180 STEPS FOR THE SUSTAINABLE CONVERGENCE OF THE HUNGARIAN ECONOMY
Despite several attempts, neither Hungary nor the Central East-European region has been able to catch up sustainably.

Sustainable convergence has become a complex process.
SUSTAINABLE CONVERGENCE: HIGH QUALITY OF LIFE AND A STRONG HUNGARY

Sustainable convergence

Quality of life

Adequate wages
High quality health care
Competitive education
Family-friendly environment
Internal savings, as opposed to accumulation of debt
Positive vision / thinking

A strong Hungary

Stable government finances
Security
HUNique
Efficient governance
A balanced energy mix
Strong domestic companies and middle class
MACRO-ECONOMIC CONDITIONS OF SUSTAINABLE CONVERGENCE
THE AIM IS TO CATCH UP WITH THE STANDARD OF LIVING OF AUSTRIA

Currently: close to 55 per cent of the Austrian level

Megatrends that also affect Hungary

- Robotisation and artificial intelligence
- Ageing societies
- The powerhouses of the world economy are being rearranged
- Intensifying competition for skilled workforce
- Changing energy mix
- Increasingly global services

Source | MNB, Eurostat
MACRO-ECONOMIC CHANNELS OF A TURN IN COMPETITION

Supply
- Natural rate of unemployment
- Productivity (TFP)

Demand
- Investment rate
- Export market share
- Decreasing dependence on imports
- Relative prices

Incomes
- Current account balance
- Wage share
- GDP-GNI gap

Source | MNB
ASSURANCE OF THE TRANSITION INTO THE CAPITAL AND TECHNOLOGY INTENSIVE DEVELOPMENT STAGE

Source | MNB

Intensive growth path

Main aim:
- Expansion of productivity
- Improvement of competitiveness
- Encouragement of R+D
- Capital intensity
- Development of human capital
- Creative industries

Extensive growth

Main aim:
- Increase of employment
- Flexible labour market
- Tax reduction

Reduction of vulnerability

A fiscal turn, reduction of the public debt rate

Monetary, lending turn

2010

2013

2017

Full employment

Reduction of vulnerability

2010

2013

2017
THE INCREASE OF PER CAPITA GDP IS MAINLY SUPPORTED BY THE GROWTH OF PRODUCTIVITY

**PATH WITH NO REFORM (TRAP OF MEDIUM DEVELOPMENT)**

- **Hungary (2018):** 26 thousand USD/capita (PPP)
- **Increase of productivity:** 6
- **Change of labour utilisation:** -0.4
- **Hungary (2030):** 32 thousand USD/capita (PPP)
- **Austria (2030):** 54 thousand USD/capita (PPP)

**REFORM PATH**

- **Hungary (2018):** 26 thousand USD/capita (PPP)
- **Increase of productivity:** 18
- **Change of labour utilisation:** 1.4
- **Hungary (2030):** 54 thousand USD/capita (PPP)
- **Austria (2030):** 46 thousand USD/capita (PPP)

**BREAKDOWN OF PER CAPITA GDP**

Source: Maddison, MNB calculation
OUR AIM IS TO MAINTAIN ORGANIC ECONOMIC GROWTH

- Doubling of real wages within 10 years
- Faster economic growth with an annual GDP growth of 4-4.5%
- Improvement of productivity in the same pace as the GDP
- Increase of capital intensity with an investment rate of 23-25%
- Maintaining full employment

Source: MNB

- High capital intensity
- Import substitution
- Innovation
- Internal savings
- Human capital development
- Modern infrastructure
- Geostrategy
80% of the Austrian level can be accomplished by additional reforms.

Relative development level compared to Austria:

- **Without reforms**
- **With reforms**

*Source: Maddison, Eurostat, IMF, MNB calculation*
THE WAGE LEVEL WILL BE IN THE 80-100 PER CENT BAND ON THE REFORM PATH

