

Ministry for National Economy Hungary

NEW SZÉCHENYI PLAN

PRELIMINARY, ABRIDGED VERSION FOR PUBLIC REVIEW

***THE DEVELOPMENT STRATEGY
OF RECOVERY AND PROGRESS***

2010

TABLE OF CONTENTS

New Széchenyi Plan

1. Ten Years On	2
2. Széchenyi Plan after Ten Years	6
3. Ten Years on —The Vision of the New Széchenyi Plan	10
4. A Compass to the Development Policy of the Next Decade: The Development Areas of the New Széchenyi Plan	16
5. New Széchenyi Plan: an Open Platform and Risk Partnership	27

The programmes of the New Széchenyi Plan

I. Healing in Hungary—health industry	31
II. Renewal of Hungary—Green Economic Development	33
III. Home projects — residential property policy	37
IV. Enterprise promotion—development of business environment.....	43
V. Knowledge economy: science — innovation — economic growth	54
VI. Employment — work and performance oriented economy.....	57
VII. Transport—Transit economy	64

NEW SZÉCHENYI PLAN

1. Ten Years On

Planning based on openness and co-operation

It has been exactly ten years since the centre-right government launched the broad professional and private sector dialogue which materialized after January 2001 in the competitions of the Széchenyi Plan, a catalyst of economic performance. At that time such open planning and the integration of private companies, business federations and local governments into a state-financed development Plan was quite unusual. Even during the second decade following the democratic transformation participants of the economy still had a paternalistic attitude and were expecting the state to command what, where and when to improve in Hungary. A lot of people questioned how a Plan based on the 'wish list' of private companies could turn out to be both viable and successful.

However, time has proven that the strategy of the first Széchenyi Plan based upon co-operation had been right. Time has also proven that the Széchenyi Plan of the 1998-2002 centre-right government was one of the most successful programs to boost the economy and improve society. It is worth noting some of the successful achievements of the previous Plan. Due to the sub-project promoting private home ownership, the living conditions of tens of thousands of people improved each year and the construction industry developed greatly as well. With the assistance of the sub-project promoting tourism a number of new spas were built, offering a chance of a still working, permanent trend of expansion. Furthermore, it was the first opportunity for the country's small and medium-sized private companies (SMEs) since the democratic transformation to obtain preferential financial and support funds which at last paved the way for them to expand and improve employment rates.

Sharing Risks

Additionally, the first Széchenyi Plan not only engaged private companies in the formation and planning of the system but, upon completion, it also supported private companies and local governments with substantial resources of about 200bn HUF a year to finance and manage it. The Széchenyi Plan was based on a very simple and easily comprehensible principle. If the aspirations of a private company and local government converged and were in accordance with the Plan, then the state would contribute their support with additional funds. According to private companies, the motto of co-operation sounded like 'Help yourself and the state gives a hand, as well.'

This method of collaboration quickly bore fruit, best illustrated by the fact that within the first two years of the Széchenyi Plan's operation, each forint invested from the state

led to average inputs of four forints by private companies and local governments from their own respective budgets for projects. As a result of this strategy, the annual GDP growth had been averaging over four percent, the budget deficit and the level of public debt had been nearing the Maastricht criteria required for the future introduction of the Euro, jobs had been speedily created, and the country had bloomed.

The 2003 crack — the country without a growth engine

In spite of this indisputable success story, and against their 2002 election campaign promises, one of the first acts of the MSZP-SZDSZ government was to undo the Széchenyi Plan. With a single act, this government halted the growth engine which may have been the foundation for promoting their welfare regime. By as early as 2004 it was apparent that without this engine the endless promises about a 'welfare transformation' could only be financed by disturbing the budget balance, increasing public debt and accumulating deficit. The budget has not yet recovered from this shock; moreover, for the last eight years the balance has been steadily deteriorating and a mountain of debt has grown.

