capabilities
- Developed infrastructure



Weaknesses

- Budgetary problems
- High level of indebtedness (public and private)
- High cost of financial sources, limited financing opportunities
- Tax and administrative burdens
- Low R+D company expenditure



- Competitive advantage
due to proactive behaviour
- „Green industries”
- Utilization of the agricultural capabilities
- Relatively advantageous fiscal position
- Structural reforms, Euro

Opportunities



Threats

- Globalization is pushed into the background
- FDI and international trade got stuck
- Increase in risk premium on Hungarian assets
- Further tightening room for budget movements
- Sustainable development – potential growth loss
- Expanding tensions at the labour market



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3. Objectives of the Government Program





Objectives of the Government Program

Summary of objectives

*Most incisive
and
comprehensive
reform package
in the region*

- Short-term crisis management
- Stabilisation (fiscal adjustment measures)
- Stimulating economic growth
- Restoring confidence

*Positioning
Hungary for
strong medium-
term growth*

Overview of the package

- Secure external financing – joint EU-IMF-WB loan package
- Major fiscal reforms
- Revenue neutral tax reforms
- Banking sector reform
- Consistent economic policy



More Competitive Tax System

Revenue neutral restructuring from wage-related burden to consumption- and wealth-related taxes...

Structure of the tax burden (% of total taxes and contributions)



... in order to strengthen competitiveness and increase employment



MNDE's Measures to Promote Successful Adaptation of the Economy

- Market and investment-friendly environment for enterprises
- Subsidized financing constructions for SMEs
- Effective economic diplomacy
- Effective utilization of the EU and national subsidies
- Developing key industries: automotive industry, biotechnology, logistic and ICT



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4. Industrial Policy

Government Action Plans for Developing High-Priority Sectors





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Why Industrial Policy-Making is Needed



Economic Development

- **Horizontal approach**
 - **SME strategy**
 - **Investment promotion**
 - **Science, technology & innovation strategy**
- **Vertical (sectoral) approach**
 - **Besides the horizontal approach, focus should be shifted towards some prominent sectors**





International Incentives of Designing Industrial Policy

- **Global phenomena:**
 - Transnational capital flows,
 - Readjustments in the industry,
 - Renewal of technology-intensive sectors,
- **Trends in the EU:**
 - **Aspects of sustainability:** climate protection, efficient energy use, economical raw materials consumption, eco-innovation
 - Lead markets
 - Clusters (networking)
- **The effects of the current financial and economic crisis on the automotive sector**





Goals of Sectoral Strategies

- **Mandate of the MNDE to work out sectoral strategies (September 2008)**
 - **Primary goal: increasing the competitiveness of the economy**
 - **Focusing on sectors which**
 - **Are knowledge-intensive**
 - **Have good growth potential**
 - **Result in a boost to national R&D activity**
- significant added value potential of the economy**





Selecting High-Priority Sectors

- **Based on weighted ranking, we have chosen sectors which**
 - **Elastically adjust to global demand**
 - **Have a good growth potential**
 - **Rely on Hungary's comparative advantages**



Sectors

- **Vehicles manufacturing**
- **Logistics**
- **Pharma industry + biotechnology**
- **Info-communication**



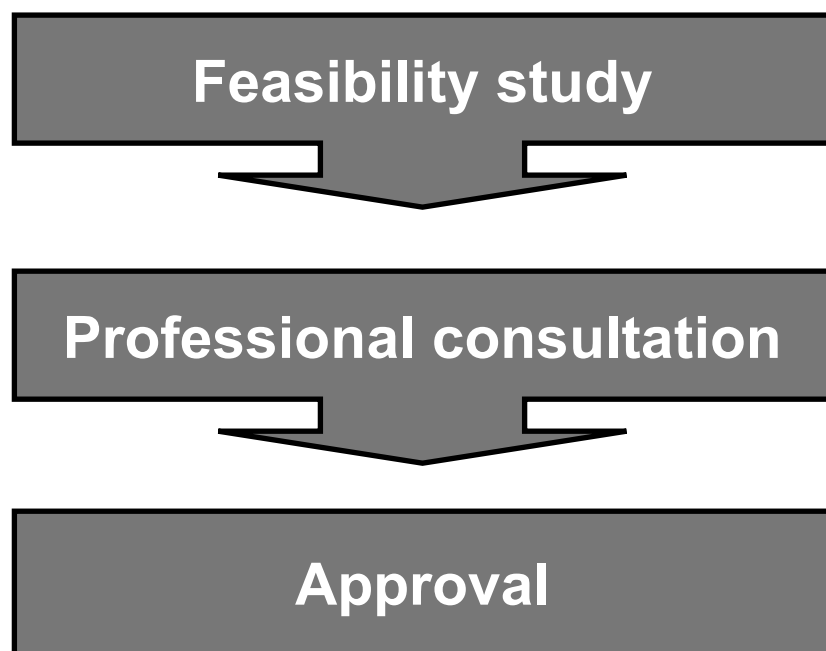
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Government Program for the Development of High-Priority Sectors