Source: AMECO, MNB calculation

WAGE LEVEL COMPARED TO AUSTRIA

Austria = 100 percent

80-100 percent band to Austria

Source: AMECO, MNB calculation
MACRO-ECONOMIC RESULTS FEASIBLE BY 2030

<table>
<thead>
<tr>
<th>Path with no reform (Trap of medium development)</th>
<th>Reform path</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative development level compared to Austria</td>
<td>59%</td>
</tr>
<tr>
<td>Average potential GDP growth</td>
<td>1.4%</td>
</tr>
<tr>
<td>Accumulated increase of net real wages</td>
<td>28%</td>
</tr>
<tr>
<td>Level of wage share</td>
<td>58%</td>
</tr>
<tr>
<td>Current account balance</td>
<td>Turns into negative</td>
</tr>
<tr>
<td>Net external debt as ratio of GDP</td>
<td>Remains at current level</td>
</tr>
<tr>
<td>Inflation</td>
<td>3%</td>
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<tr>
<td>Balance of the budget</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Government debt</td>
<td>59%</td>
</tr>
</tbody>
</table>

Source | MNB

- Path with no reform (Trap of medium development): 59% for Relative development level compared to Austria, 1.4% for Average potential GDP growth, 28% for Accumulated increase of net real wages, 58% for Level of wage share, turns into negative for Current account balance, remains at current level for Net external debt as ratio of GDP, 3% for Inflation, -2.0% for Balance of the budget, 59% for Government debt.
- Reform path: 86% for Relative development level compared to Austria, 4.4% for Average potential GDP growth, 87% for Accumulated increase of net real wages, 57% for Level of wage share, remains in surplus persistently for Current account balance, decreases for Net external debt as ratio of GDP, 3% for Inflation, 0.5% for Balance of the budget, 38% for Government debt.
NEW REFORMS SHOULD GIVE AN IMPETUS TO CONVERGENCE

**Path of reforms**
- Petering out
- Wage load without competitiveness

**No reforms**
- Convergence will stall
- Low productivity
- Outward migration of skilled workforce

**Lopsided reforms**
- Rapid growth temporarily, then a setback
- Internal and external disequilibrium

**Reform path**
- Wage convergence
- Decreasing dependence on imports
- 80% of the level of development of Austria
- Sustainable convergence
- High productivity
- Potential growth of 4-4.5 per cent

**Competitiveness reforms**
- Voltage

---

Source | MNB
WHERE SHOULD ACTIONS BE TAKEN?
AREAS OF REFORM

NEW FINANCIAL MODEL

Demography

High quality education

Industrial strategy

Innovation

Active labour market strategy and wage policy

Modern health care

SME strategy

Capital intensive growth

An efficient energy mix

Modern infrastructure

Export strategy

EFFICIENT STATE, INSTITUTIONS, A SECOND TAX REFORM
180 STEPS FOR THE SUSTAINABLE CONVERGENCE
NEW FINANCIAL MODEL

- Demography
- High quality education
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EFFICIENT STATE, INSTITUTIONS, A SECOND TAX REFORM
EFFICIENCY OF THE STATE
ASSESSMENT OF THE SITUATION IN THE FIELD OF DIGITAL PUBLIC SERVICES HUNGARY FALLS SHORT OF THE EU AVERAGE

EU DIGITAL ECONOMY AND SOCIETY INDEX (DESI) – DIGITAL PUBLIC SERVICES PILLAR 2017

Source | Eurostat
MAIN OBJECTIVES: AN EFFICIENTLY FUNCTIONING STATE

Reduction of the number of hours spent preparing tax declaration to the EU average (annually)

- 270 hours
- 170 hours

Further reduction of the rate of the hidden economy to the level of the EU average

- 22%
- 18%

To reach the EU average in the EU-DESI indicator by the development of e-governance

- 35%
- 55%
PROPOSALS: EFFICIENT STATE, SMALLER BUREAUCRACY

1. Increasing the number of public administration affairs manageable on-line

2. Wage bill management and performance measurement instead of headcount management

3. Roll-out of the new classification and compensation system introduced in government offices to the entire public administration sector

4. Raising average wages, reduction of bureaucracy
PROPOSALS: E-GOVERNMENT

5. Interconnection and automation of data stored in databases, in order to speed up processing

6. Enhancement of mobile applications for simpler processing

7. Increasing the pre-completed parts of electronic forms and data sheets

8. Establishment of an electronic reporting system pre-completed by the tax authority, covering several tax types
**PROPOSALS: PAPERLESS TAX ADMINISTRATION PROCESSING**

9. Development of a taxpayer-friendly, transparent web site, expansion of the scope of matters suitable for on-line processing

10. Further roll-out of online cash registers and the Electronic Public Road Trade Control System

11. Development of the tax office, increasing its efficiency
A SECOND TAX REFORM
ASSESSMENT OF THE SITUATION: TAXES ON LABOUR ARE HIGHER THAN THE REGIONAL AVERAGE

- Over the recent years taxes on labour have decreased significantly, but they still can be considered high in regional and international comparison.