The failure of EU funding allocation

The unfortunate misallocation of EU funds in Hungary can also be traced back to the suspension of the first Széchenyi Plan. Although the first Széchenyi Plan had been primarily based on the country's own support funds, after proper modifications, from 2004 onwards it could have become the base of a planning vehicle fit to incorporate EU funds too. Instead, the Socialist-Free Democrat governments organized the distribution of EU funds with a method which, instead of serving the needs of the converging Hungarian economy, followed almost exclusively the general principles of the EU's development policy. Nothing demonstrates more how ill-proportioned this system has become than the fact that out of the available EU funds only 16% have been spent on direct economic development. In addition to this poor allocation came the sprawling bureaucracy responsible for the distribution of EU funds, the multiplication of institutions handling competitions, a complicated tendering process and the slow transfer of resources. Most private companies would be inclined to not bother applying altogether after having read through the tender documentation. Paradoxically though, this situation was not the result of a deliberate policy, but rather the lack of one.

Without clear-cut and well-defined goals of development, the standpoints of the institutions became dominant in the allocation of EU funds; the fear of losing the funds and the dread of being called to account became the primary concern. However, the

institutional and managerial overregulation and the ensuing chaotic conditions finally resulted in what the departments had feared most: the appearance of dubious fortune hunters who would snatch the money without due performance. In other words, the result was excessive corruption.

Sensible management of spending

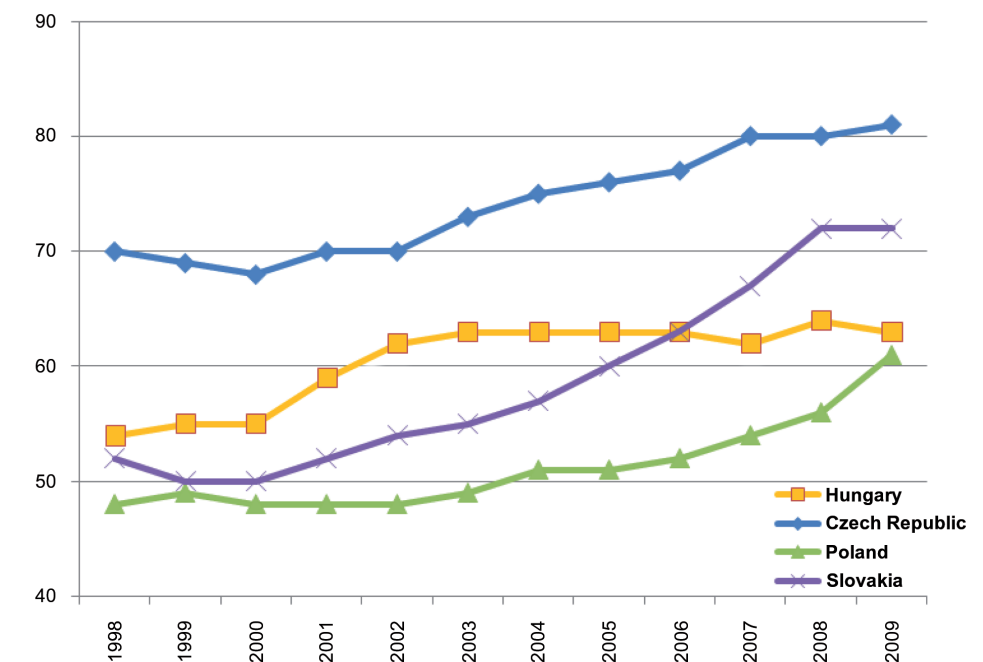
Especially considering the success story of the first Széchenyi Plan, the disproportionate distribution of EU funds in Hungary could not come as more of a surprise. Namely, the duty of the state cannot be the spending of EU support, but a sensible management of EU capital injection for the sake of the country — whose efficiency can be measured by the number of new jobs and economic performance. To use a simile of the railway, the aim is to heat the engine with EU money to make it speed up, and not just to burn insensibly through it. The promising performance ten years ago of the first Széchenyi Plan, with its sensible management of domestic funds, leads us to hope to succeed with the New Széchenyi Plan based on EU funds beginning next year.

