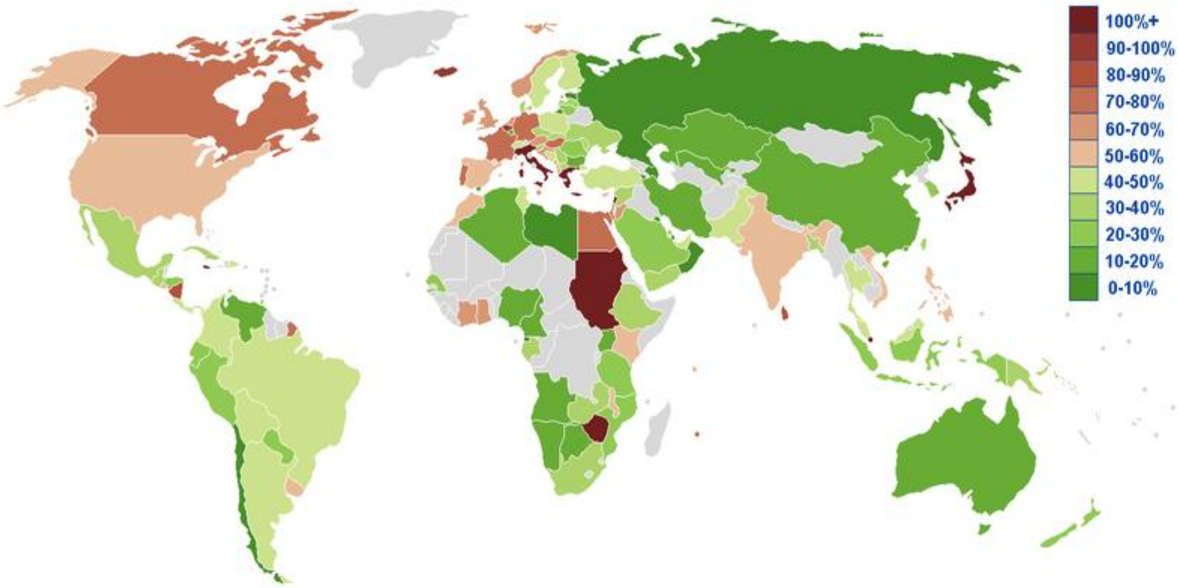
MINISTRY
FOR NATIONAL ECONOMY

New Széchenyi Plan

The 2010s are about GOVERNMENT DEBT …

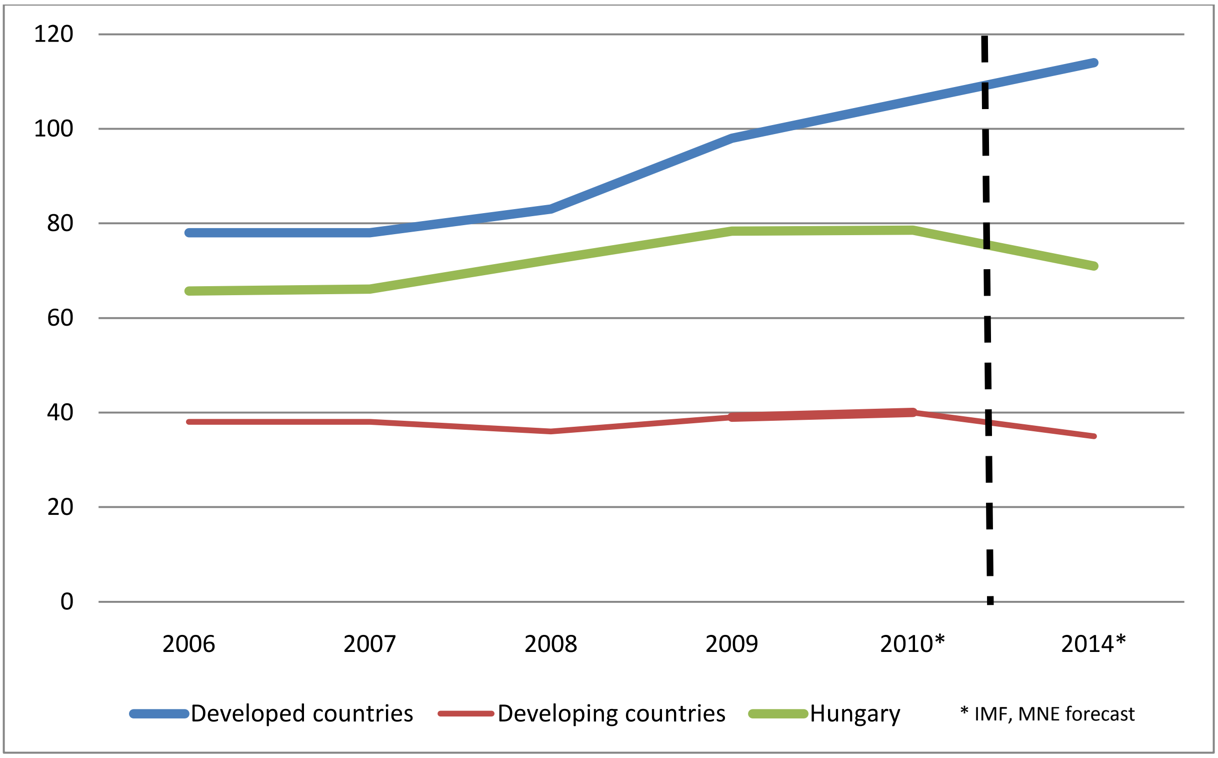
Since the constant aggravation of the2008 global economic crisis, it has been clear that the prioritised issue of the 2010s will definitely be that of government debt in economic terms. The crisis management measures taken by the Western states and the huge amounts spent to save the financial sector induced fast-growing indebtedness for these countries.

The figure below illustrating the 2009 public debt ratio shows that the Western countries are particularly concerned with indebtedness: both in West Europe and North America the debt ratios are significantly higher than in the Eastern countries.



Source: OECD

Observing the longer-term processes, it can be seen that this trend of indebtedness will continue in the forthcoming years. The more developed countries of G20 are approaching 100 per cent in terms of government debt relative to GDP while the developing countries show a declining trend of indebtedness according to the forecast of the IMF. For Hungary, the characteristics of the developed countries seem to prevail. However, the debt ratio will be lower in the forthcoming years due to the measures taken by the Government of Hungary, like in the case of the developing countries. In the European Union, Hungary is the only state which will be able to lower the ratio of government debt relative to GDP this year, in addition to Sweden.



At the same time, Hungary will have to face not exclusively the high rate of debt in the near future. In addition to the fact that the Hungarian government debt is undoubtedly one of the highest ones in the region relative to the competing states, the total debt figure, i.e. external debt including the debt of households and businesses – is well above the average, as well, as reflected by the graph below. The foreign currency-based credits that have been popular in the past decade and financing the public debt from external resources have also played a role in creating the present situation. We have to break out from this trap of indebtedness in the forthcoming years.