- The tax burdens of families with children have already approached the regional level, owing to the family tax benefits introduced in 2011.
MAIN OBJECTIVES: A SECOND TAX REFORM FOR FULL EMPLOYMENT

Further reduction of the tax wedge, at least to the regional average

The employment rate should exceed the EU average (15 to 74 demographic)

Encourage people working abroad to return home

At least +100 thousand persons
PROPOSALS: A SECOND TAX REFORM FOR FULL EMPLOYMENT

1. Continue the reduction of taxes on labour

2. Strengthening the funding focus on education and health care, encouraging lifelong learning through taxation as well

3. Extension of the Job Protection Action Plan (MAT) to minimum wage

4. Extension of the Job Protection Action Plan (MAT) to the taxes payable by the employee

5. Expansion of the unskilled employees category of the Job Protection Action Plan

6. Encouraging the employment of persons close to retirement age
DEVELOPMENT OF HUMAN CAPITAL

NEW FINANCIAL MODEL

- Demo-graphy
- High quality education
- Active labour market strategy and wage policy
- Modern health care
- An efficient energy mix
- Modern infrastructure

EFFICIENT STATE, A SECOND TAX REFORM

- Industrial strategy
- Innovation
- SME strategy
- Capital intensive growth
- Export strategy
HIGH QUALITY PUBLIC EDUCATION
ASSESSMENT OF THE SITUATION: THE BASIC SKILLS OF YOUNG PEOPLE FALL SHORT OF THE REGIONAL AVERAGE

Based on the results of international tests (PISA, TIMSS, PIRLS), the Hungarian students acquire the specified study contents, however, they cannot use properly what they have learned in cases taken from real life.

It is important that the Hungarian educational system should efficiently reduce the disparities arising from the social and economic background of the students.

Source | OECD
The PISA results should exceed the EU average for every school subject

The rate of early school leaving should be lower than the V3 average

At least a medium level English language certificate by the end of public education

Every student

User level digital skills

Every student
PROPOSALS: ELEMENTARY LEVEL EDUCATION THAT CREATES THE NECESSARY FUNDAMENTALS FOR EVERYONE

1. In lower elementary school, special focus on skills development
2. Elaboration of a new National Curriculum focusing on skills development and practical skills
3. Increasing the number of teachers
4. If needed, introduction of a foundational grade 0 in primary schools
5. Provision of regular advanced courses for the teachers (both on curriculum and on teaching methodology)
PROPOSALS: MORE TARGETED, MORE EFFICIENT SECONDARY LEVEL EDUCATION

6. Implementation of the secondary school curricular reform: review of the required materials, increasing the role of optional subjects

7. Introduction of required general subjects (fundamental economic, social, legal and psychological skills)

8. Introduction of competence-based secondary school admission tests

9. In addition to the centrally defined study contents, provision of more flexible curricula

10. Strengthening work-study courses (dual training)

11. Reduction of (early) school leaving without qualification
PROPOSALS: AT LEAST A MEDIUM LEVEL ENGLISH LANGUAGE CERTIFICATE BY THE END OF PUBLIC EDUCATION

12. It should be possible to take secondary school admission and school-leaving exams in English, in every subject.

13. State support to extra-curricular foreign language activities, language exam preparatory courses, provision of venue.

14. Education in two or more languages in each Hungarian region.

15. Promotion of subtitled films and series.

16. Support to foreign student exchange programmes.

17. Keeping foreign students in Hungary (support to learning Hungarian, scholarships).
PROPOSALS: ACCESSING USER-LEVEL DIGITAL CAPABILITIES

18. Integrating programming into the teaching of mathematics
19. Increasing the weight of natural sciences and IT in secondary school admission exams
20. Development of digital study contents
21. Development of IT assets in schools
INTERNATIONALLY RECOGNISED TERTIARY EDUCATION
ASSESSMENT OF THE SITUATION: THE TERTIARY EDUCATION ATTAINMENT RATE FALLS SHORT OF THE REGION

Distribution of the 25 to 34 demographic according to highest educational qualification