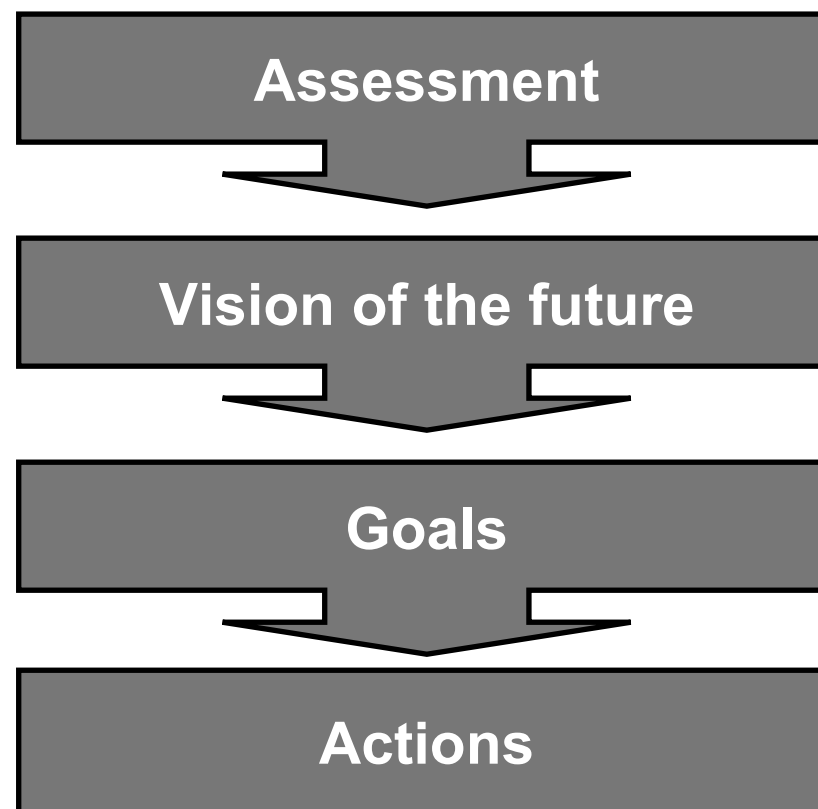


Preparation of Government Action Plans

Preparation



Structure





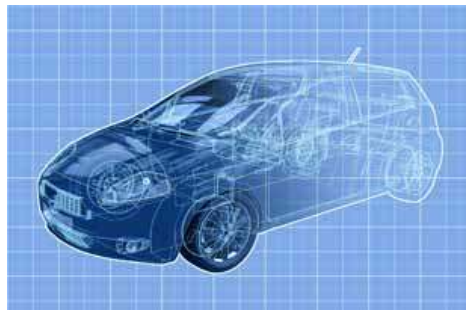
Current Situation

- **Action plans approved by the Government**
- **Implementation under the supervision of MNDE, in cooperation with affected partner ministries and organizations**
- **Assignment of responsible persons and measurement indicators to the actions**
- **Monitoring as one of the measures of the action plans**
- **Status reports every 3 to 6 months by MNDE**



