



MINISTRY
FOR NATIONAL ECONOMY

In accord with Europe: the EU2020 Strategy

Focus

Hungary would like to contribute to the execution of the Europe 2020 Strategy with its particular national capabilities and priorities. The primary priority of the government's economic policy is to improve employment – it also appears as Hungary's most important commitment of the National Reform Programme, outlining the execution of the Europe 2020 Strategy.

Background

The European Union launched the Europe 2020 Strategy in summer 2010, which can be regarded as the successor of the previous Lisbon Strategy in its main objectives, but which has got a much wider scope in the set of tools, in the more focused objectives as well as in the execution and monitoring system. The Europe 2020 Strategy defines five precise and accountable objectives for the European Union which all cover the strategy's three fields of priority (innovation and knowledge-based growth, sustainable growth, inclusive growth):

1. To raise the proportion of employment for people between 20 and 64 years of age (from 69% to 75%).
2. To raise the proportion of R+D expenditure (from 1.9% of GDP to 3%).
3. To cut green house gas emission and to increase energy efficiency and the proportion of renewable energies (20-20-20%).
4. To improve the level of education (to reduce the proportion of premature drop-outs below 10%, to increase the proportion of people between 30 and 34 years of age with higher education degrees to 40%.)
5. To cut the number of the poor or the socially disadvantaged by 20 million.

‘Cornerstones’

The execution of the Europe 2020 Strategy is based on dual pillars:

1. EU-wide headline initiatives: the so-called **flagship** programmes proposed by the Committee, which defines sets of measures to secure EU-wide the relevant actions in a particular field.
2. **National reform programmes** in each member state (called **National Reform Programme** in Hungary): to present national commitments and the measures to achieve them.

The approach and objectives of Europe 2020 Strategy is obviously **in line with the aims of the Hungarian government**. A symbolic indicator of this accordance is that one of the five basic EU-wide communal objectives of the Europe 2020 Strategy is the same as the key commitment of the Hungarian government and one of the strategic goals of the New Széchenyi Plan: **to radically increase the number of jobs**. There is a clear-cut target in the National Reform Programme, manifested through concrete national targets and planned measures alike, outlining the objective also appearing in the government program that within the next decade one million new, taxpaying jobs must be created.

To meet the headline goals of the Europe 2020 Strategy, Hungary is committed to achieving the following concrete objectives until 2020 as national targets:

1. **To raise the rate of employment for people between 20 and 64 years of age to 75%, thus complying fully with the EU-wide goal**

The figure in the national target indicates that the Hungarian government considers job creation as key priority and it reflects the goal defined also in the government programme to create one million new and taxpaying jobs until 2020. The strategic proposals and measures aimed at reaching the employment target affect, on the one hand, the elements of the tax system related to employment and, on the other hand, the sectoral economic policies of strategic importance. The Hungarian government would like to focus on the promotion of those sectors’ development which may play a role in improving the employment situation as potential economic break-out points. An important factor of job creation is optimizing business environment. To this end, the government is

introducing measures to rationalize business administration and they have been working out a comprehensive, medium-term Competitiveness Programme.

2. To raise R+D expenditure to 1.8% of GDP

The Hungarian government recognizes innovation as an economic growth engine, and they regard efficient scientific, technological and innovation policies utilizing domestic capabilities, the production of original goods with high added value and intellectual export as an important base to sustainable economic growth. It is a headline goal of the government to strengthen the innovation potential of domestic small and middle-sized private companies and to stimulate their integration into internationally competitive networks. The planned government measures aimed at achieving the R+D target include the comprehensive revision of R+D and innovation policies, support programmes, the launching of new projects, the transformation of the related institutional and management system as well as the optimization of relevant legal environment.

3. To raise the proportion of utilizable renewable energy resources to 14.6%, to cut back on energy consumption by 10%, to maximize the growth of the emission of green house gases at 10% compared to the level of 2005.