EXTERNAL INDEBTDNESS THE ACHILLES' HEEL OF HUNGARY

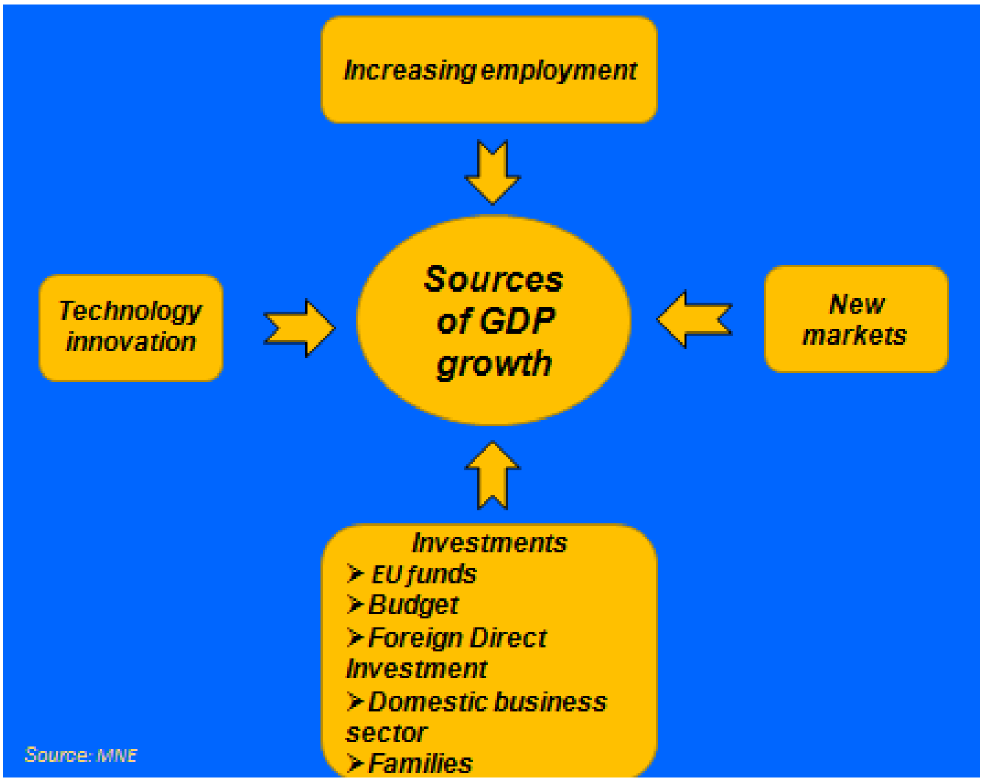
Source: RBS

How can Hungary decrease its GOVERNMENT DEBT relative to GDP?

Government debt ratio can be decreased from two directions. In particular, we can lower the nominal government debt included in the numerator of the quotient or we can raise the GDP figure included in the denominator by achieving a higher rate of economic growth. Optimally, both factors operate without excluding each other.

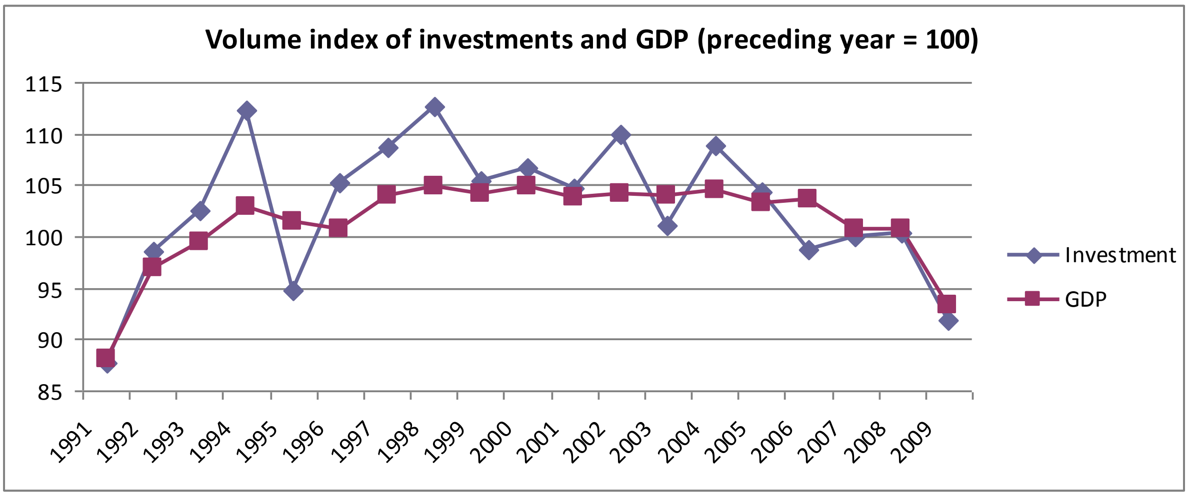
1. We have already started to decrease the nominal government debt. Our balanced 2011 deficit target – 3 per cent of GDP - should prevent government debt from further growth. The Government of Hungary will insist on this principle in the following years, as well. Also, the Growth and Stability Programme to be announced next February will further strengthen the basis of this policy. Similarly, channelling back the money accumulated in private pension funds will help us lower the level of government debt together with the current government deficit and payable interest.