Source | Eurostat
MAIN OBJECTIVES: INTERNATIONALLY RECOGNISED TERTIARY EDUCATION

- Increasing the international recognition of Hungarian universities

- The rate of the tertiary skilled should exceed the EU average in the 25–34 demographic
  - Current: 30%
  - Target: 40%

- State expenditure on tertiary education as a ratio of GDP should reach the EU average
  - Current: 0.8%
  - Target: 1.3%

- The ratio of science graduates should exceed the V3 average in the 20 to 29 age group
  - Current: 12.2 / thousand persons
  - Target: 18.4 / thousand persons
PROPOSALS: INCREASING THE INTERNATIONAL RECOGNITION OF HUNGARIAN UNIVERSITIES

1. Strengthening the ties between tertiary education and companies
2. Channelling market needs and private capital into education
3. Intensified competition among institutions
4. Support to dual degree programmes
5. Support to publications in English (English translation of Hungarian journals, international research cooperation)
PROPOSALS: INCREASING THE RATE OF THE TERTIARY QUALIFICATION

6 Widening the enrolment base of tertiary education (organizing school career afternoons in public education, widening the scope of English language courses)

7 Increasing the capacity of dormitories

8 Expanding the academic and social scholarship systems

9 Increasing the opportunities for partial training abroad (international scholarship programmes)
10. Strengthening the system of scholarships dependent on academic performance

11. Making the teaching profession more attractive (expansion of the career path models, outsourcing of administrative tasks)

12. Development of the infrastructure and equipment of institutions of tertiary education
PROPOSALS: INCREASING THE RATIO OF SCIENCE GRADUATES

13. Obligatory secondary school final exam in science (other than mathematics)
14. Increasing the quality of the teaching of sciences in public education
15. Promotion of more conscious career planning for secondary school students
16. Reduction of dropout rates in university courses (more practical curricula, work-study courses)
ASSESSMENT OF THE SITUATION: THE HEALTH CONDITION OF THE POPULATION MEANS A COMPETITIVE DISADVANTAGE

45 percent of Hungarians aged from 18 to 64 suffer from high blood pressure disease and nearly 14 percent are diabetic.

Similarly to countries of the region, the health condition of the Hungarian population falls short of the Western European level.

Inadequate health condition reduces the productivity of labour force and time spent working.

Premature death reduces the number of economically active persons capable of work in the population.

Source | Eurostat
The ratio of health care spend of households should decrease below the level of the Visegrád countries within total health care expenditures.

Healthy life expectancy should be the highest among the V4 countries.

At least one screening test annually, according to gender, age group and risk factor.

Every citizen.
1. Establishment of a state financing system based on actual costs
2. Expansion of the application of performance-related funding methods
3. Review of performance volume limits
4. Establishment of a transparent remuneration system
5. Strengthening of professional and financial control
6. Professional review of the necessity of prescription medicines
PROPOSALS: IMPROVEMENT, RATIONALIZATION OF CARE PROVIDED BY THE STATE

7. Development of minimum conditions, professional and financing protocols

8. Strengthening the functions of the general practitioner system

9. Increasing the capacity of one-day active treatments

10. Increase of rehabilitation and long-term nursing capacities

11. Standardised measurement and publication of the performance of health institutions and the satisfaction of patients
PROPOSALS: REDIRECTING PART OF DIRECT HOUSEHOLD EXPENDITURES INTO INSTITUTIONALIZED FORMS (PRIVATE INSURANCE, FUNDS)

12. Tax benefits for corporate healthcare packages

13. Tax benefits for private health insurance companies

14. Targeted encouragement of contributions to and payments from mutual health organisations

15. Support to invoices of prevention and service funding

16. Increasing the data reporting obligations of private service providers
**PROPOSALS: THE MOST EFFICIENT SOLUTION - PREVENTION**

17. Support to regular physicals and screening tests

18. Introduction of medicine price adjustments based on patient compliance

19. Development and systematic implementation of a comprehensive mental health package

20. Support to grassroots sports, corporate sports clubs

21. Support to stress management trainings

22. Development of telemedicine
DEMOGRAPHY
ASSESSMENT OF THE SITUATION: THE RATIO OF INACTIVE POPULATION WILL INCREASE SIGNIFICANTLY

Despite the improving fertility rate, the necessary demographic turn has not yet happened in Hungary.