2. Széchenyi Plan after Ten Years

Stagnating and falling behind in the region

As the ancient Greek maxim states, you cannot step twice into the same river, and the same is true when we restart the Széchenyi Plan after a decade. During the last ten years the Hungarian economy has undergone significant change, and not for the better. Instead of convergence and progress the governments of the last eight years turned this decade into a period of wasted energies, lost opportunities and drastic decline. The decisive proof of this is that during the Socialist-Free Democrat era the gap between European and Hungarian welfare standards did not narrow at all. In 2009 the GDP per capita was 63% of the EU average, exactly the same as in 2003. It is even more striking when considering our immediate competitors in the region. Measured by GDP per capita, while Slovakia, Poland and the Czech Republic were making steady progress in the EU conversion between 2004 and 2009, Hungary was being left behind the average EU developmental standards. For example, between 2004 and 2009 Slovakia worked off 15% of its developmental gap as we fell back by 0.5%. During the previous era of 1998-2003, the time of the first Széchenyi Plan's operation, Hungary had been catching up with the EU averages, reducing the progress deficit by eight percent.

GDP per capita in percentage of EU27 average

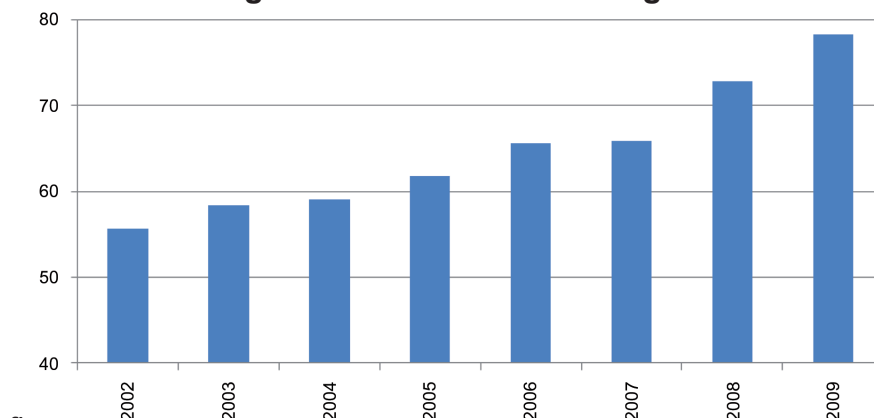


Source: mgfi

A future in pawn

Not only were the Socialist-Free Democrat governments wasting the last decade but, worse than that, they had put this new decade in pawn as well. The level of public debt has risen dramatically, unemployment has risen above ten percent and vast social groups and regions of the country have been falling behind. The numbers speak for themselves. While in 2002 the gross deficit of the state budget was 54% of GDP, by 2009 this figure has risen to 73%. While in 2002 the net external debt was 16% of the GDP, it stood at 73% in 2009. In addition, the Gyurcsány government took an IMF-EU credit in 2008 whose repayment obligations are going to reduce the national budget by 300-500bn HUF each year between 2011 and 2016. If calculated per capita, this IMF-EU lifeline of 2008 burdens every Hungarian citizen with a debt of 177,000 HUF.