2. A high rate of GDP growth can be achieved by means of our new economic policy the basic parts of which are as follows:



Increasing employment is a cornerstone of both the Government Programme and of the high-priority projects. The objective of creating one million new jobs in ten years is thus presented among the commitments of the New Széchenyi Plan as well as in EU 2020.

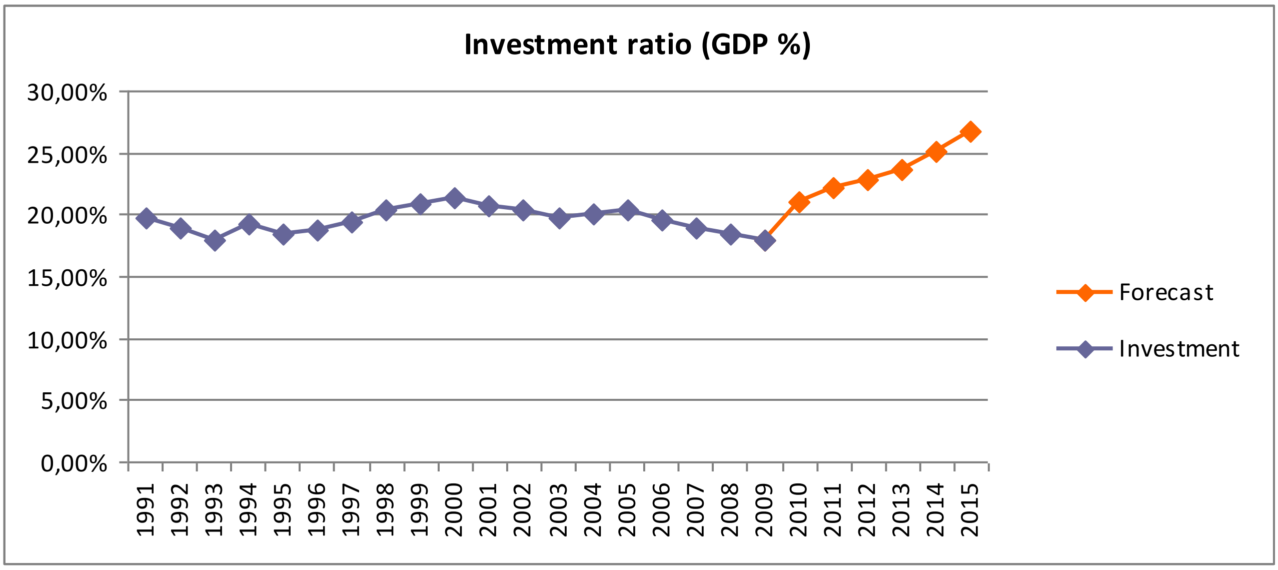
The key issue of growth and employment is raising investment ratio and the efficiency of investments