Until 2060 the old age dependency ratio will be doubled in Hungary.

Currently none of the Union countries has reached the fertility rate of 2.1, the minimum rate necessary for social reproduction.
Raising the total fertility rate

Every child in Hungary should have an accessible nursery place
PROPOSALS: MORE HUNGARIAN CHILDREN SHOULD BE BORN

1. The employment-related elements of the financial family support system should follow the dynamic increase of wages

2. Promotion of parenthood (awareness raising, raising awareness of family support elements, support for preparatory trainings)

3. Simplification of the return of women to the labour market after childbirth (more nursery places, establishment of a family-friendly workplace environment)

4. Family-friendly development of public education (extension of on-call service until the end of working time, support to summer camps)

5. Family-friendly development of the services of the financial system

6. Constant review of the elements of the family support system, analysis of their efficiency
ACTIVE LABOUR MARKET AND WAGE POLICY
The population of working age will have decreased by 570 thousand until 2030, according to the forecasts. In 2060, 1.4 million less persons of working age will live in Hungary if no further action is taken.
**MAIN OBJECTIVES: MORE EFFICIENT UTILIZATION OF LABOUR FORCE RESERVES**

- **Increasing the number of employees in the private sector**
  - From 3,350 thousand persons
  - To 3,600 thousand persons

- **Approaching the level of wages of Austria**
  - From 55%
  - To 80%

- **Encouraging people working abroad to return home**
  - At least +100 thousand persons
PROPOSALS: MORE EFFICIENT UTILIZATION OF LABOUR FORCE RESERVES

1. Increase of the ratio and efficiency of retraining programs for public employees

2. The state should pay the wages of public employees taking up employment, if the employer will continue employing them for at least the same length of time

3. The permitted upper limit of the amount of earned income should be raised in the case of persons taking up employment below retirement age or while receiving pension

4. Support to the mobility of the labour market

5. Targeted reduction of working time partially or entirely by social contribution tax compensation and/or wage compensation paid by the state in the vulnerable groups (persons raising minor children, students of tertiary education, relatives of persons requiring permanent care, persons above 55 years)
PROPOSALS: SUSTAINABLE INCREASE OF WAGES

6. Trilateral wage agreement for several years

7. Long-term raise of minimum wage, announced in advance

8. Introduction of a territorial “compensating mechanism” offsetting the “absorbing effect” of the labour market, attracting digital nomads
PROPOSALS: ENCOURAGING PEOPLE LIVING ABROAD TO RETURN HOME

9. Increase of wages paid in high-demand jobs in the state sector.

10. Increasing the awareness of family support elements, calling attention to the educational and healthcare system supported by the state.

11. Supporting recruitment by Hungarian companies abroad (recruitment costs should be decreased tax liability, tax benefits on employees encouraged to return home).

12. Increasing the international competitiveness of tertiary education (support to foreign partial and enhanced trainings, increasing the number of majors available in English).

13. Simplification of the recognition of degrees obtained abroad.
STRUCTURE OF THE ECONOMY

NEW FINANCIAL MODEL

- Demography
- High quality education
- Industrial strategy
- Innovation
- SME strategy
- Capital intensive growth
- Active labour market and wage policy
- Modern health care
- Modern infrastructure
- An efficient energy mix
- Export strategy

EFFICIENT STATE, INSTITUTIONS, A SECOND TAX REFORM

THE SME SECTOR ACCORDING TO COMPANY SIZE

- Micro
- Small
- Medium

- Germany: 81.5%
- Hungary: 91.0%

LABOUR PRODUCTIVITY

- SME: HUF 4.8 million
- LARGE CORPORATIONS: HUF 13.5 million

HUF $3x$
MAIN OBJECTIVES: SME STRATEGY IN ORDER TO INCREASE PRODUCTIVITY

- Better utilization of the potential arising from economies of scale
- An innovative domestic entrepreneurial ecosystem
- Attenuating the wage disparity between large corporations and SMEs
- Increasing the rate of persons involved in vocational training

5000 new small and 1000 new medium companies
To get into the top 30 in the GEI* ranking, and in the top 50 in the GCI** business sophistication ranking
Reduction of wage duality below 40%
30%

Note | *Global Entrepreneurship Index **Global Competitiveness Index
**PROPOSALS: BETTER UTILIZATION OF POTENTIALS ARISING FROM ECONOMIES OF SCALE**