Based on the guidelines defined in the government programme and The New Széchenyi Plan, the government wants to launch sizeable energy efficiency and green economic development projects. Achieving these goals may contribute to the improvement of the employment situation and promote the development of innovation-based investments like domestic knowledge resources.

4. To raise the proportion of the population with tertiary level education or equivalent to 30.3% within the age group of 30-34 year olds. To reduce the proportion of people with only lower secondary or no education to 10% within the age group of 18-24 year olds.

Hungary intends to raise the proportion of youth with a college or university degree primarily by efficiently limiting delayed graduation and drop-out levels. Government measures aimed at cutting the number of school drop-outs impact, among others, the following:

- day-care services,
- projects promoting the success of children either living in poverty, children with multiple disadvantages or with special education needs,
- projects of vocational education,
- efforts to reintegrate drop-outs of compulsory school age into public education,
- implementation of a school monitoring system to enhance the efficiency of public education.

5. To reduce the proportion of the poor or the socially disadvantaged below 5% of the population

Hungary is committed to **reducing the level of poverty** among families with children, the number of people living in severe material deprivation and the number of people living in household with low work intensity by 20% each. Taking the overlaps into consideration, this means that Hungary plans to reduce the number of people affected by the three indicators by approximately 5 per cent / or by 450 to 500 thousand people, to 23.5 per cent by 2020. In achieving these goals, the measures which play an all-important role are those which help improve the employment of those considered particularly disadvantaged, help enhance early development and childcare services, as well as help reduce the indebtedness of households.

The commitments related to the Europe 2020 Strategy and their **impact on the economy** will fundamentally transform the country's macroeconomic course. The basis of the new macroeconomic course are the new, taxpaying, legal jobs created within ten years – or 400 000 until 2015. The normative scenario assumes a simultaneous increase of employment and growth of investment in line with improving prospects. All this will be supplemented by the increasing and more efficient utilization of EU funds. Due to the measures to be taken, **economic growth may steadily rise** – it will increase from the 3-3.5% rate in the next two years to 5% and above. As a result, nominal GDP may exceed by nearly HUF 3,000 billion (7.5%) the level of the baseline scenario.

Based on the presumptions, the biggest change may be expected for investments: from the low 2010 base, the volume growth will first reach 7-8% and then accelerate by a rate over 10% by the end of the forecast period. The rate of investment will reach 25% by 2014 and then it will rise further. The significant tax reduction and the increase in employment will exert a positive influence

on consumption, meaning that in the normative scenario household consumption will increase by a rate of about 4% a year from 2013.

The number of employees may grow by 2% in 2012 and by 3% per annum as from 2013; thus the unemployment rate may be reduced to almost 5% from the current 11%. Such a considerable expansion in employment may significantly increase potential GDP, meaning that the effect of governmental measures on inflation will be moderate.

The final version of the National Reform Programme is being prepared **in accordance with cohesion and structural policy priorities** taking into account the horizontal principles set forth in these policies. We intend to use the funds made available to Hungary from the structural funds and from the Cohesion Fund in accordance with the priorities of the New Széchenyi Plan, which recognizes the Europe 2020 Strategy. In order to co-ordinate measures and size up the impacts of the National Reform Programme, the assessment of the proposed actions has begun. Parallel to working out the proposals, this assessment process continues and Hungary will present the results in the final Programme in April 2011.

Conclusion

As the draft National Reform Programme indicates, the improvement of the employment situation is the most important economic and development objective of the Hungarian government. This could indirectly serve several economic and social ends: it will vitalize the economy, improve the budget balance, stabilize the financing of big distribution systems and help disadvantaged social groups or regions catch up. The key priority of the Hungarian economic policy is obvious: it aims to increase employment by jumpstarting economic growth and improving competitiveness. Besides improving employment situation, however, economic growth and competitiveness are also crucial to Hungary's and Europe's post-crisis recovery. Taking advantage of the concord between the EU-wide and national targets, the government can become an innovative and proactive manager of Hungarian as well as European Union policy through the Europe 2020 Strategy.

Budapest, 02 December 2010.

Ministry for National Economy