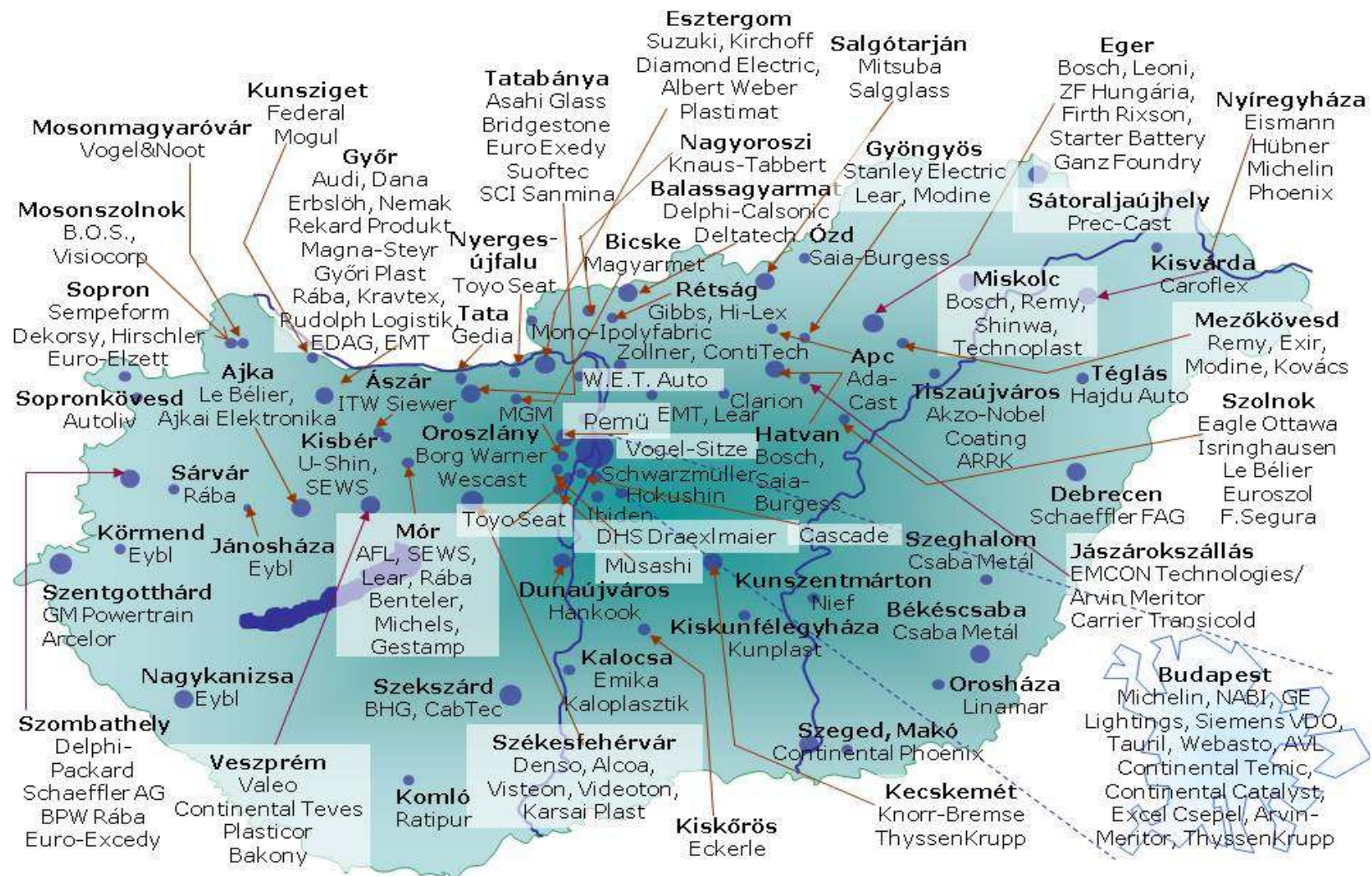
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Automotive Industry





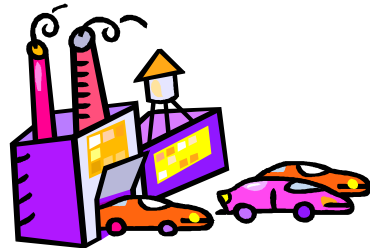
Significant Automotive Sector in the CEE Region





Automotive Industry Action Plan: Vision of the Future and Goals

Vision of the future



- The sector remains a key branch of industry in Hungary's economy
- Intensive FDI
- Local supplying activity is increasing

Goals



- Reaching a higher growth rate than those of our direct (CEE) competitors
- Shifting towards activities representing higher added value



Automotive Industry Action Plan: Measures

Development of the Automotive Industry in Order to Increase Hungary's Economic Competitiveness

Labor Force	Suppliers	R&D	Inv. Promotion
<ol style="list-style-type: none">1. Assessment of demand and supply (skill gap) in professional training2. Involving the results into professional training3. Creating workplaces for profession leavers	<ol style="list-style-type: none">1. Conducting tenders supporting the innovation developments of suppliers2. Further development of resources in support of suppliers3. Further development of suppliers' application instruments, creating and introducing new elements	<ol style="list-style-type: none">1. Revision of the conditional framework of sector-specific tenders in the auto industry2. Supporting environmental technological investments and investments contributing to structural change (e.g. clean car)3. Launching a development program supporting the booming automotive sector	<ol style="list-style-type: none">1. Preparing data banks to accelerate licensing procedures:<ul style="list-style-type: none">– Construction sites– Industrial parks2. Fast and effective expropriation and licensing procedure, keeping public interest in view3. Program for Investment-Friendly Settlements