1. **In the case of the development tax benefit available for SMEs, reducing the minimum value of the investment**

2. **Instant eligibility of investments in the corporation tax base**

3. **It should be possible to reduce the local business tax base by the value of the investment**
PROPOSALS: AN INNOVATIVE DOMESTIC ECOSYSTEM

4. Support to the operation of clusters

5. Increasing the innovation management capacity of SMEs by establishing a non-profit advisory centre (following the British model)

6. Conditional decrease of contributions payable by SMEs that perform R+D investments

7. Establishment of the Neumann János Fund to support the ICT developments of SMEs
PROPOSALS: ATTENUATING THE WAGE DISPARITY BETWEEN LARGE CORPORATIONS AND SMES

8 Direct wage and investment development support to SMEs (de minimis)

9 Reduction of taxes on labour (employer's contribution benefits, for SMEs in a targeted manner)

10 Strategic partnership agreements with innovative SMEs
PROPOSALS: INCREASING THE RATE OF PERSONS INVOLVED IN VOCATIONAL TRAINING TO 30 PER CENT

11. Training, advanced training costs should be deductible from the corporation tax base for SMEs

12. Digital courses tied to specified deliverables

13. Encouragement of the acquisition/development of leadership skills
PROPOSALS: IMPROVEMENT OF THE ECONOMIES OF SCALE OF THE SME SECTOR

14. Support to acquisitions and mergers

15. Reduction of administrative burdens

16. Making liquidation proceedings simpler and faster

17. Efficient capital re-allocation

18. Establishment of a corporate bond market
Aspiring entrepreneurs should be exempt from corporation tax for the first three years.

Tax benefits on share options and profits earned on the sale of these.

Provision of preferential grant application and borrowing options for young and female entrepreneurs.

Promotion of university spinoffs.

Domestic and foreign media programs for the promotion of entrepreneurship.
PROPOSALS: SUPPORT TO YOUNG ENTERPRISES II

24 Support to university incubators

25 Opportunity to lease university infrastructure

26 Increasing the number of co-working offices in large cities

27 Increasing the number of accelerators sponsored by large corporations

28 Organization and support of relevant start-up conferences and meet-ups
INDUSTRIAL STRATEGY
ASSESSMENT OF THE SITUATION: THE VALUE CREATING CAPABILITY OF THE ECONOMY IS LOW

The contribution of domestic businesses is low in each of the main production and service branches.

Over the recent years FDI has primarily flown into branches of low value-creating capacity.
MAIN OBJECTIVES: IDENTIFICATION OF STRATEGIC BRANCHES AND DEVELOPMENT OF THE INTERNAL MARKET

Increasing the ratio of innovative services, integrated management of services within the industry

Share of market services within GDP +6 percentage points

Increasing the value-creating capability of the domestic economy

Reduction of the import ratio below 60%
PROPOSALS: REDUCING THE IMPORT RATIO PUT IN PRODUCTION TO 60 PER CENT

1. Individual Government decisions, directing investment aids to large corporations and the resources of structural funds into branches of processing industry that are knowledge-intensive and well embedded within the country.

2. In the planning of the next Union support cycle, the support of productive investments from the direction of services should be a priority.

3. Support to knowledge-intensive branches of the economy.

INNOVATION
ASSESSMENT OF THE SITUATION: THE TECHNOLOGICAL PREPAREDNESS OF DOMESTIC SMES SHOULD BE IMPROVED

The basis of production with high value added is state-of-the-art infrastructure and application of high-end technological tools.

Only a small number of domestic SMEs apply advanced processes in their production and service activities.

Note | We have no data on Austria concerning cloud-based services.
Source | Eurostat
MAIN OBJECTIVES: ESTABLISHMENT OF AN INNOVATIVE ECONOMY

Increasing the ratio of SMEs engaged in product or process innovation

15% → 30%

Increasing the R+D headcount (as a ratio of all employed persons)

0.8% → 1.35%

Dissemination of advanced technological solutions among SMEs

Raising the ratio to the level of Austria
PROPOSALS: INCREASING R+D EXPENDITURES AND PATENT ACTIVITY