General government consolidated gross debt

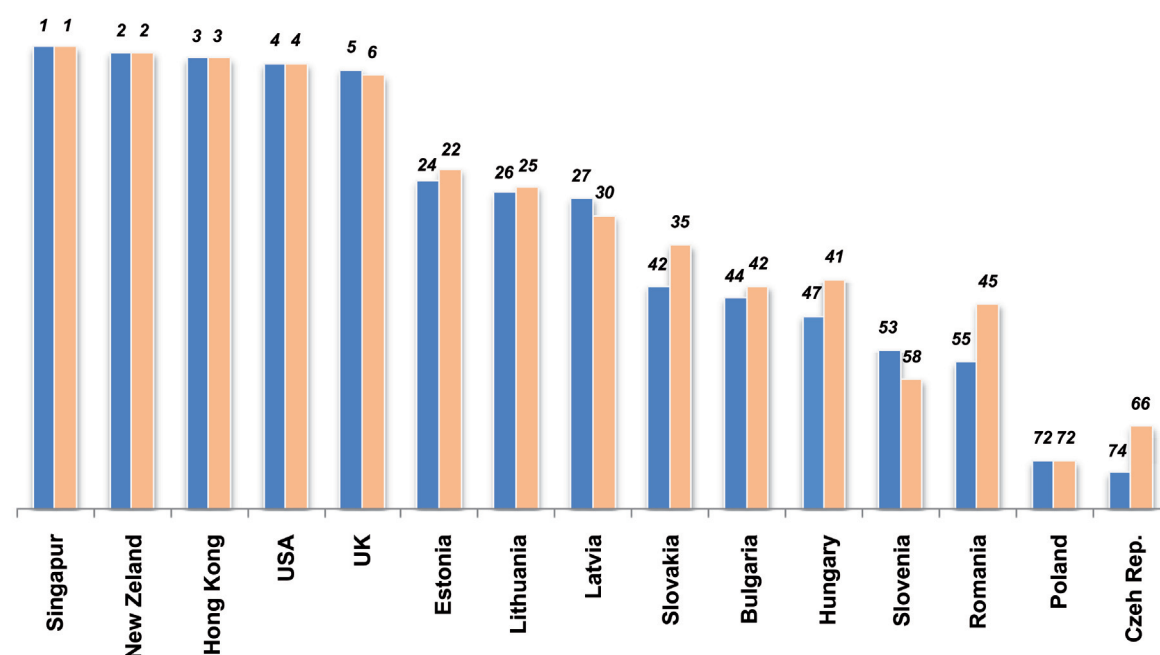


Source: mgfi

Declining competitiveness

Almost every indicator of competitiveness paints a similar, disappointing picture. According to the ranking of competitiveness by the Geneva-based Institute of Management Development, Hungary has fallen dramatically from being 30th place in 2002 to 45th in 2009. According to the global competitiveness index of the World Economic Forum in 2009, out of 131 countries Hungary came in as the 58th. However, judged by the backwardness of the regulatory environment, the country ranked as the last but one, or the 130th, revealing the very root cause of disadvantages to our image of competitiveness. Our deficit of competitiveness is also apparent when compared to that of other countries' of the region too. Regarding each sub-index of the ranking Hungary is at least ten positions behind the members of the Visegrad Group. The World Bank's index analyzing how optimal the economic environment is for doing business in a country placed Hungary as the 41st out of 183 countries in 2009, but when it considered how business-friendly the tax system was, we only ranked as the 122nd — revealing, again, the foundation of the problems. In 2010 Hungary was placed as the 47th.

Rank of Hungary in the Doing Business Report of the World Bank



Source: mgfi

Weak competitiveness: a vicious cycle

Basically due to the mistaken central economic policy of the last eight years, today the Hungarian economy is in a double crisis, suffering from both the chronic budget imbalance and the weak competitiveness of private companies. These two factors

cannot be separated. On the one hand, small and medium-sized private companies hardly have access to developmental resources precisely because of the permanently high budget deficit and the level of public debt. On the other hand, as the private companies' competitiveness is insufficient, the state cannot draw in enough revenues which in turn might facilitate higher standards of public services. The economic policy of the previous governments failed precisely because they could not keep a balanced budget in spite of repeated series of tightening measures while they had given up almost entirely attempting to establish the conditions for economic progress.

The state as the greatest drawback

Keeping a balanced budget is a basic requirement, but it is not enough to jumpstart the economy. Without improving the competitiveness of the economy and establishing the conditions for progress, it is impossible to permanently stabilize the budget. It is especially true considering the fact that the competitors of private domestic companies are usually operating in countries with substantially leaner bureaucracy, a simpler and more proportioned tax system, and with more efficient allocation of foreign development funds.

Lack of trust

Other than the financial resources this state of competitive disadvantages has wasted, it has lost that capital of trust which would be vitally important for stimulating business. This was probably the most severe damage the last eight years have introduced. The Hungarian state has wasted the credit and trust of not only the foreign market participants financing the budget deficit, but that of the country too. Private companies and people in general have become suspicious of any government measure or developmental initiative. A state is financed by taxpaying individuals and private companies because they expect some benefits to be shared with the entire community. To be precise, in exchange for their taxes and duties people expect services from the state which the market would not be able to offer, or if it would, not at the price the state can offer them. In countries based on democracy and free market principles, besides ensuring the rule of law and economic stability, a foremost priority of the state is to guarantee basic communal services, above all education and healthcare. Similarly, in exchange for its taxes, a private company expects some communal profit too, like legal security of the economy, clearly defined competition rules and the elimination of market-distorting cartels, monopolies and corruption. If the state fails to do so, a private company tends to breach the tacit social contract after a while and flees to tax evasion or into the grey or black economy.