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Logistics





Logistics Action Plan: Vision of the Future and Goals

Vision of the future

- Developing Hungary to be an influential logistical services hub of the region by 2013
- A growing demand for Hungarian logistical services
- A more efficient logistical structure is being created
- Levels of environmental and noise pollution are decreasing

Goals

- Exploiting Hungary's potential as a transit country as well as a regional economic hinterland
- Dissemination of logistical services with high added value
- Spread of use of modern technologies
- Developing more up-to-date ratios in the fields of water, air and railway transport





Logistics Action Plan: Measures

Development of the Logistics Sector in Order to Increase Hungary's Economic Competitiveness

Transport Ratios	Local Potential	Transit Potential	Added Value
<ol style="list-style-type: none">1. Devising a mid-term road fee strategy to support the modernization of the fee structure2. Development of services offered by the customs authorities	<ol style="list-style-type: none">1. Projects aimed at improving the accessibility of regional logistical centers2. Support package to develop logistical centers and services3. Improvement of target-oriented professional training and higher education4. Assessment of the logistical practice of SMEs	<ol style="list-style-type: none">1. Logistical country marketing2. Logistical trade development program	<ol style="list-style-type: none">1. Záhony region complex development program for the implementation of the connection of normal and wide gauge railway as well as for the exploitation of the potential of the border control of the Schengen Area



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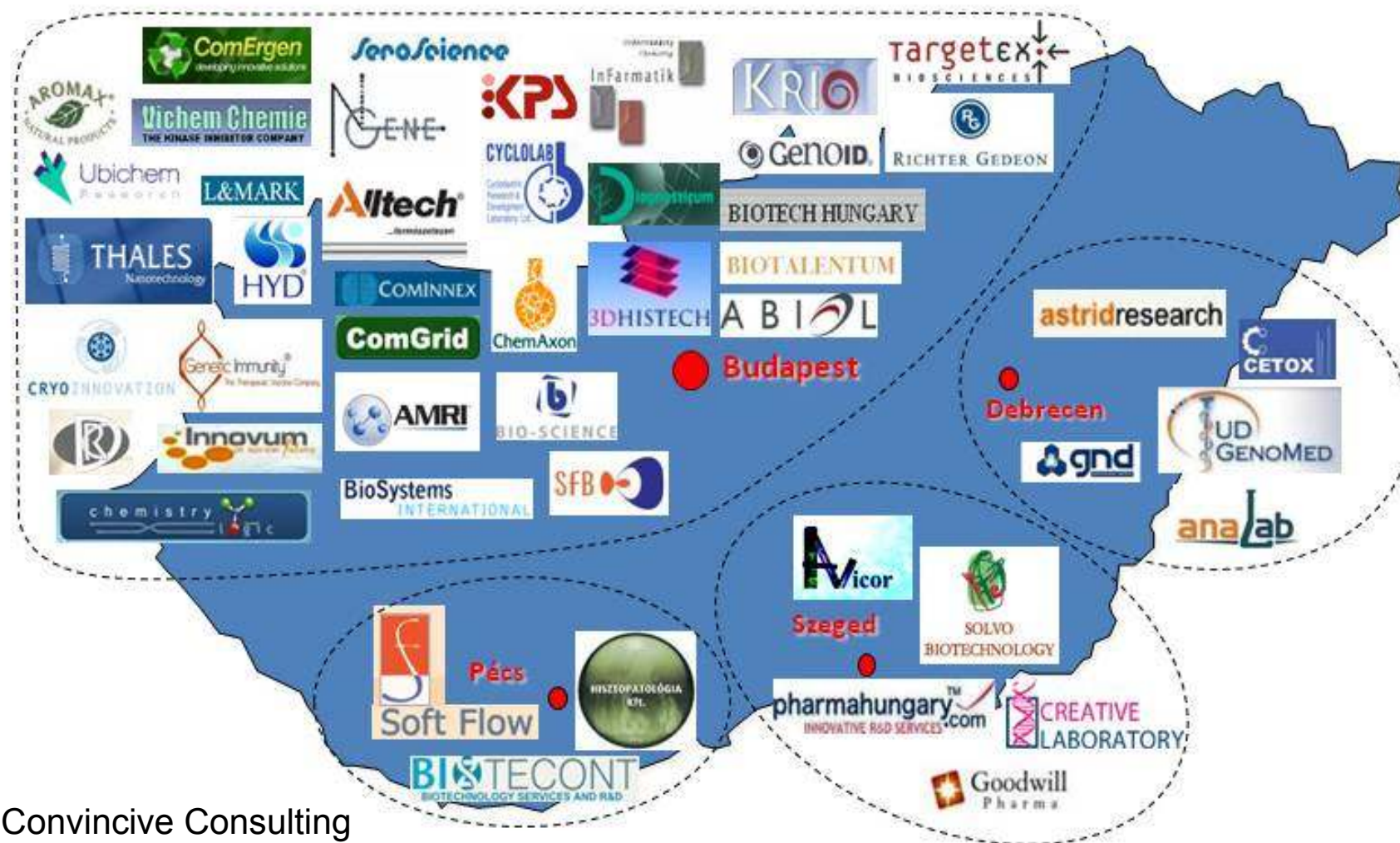
Pharmaceutical Industry