Source: KSH

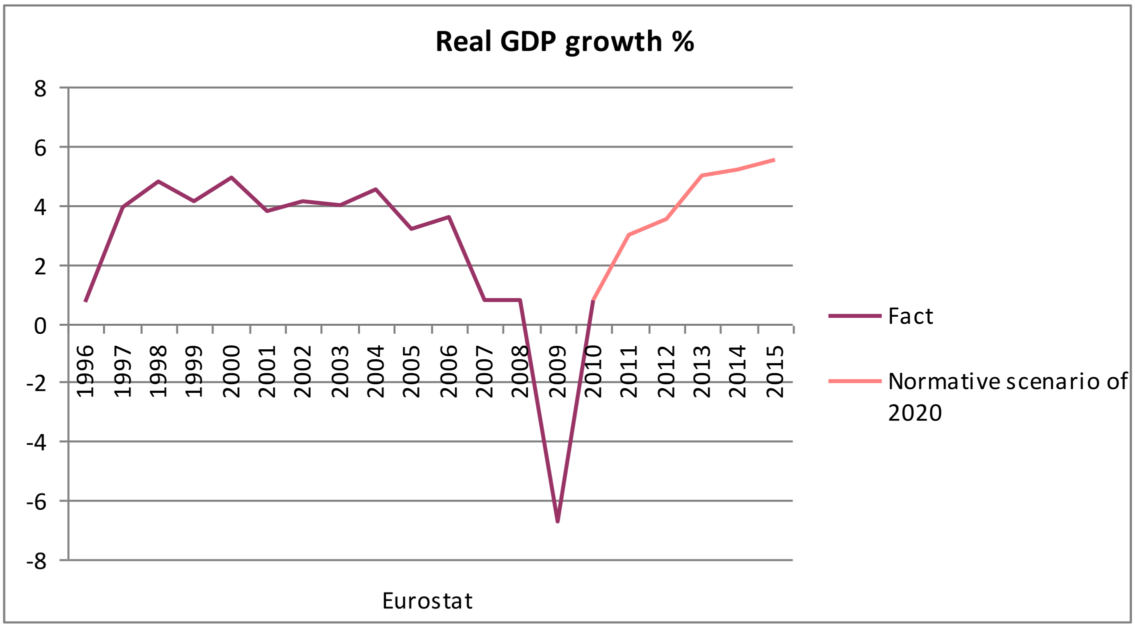
The connection between investments and economic performance is clearly seen from the development figures of the Hungarian economy since the radical change of the regime in 1989-1990. The investment boom in the early '90s definitely resulted in GDP growth. This connection had its impacts felt while investments were characterised by greater variability. Since the peak of 2003 and 2004, investment activity has clearly showed a negative tendency followed by GDP.