Fiscal stability, competitiveness, economic progress

Now, in a different position, with a potential future of weaker competitiveness, a stagnating economy and the general lack of trust, the initiation of the New Széchenyi Plan is awaited to counter these disadvantages. Today the Hungarian economy must face and overcome three tremendous challenges to be successful. First, fiscal stability must be preserved and public deficit contained. Second, measures must be quickly implemented to do away with competitive disadvantages like high taxes or high administrative costs. Third, the foundations of economic progress must be laid down and the economy must be put on a fast lane of expansion. These actions must be implemented soon; otherwise, neither fiscal stability can be ensured, nor can the debt burden left behind by the Socialist-Free Democrat governments be eliminated. However, the main difficulty of this task is to execute these measures simultaneously.

New challenges, old determination

Compared to the year 2000, the current conditions present significantly greater difficulties for the New Széchenyi Plan. Without a doubt, new challenges have appeared which need new responses. Nonetheless, the New Széchenyi Plan can be a success if we preserve all the positive elements of the first, which builds on the co-operation of private companies and local governments in drawing up and carrying the Plan out. The likelihood of achieving success can also be fostered by the new government's determination and the ambition of private companies so that Hungary can forever leave behind the failure-prone, debt-producing, debilitating, corrupt and cartelling, or in other words Socialist-market economy.

3. Ten Years on — The Vision of the New Széchenyi Plan

One million new and tax-paying jobs

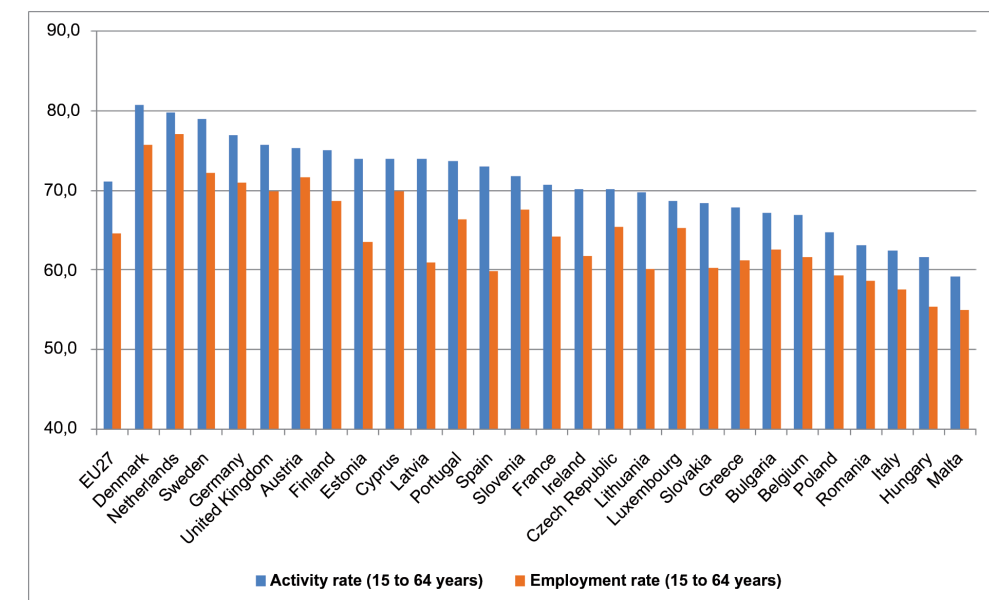
At the core of the New Széchenyi Plan is a single objective: to dynamically increase hiring. Specifically, the aim of this programme, besides generally boosting the economy and improving society, is to create one million new and tax-paying jobs over ten years in Hungary. Both adjectives are equally important. 'New' means that the one million jobs must materialize as stable and sustainable, beyond the natural and seasonal fluctuations of the job market. With the other adjective, 'tax-paying', the goal is not to confine hundreds of thousands of people to temporary activities propped up by expensive state subsidies or to a kind of secondary artificial job market, but rather to free them of the hopeless trap of social benefits–work–social benefits cycle. In Hungary, almost all experts agree that

we need one million new and tax-paying jobs because two-and-a-half million taxpayers simply cannot support and maintain public services, the pension system or the actual welfare benefits for ten million people in the long-term.