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Well-established Biotechnology Clusters



Source: Convincive Consulting



Pharmaceutical Industry's Action Plan: Vision of the Future and Goals

Vision of the future

- **Stopping and reversing current maleficent processes**
- **Ensuring synergy between the pharmaceutical industry and biotechnology**
- **Establishing international R&D centers in Hungary**

Goals

- **Sustaining Hungary's pharmaceutical industry**
- **Creating a business environment suited for competitive functioning of the sector**
- **Ensuring a high level of R&D spending in the pharmaceutical industry**



Pharmaceutical Industry's Action Plan: Measures

Development of the Pharmaceutical Industry in Order to Increase Hungary's Economic Competitiveness

R&D

1. Running programs supporting R&D in pharmaceuticals
2. Encouraging R&D expenditure by modifying tax regulations
3. Helping SMEs' access to funds
4. Introduction of the Young Innovative Company status in Hungary
5. Supporting research facilities
6. Raising the level of education of natural sciences

Drug Manufacturing

1. Distinguished treatment of drug manufacturing at enterprise development tenders
2. Active country marketing and investment promotion to attract pharmaceutical investments
3. Improving the level of training needed for drug manufacturing
4. Attracting foreign professionals to Hungary

Drug Consumption

1. Rethinking of the sector-specific regulatory environment, adjusting burdens on the pharma industry to the practice of neighboring countries
2. Implementation of organization development steps needed for quick licensing
3. Revision of public health programs in order to change the pattern of local drug consumption



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Information Communication Technologies (ICT)





ICT Action Plan: Vision of the Future and Goals

Vision of the Future

- The economic weight of the sector is on the rise
- Efficiency is getting increasingly higher
- The sector creates new workplaces
- Significant development centers are being established

Goals

- Increasing the growth pace of the ICT sector
- Creating 32.000 new workplaces in the sector by 2013
- Broaden the use of ICT technologies



ICT Action Plan: Measures

Development of the ICT Sector in Order to Increase Hungary's Economic Competitiveness

Human Resources

1. Assessment of demand and supply in professions and scope of activities (skill gap) and involving the results into professional training
2. Postgraduate education for IT experts
3. Re-training of persons leaving their profession to IT experts
4. Qualitative and quantitative improvement of IT expert training in higher education
5. Improvement of the conditions of IT expert training in elementary and secondary education

R&D & Innovation

1. Assessment of the innovation capacity and culture of companies
2. Enterprise development and incubation program for ICT firms
3. Establishing ICT research workshops
4. Supporting existing open-source competence centers and helping establish new ones
5. Strengthening the international R&D activity of the local ICT sector
6. Adjustment of local R&D tenders to the demands of the ICT sector

Investment Promotion

1. Supporting the involvement of seed capital into the ICT sector
2. Supporting the creation of workplaces producing high added value
3. Investment tax break for building new generation networks (NGN)
4. Use of digital contribution for mobile purposes
5. Promotion of software and services exports



5. Activities of the State Secretariat of International Economic Relations

- **Economic diplomacy offensive**
 - Economic joint committees
 - High level visits
 - Opening new governmental trade and investment offices