1. Raising the R+D expenditures of tertiary education to 0.5 per cent of the GDP
2. Encouragement of enterprises to raise their R+D expenditures by the continued development of the business environment (less paperwork, more benefits for R+D)
3. Reduction of the maintenance fee of patents
PROPOSALS: INCREASING THE NUMBER OF PEOPLE EMPLOYED IN R+D

4. Extension of the tax benefit to cover researchers with a university degree, working in the private sector.

5. Increasing the number of research-development assistant staff by raising their wages further.

6. The state would shoulder 50 per cent of the costs of doctoral courses for employees above 30 years.

7. Launch of specific postgraduate courses, in order to stop outward migration.
**PROPOSALS: WIDER DISSEMINATION OF ADVANCED TECHNOLOGICAL SOLUTIONS**

8. Special refund to companies at the start of their life cycles for their R+D expenditure

9. Obligatory company web site (free)

10. Development of digital infrastructure in the countryside

11. Smart city - real time on-line data

12. Tightening of rules applying to the management of ICT risks
AREAS OF REFORM

NEW FINANCIAL MODEL

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EFFICIENT STATE, INSTITUTIONS, A SECOND TAX REFORM
ASSESSMENT OF THE SITUATION: THE LOW FOREIGN MARKET ACTIVITY OF SMES POSES A HINDRANCE TO INCREASING OUR EXPORT MARKET SHARE

AVERAGE ANNUAL CHANGE OF EXPORT MARKET SHARE (2006-2016)

Poland 3.5%
Czech Republic 1.3%
Austria -1.7%
Slovakia 1.4%
Hungary 0.0%

RATIO OF EXPORTING SMES ACCORDING TO SIZE CATEGORY (2013-2015)

<table>
<thead>
<tr>
<th>Size</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>10.1%</td>
<td>28.0%</td>
<td>56.4%</td>
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<tr>
<td>Austria</td>
<td>27.7%</td>
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<td>Slovakia</td>
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<td>Czech Republic</td>
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<tr>
<td>Poland</td>
<td>4.5%</td>
<td>10.1%</td>
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</tbody>
</table>

Source | OECD-WTO, MNB
MAIN OBJECTIVES: EXPORT ORIENTATION AND RAISING THE FOREIGN TRADE ACTIVITY OF SMES

Raising the foreign trade activity of SMEs

- 10 thousand new exporting SMEs

Entering fast-growing new markets with stable institutions

- South Eastern Europe, ASEAN, South Africa, Brazil, Mexico
PROPOSALS: EXTERNAL ENVIRONMENT - EXPORT STRATEGY

1. Utilising the geostrategic advantages of One belt – one road (logistic developments, attracting Chinese investment capital)

2. Facilitating entry into fast-growing new markets with stable institutions (South-eastern Europe, ASEAN, South Africa, Brazil, Mexico)

3. Support to domestic foreign traders, a new trading house concept

4. While maintaining goods export, strengthening service export (water purification, environment protection, green energy)

5. Separate of country, sector and product promotion and corporate brand building

6. Temporary operation of companies ready for the market in an international co-working office
AREAS OF REFORM

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EFFICIENT STATE, INSTITUTIONS, A SECOND TAX REFORM
MODERN INFRASTRUCTURE
ASSESSMENT OF THE SITUATION: BOTTLENECKS IN INFRASTRUCTURE HINDER THE MOBILITY OF THE LABOUR FORCE

TRAVEL TIME FROM VARIOUS COUNTY SEATS TO BUDAPEST, BY MODALITY (MINUTES)

TRAVEL TIME BY COMMUNITY TRANSPORT FROM THE CONURBATION TO DEÁK TÉR IN BUDAPEST (MINUTES)

Source: KKK, Portfolio, Google Maps
MAIN OBJECTIVES: MODERN INFRASTRUCTURE DEVELOPMENTS

- Bringing railway travel times closer to the level of road transport, with special regard to travel in the conurbation - 85%

- General development of the road network, giving priority to connecting the county seats to the network of expressways -

- Development of the electric network, reduction of reliance on import -
PROPOSALS: GENERAL REDUCTION OF RAILWAY TRAVEL TIMES

1. Increasing the ratio of electrified railway lines
2. Reduction of railway travel time by increasing the speed of the railway network
3. Upgrade of the railway vehicle pool
4. Increasing freight transport capacities on the railway network
5. Development of suburban transport (suburban railway, subway, railway), support to intermodal junctions
PROPOSALS: MODERN INFRASTRUCTURE