Investment ratio - precedents and the impact of the New Széchenyi Plan, GDP %

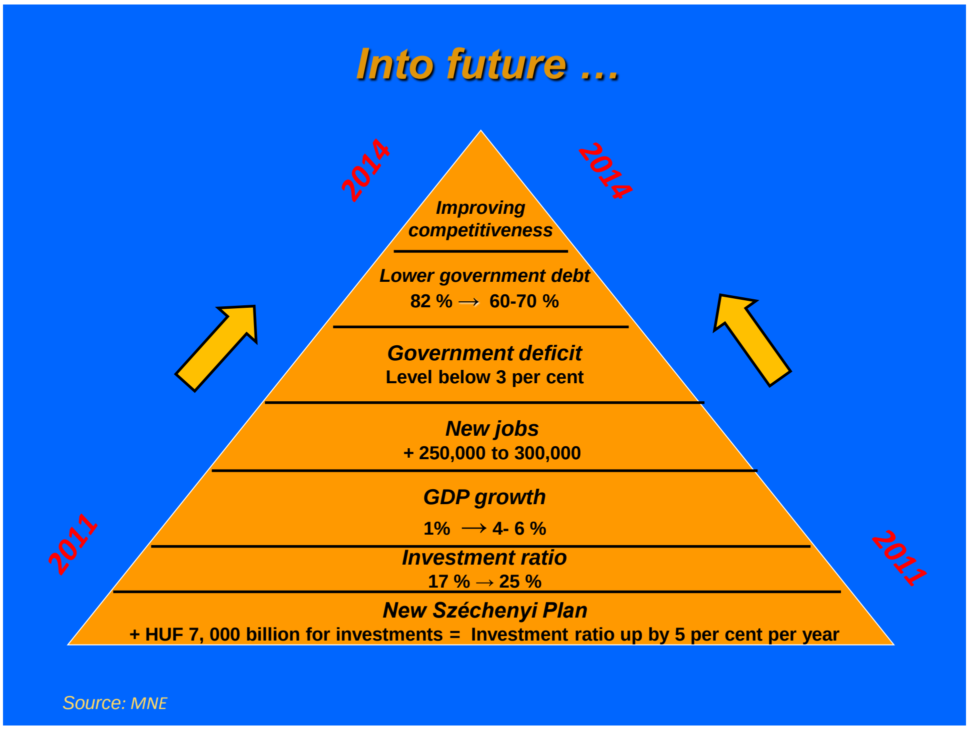


We could, however, give a new impetus to investments by means of the New Széchenyi Plan and a new economic policy. We are determined to raise the investment ratio above 25 per cent in the following 5 years. The resources available to serve this end are in particular the funds from the EU that are to be used in a targeted and efficient manner. These funds have been for years owed to the economic players by the Government of Hungary. The New Széchenyi Plan will raise the investment ratio by 5 per cent each year by HUF 7,000 billion funds in total from 2011 to 2014.

Real GDP growth - precedents and the impact of the New Széchenyi Plan (GDP %)



In case our economic political programmes are successful, we can achieve that the Hungarian GDP growth accelerates again at 4 to 6 per cent. As a result, 250,000 to 300,000 new jobs could be created by 2014 in Hungary, which contributes to improving fiscal positions, lower government debt and regained competitiveness in addition to the mental recovery of the Hungarian society.

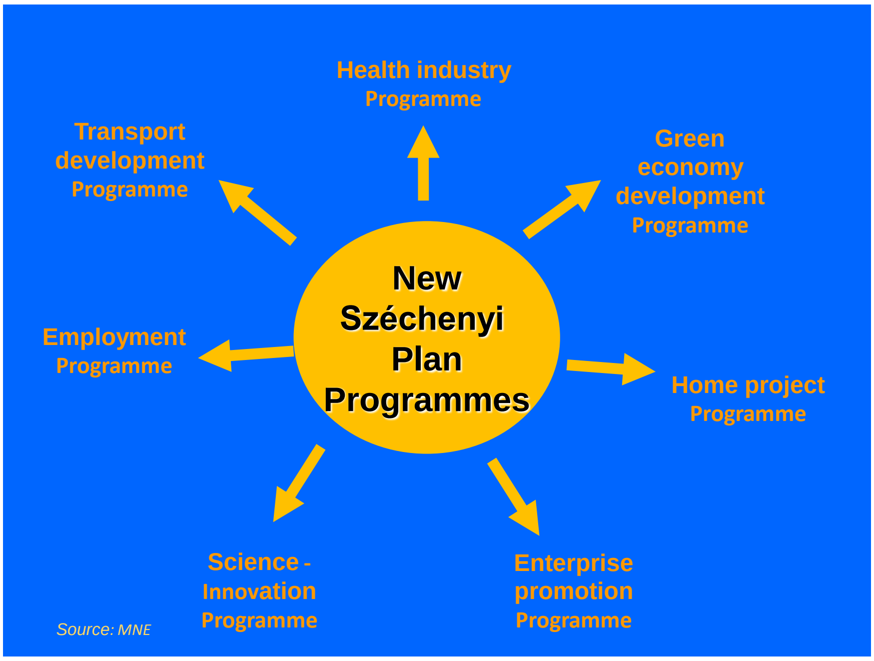


„We went a long way but what lies ahead is still longer and full of struggle."

In this road, the key instruments of economic policy will be the New Széchenyi Plan in Hungary aimed at the national economic recovery, starting prosperity and creating a million new jobs with taxable incomes in 10 years. Economic growth could be launched by means of the New Széchenyi Plan in which productive and technology sectors are highlighted. At the same time, the New Széchenyi Plan is targeted to place Hungary among the most competitive countries.