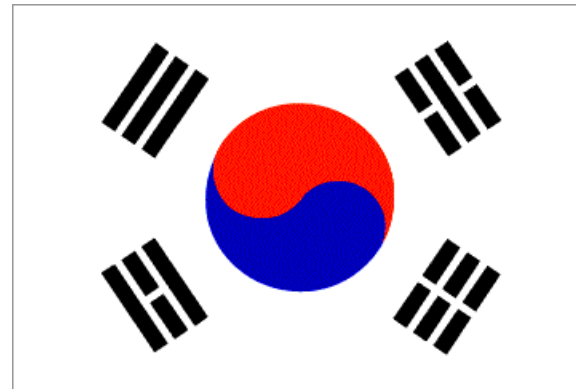


- **Country strategies:**

Austria, Balkan countries, China, Egypt, France, Germany, India, Israel, Italy, Japan, Romania, Russia, South-Africa, Ukraine, USA, V4



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6. Agreement on Economic Cooperation Between Hungary & Korea



Economic Cooperation Agreement (2005)



- **Goal:**

To intensify economic relations & technological cooperation

- **Scope of cooperation**

Agriculture, food-processing, power stations, pipelines, electrical & electronic equipments, mineral raw materials, mining products, chemicals, packaging technology, environment, water management, forestry industry, education, health care, medical technology, pharmaceuticals, HR development, tourism, SMEs, communication, computer & information technology, transport, science & technology

- **Implementation: Joint Commission**

- Representatives of the contracting parties
- Meets upon request of either parties, alternatively in Hungary & Korea



Hungarian-Korean Industrial Cooperation Committee – ICC (2007)

- **Parties:** Hungarian MNDE & Korean MCIE
- **Goal:** To develop industrial, investment & technological cooperation
- **In charge of**
 - Priority areas of cooperation & meetings between businesses & organizations
 - Exchange of information
 - Measures to promote industrial & technological cooperation
 - Partnerships between Hungarian & Korean businesses
 - Expand bilateral trade
 - Measures to increase bilateral investments



Hungarian-Korean Industrial Cooperation Committee – ICC (2007)

- **Members**
 - Representatives of the Parties
 - Other mutually approved organizations
 - Appropriate members of the private sector by invitation
- **Meetings:** On dates jointly decided upon by the parties, alternatively in Hungary & Korea
- **In force:** For 5 years – automatically extended for subsequent 5 years
- **Signed by:** State Secretary of MNDE & Vice Minister of MCIE
- **1st Session:** Budapest, September 2007



Second Session of the ICC Seoul, December, 2008

Agenda

- I. Report on the status of the national economies
- II. Evaluation of bilateral trade and new measures to develop
- III. Evaluation of the status of bilateral economic cooperation
 1. Industry
 2. Energy sector
 3. Plant engineering & construction
 4. Foreign direct investment
 5. Research & development
 6. Cooperation between Korean and Hungarian business associations
- IV. Other issues



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The Seoul Times

Monday, November 30, 2009



“Stressing an increase in bilateral trade and entry of Korean companies into Hungary, Vice Minister Kwon expressed hopes for substantial cooperation in industries and science and technology through existing cooperative channels such as the **Korea-Hungary Industrial Cooperation Committee** and the Joint Committee on Science and Technology.”



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7. Acknowledgements of Measures





Acknowledgement of the Measures Taken so Far

“Although Hungary was among the European Union members that suffered most in the recession [...] **the outlook is now better, thanks partly to recent austerity measures.**”

The Economist
Sep 24th 2009

“Macroeconomic and financial policies in Hungary are on track. Continued implementation of policies consistent with the program remains essential to strengthen macroeconomic stability and provide the basis for **strong, sustainable growth over the medium term.**”

IMF Press Release No. 09/331
September 25, 2009

“Elsewhere in the region, **we expect the greatest acceleration relative to 2010 in Hungary (4.5%)** and Romania (3.0%), as super-tight fiscal policy is loosed and aggressive rate cuts finally feed into the economy.”

*Bank of America
Merrill Lynch*
October 9, 2009

“As a result, **Hungary is in the unique position** of not being required to tighten its fiscal policy as economic growth recovers, suggesting that **medium-term growth prospects are particularly favorable**”

“Although Hungary's debt-to-GDP ratio is high by regional standards, **the low deficit and positive outlook for growth** suggest that the ratio will fall quickly beginning in 2011, JP Morgan said, maintaining that Hungary was well placed **to introduce the euro ahead of the Czech Republic and Poland.**”

JP Morgan
November 20, 2009



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**Thank you for your
kind attention!**



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