6. Extension of M1, M7 into three-lane roads

7. Promotion of roads feeding the motorways to bypass localities

8. Continuous maintenance on the road networks
**PROPOSALS: THE CELLULAR AND POWER NETWORK**

9. Promoting the dissemination of new generation telecommunications networks

10. Increasing the ratio of optical fibre telecommunications lines

11. Review and upgrade of the power grid

12. Establishment of the connections and capacities necessary to meet the probably increasing residential needs (charging of electric cars at home, use of the Internet of things)
EFFICIENT ENERGY MIX
ASSESSMENT OF THE SITUATION: THE EFFICIENCY OF ENERGY UTILIZATION IN HUNGARY CAN BE INCREASED

In Hungary energy consumption per one unit of GDP is about twice the Union average.

ENERGY INTENSITY OF THE ECONOMY

Source: Eurostat
**MAIN OBJECTIVES:** HIGHER ENERGY EFFICIENCY AND GREATER ENERGY INDEPENDENCE FOR MODERN ENERGY MANAGEMENT

Halving energy consumption per one unit of output

Reaching the EU average

Reduction of the ratio of net energy import below the EU average

< 50%
**PROPOSALS:** REDUCTION OF ENERGY CONSUMPTION PER 1000 EUROS BELOW 150 KG UNTIL 2030

1. Increasing the efficiency of corporate energy consumption, by supporting the dissemination of environmentally friendly solutions and energy sparing

2. Renewal of doors and windows

3. Upgrade of heating solutions

4. Application of higher thermal insulation on walls

5. Increasing the ratio of environmentally sound energy sources
AREAS OF REFORM

NEW FINANCIAL MODEL

- Demography
- High quality education
- Industrial strategy
- Innovation
- Active labour market strategy and wage policy
- Modern health care
- SME strategy
- Capital intensive growth
- An efficient energy mix
- Modern infrastructure
- Export strategy

EFFICIENT STATE, INSTITUTIONS, A SECOND TAX REFORM
ASSESSMENT OF THE SITUATION: RESOURCES ADAPTED TO THE LIFE CYCLE OF COMPANIES ARE NEEDED

- In the early stage the scope of available resources is narrow
- The growth and development opportunities are limited by the high interest rate spread, especially for small loans
- Inclination to financing and opening to more risky clients
- Less EU support will be available after 2020
- In the mature stage a competitive capital market providing the alternative is missing

Source: MNB
MAIN OBJECTIVES: COMPETITIVE FINANCIAL SYSTEM

Special financing sources, supporting environment, exchange of experiences, competences

Development of start-up companies

While increasing efficiency, reduction of surcharges, wider availability of credits

A more competitive banking system

It is important to assist more risky but viable companies with obtaining funding

A more efficient system of guarantees

The capital market should be a competitive alternative for companies wanting to obtain funding

A stronger capital market
PROPOSALS: DEVELOPMENT OF START-UP COMPANIES

1. Support to clusters, cooperatives and other forms of association

2. Encouragement of angel investments by tax benefits

3. Advanced courses and training to investors. Development of financial, digital, language, marketing and sales competences

4. Broad communication of state-sponsored programs, opportunities
PROPOSALS: IMPROVEMENT OF THE COMPETITIVENESS OF THE BANKING SYSTEM

5. Reduction of residential surcharges

6. Wider availability of credits

7. Development and deepening of digitalisation

8. Improvement of efficiency

9. Increasing the willingness of banks to lend, opening to more risky customers without jeopardizing financial stability
PROPOSALS: IMPROVEMENT OF THE EFFICIENCY OF THE GUARANTEE SYSTEM

10. “Reverse” suretyship process, where the guarantee institution will do the rating before applying to the bank for a loan.

11. Targeted loosening of the entry (“KO”) criteria, more flexible guarantee percentage.

12. Banks' commitments for the rate of risky placements, guarantee allocation based on additionality (PD/LGD).

13. Shouldering of certain banking processes, reduction of costs.

14. Concerted marketing for the promotion of the guarantee.
15. Launch of a trading platforms specialized for SMEs

16. Opportunity of investment into targeted funds/portfolios, with state participation

17. Involvement of funds by bond issue, “packaging” of minor issues for efficiency

18. Deepening of financial literacy
THANK YOU FOR YOUR ATTENTION