Compared to the first Széchenyi Plan launched in the period of 1998 to 2002, the New Széchenyi Plan includes several break-out points of economic breakthrough such as health industry including medical investments and tourism. In addition, the new priorities spread out to green economy as well as the strong increase of employment. The Government places a great emphasis on innovation in the New Széchenyi Plan. As a result, Hungary may become one of the major innovation powers in the world. Accordingly, the New Széchenyi Plan comprises 7 priority programmes:

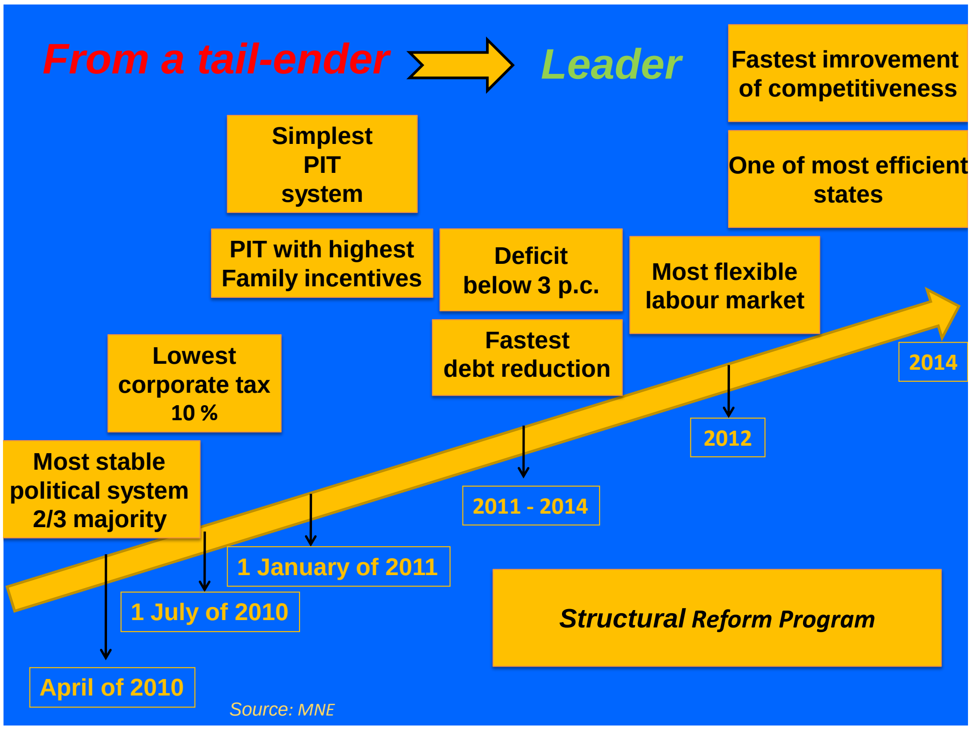
1. Healing in Hungary – Health industry
2. Renewal of Hungary – Green economy development
3. Home project– Housing
4. Enterprise promotion – Development of the business environment
5. Science – Innovation – Growth
6. Employment
7. Transport – Transit economy



It took nearly 18 months of analysing preparatory work to design these 7 areas of break-out points in which some 500 analysts, researchers and economic experts were involved. The blueprint created this way was presented by the Government of Hungary on 28 July2010. Hundreds of development proposals were sent in for discussion in the course of professional consultations until November. Development ideas and conceptions received from NGOs, professional associations, local governments and individuals were incorporated in the New Széchenyi Plan. During the period of consultations, 25000 people visited the homepage concerned, 7 consultations were held including 21 lectures and almost 600 contributions by some 1,000 businessmen and representatives of various organizations.

Economic policy from 2011 to 2014

Due to economic policies of the previous governments, Hungary has become a tail-ender from a leader. Our best efforts are made for Hungary to become the most efficient and competitive country in the region. The turning point was winning an unprecedented mandate – two thirds of seats in the Hungarian Parliament - in the national election of April 2010. After taking over, the newly-elected government has with no delay set to restructuring taxation with a view to creating a more competitive system. From 1 July 2010, we have introduced the lowest rate of corporate tax in the region followed by the simplest flat-rate personal income tax with family incentives. Furthermore, the Government of Hungary is committed to reach the deficit target of 3 per cent lower the government debt and carry out further comprehensive structural reforms.



Budapest, 24 January 2011.

Ministry for National Economy