Starting point: an extremely low employment level

The present state of affairs in this field is catastrophic, as the Hungarian employment rate is the second lowest in the EU. Of the working age population in Hungary (16 to 64 years of age), only 62% are employed. Only Malta ranks lower, with a near rate of 59%. Our regional competitors are far ahead of us in the field of employment too. For example, Hungary lags significantly behind the 70% employment levels of the Czech Republic and Slovenia, two rapidly converging countries, which, in turn, could not reach the average EU employment rate of 74%. The shortfall is even more apparent when comparing the number of the employed in some European countries of similar-sized populations. At the beginning of 2010, there were 1.2 million people, 1.3 million, and 1.4 million *more* people at work respectively in the Czech Republic, Greece, and Portugal than in Hungary. The interdependence between the rate of employment of a country and its wealth measured by GDP is obvious. Developed countries are not only rich, but they have high employment rates which benefit society at large. It is no coincidence that South-German provinces, the United Kingdom, the Netherlands and Denmark where more than 80% of the working-age population are employed are also among the richest countries of the EU. In other words, developed countries are rich because, amongst other factors, a large percentage of people are employed. The poverty of less developed countries originates mainly from the lack of jobs.

Activity and employment rates in the EU



Source: mgfi

Once you have a job, you have it all

This undoubtedly ambitious goal of having one million new, tax-paying jobs within ten years serves several ends simultaneously. It optimizes the budget balance, revitalizes domestic demand, stabilizes the resources of main distribution channels and it helps close the gap between social groups and various regions across the country. Nonetheless, the moral role the one million new and tax-paying jobs can play may even be more crucial. It is said that once you have got a job, you have it all — without a job, you have nothing. In Hungary the large-scale impoverishment, the rising number of people out of work, the migration of villages' populations, the poorly-financed public services and almost every social problem can be traced back to a single main issue: the strikingly and unbelievably low rate of employment.

A turn for progress

The ambitious goal of one million new and tax-paying jobs sheds light on the depth of the change in economic policy: the Socialist redistributional model must give way to a growth-oriented one. The slogan of this growth-oriented economic policy is that the role of the state is not just to give but it's important not to take away. The role of the state is not to take the income of private employers and employees through high taxes and duties so that it can be redirected to special interest groups or political supporters as they see fit. It is not the role of the state to push some social groups into poverty and to reward others by levying high duties on work. It is especially true if the groups rewarded in this manner do not obtain jobs, but simply receive benefits from the state. Based on this new economic agenda, the old-fashioned socialist redistribution policies should be replaced by a growth-oriented strategy with the objective that everybody is better off, rather than nobody is worse off. To get there, we need a dynamic, sustainable expansion whose proceeds everybody can profit from — albeit not equally, as the risks taken for the progress differ in case of a private employer, an employee or a civil servant.

We do not deny that competition tends to increase inequality of accessibility, opportunity, income and wealth. The European principle of social solidarity, however, seeks to correct and minimize the disadvantages which social groups, families or individuals may suffer for reasons beyond their control. On the other hand, instead of expecting others to help, the majority of the population here actually can and does wish to improve their life, therefore social solidarity should not replace self-reliance. It is intolerable that by creating and recreating armies depending on it, a paternalistic, redistributing Socialist state should kill off people's sense of freedom, responsibility and self-reliance.

Private companies as the creators of the nation's welfare

In Hungary today there are many people hoping to secure employment, but instead are dependent on handouts and social benefits. A cornerstone of the New Széchenyi Plan is the idea that people can find jobs only after private companies will have created them. Logically, it means that the state must create conditions enabling private companies to start hiring. Anywhere we look in Hungary we can see that there is considerable work to be done to establish or improve the foundation for this situation. Unfortunately though, entrepreneurs who would set up a company which might eventually create value, jobs and profit for the benefit of society are currently lacking due to the prohibitive environment they encounter.

One of the most important conclusions of the last eight years is that programmes promoting direct employment cost hundreds of billions and are extremely insufficient. The majority of these types of programmes direct job-seekers to short-term, transitory, state-funded, and mostly communal projects, which are usually just another dead-end for the people. Furthermore, after a while in this inadequate employment, most of these people get stuck in the trap of a benefit–work–benefit cycle. Eventually they become unable to hold on to permanent, stable jobs in the primary market with a reasonable salary.

Private companies as creators of jobs

Naturally, the various employment programmes, communal and part-time work, atypical work projects or programmes focusing on social groups with special disadvantages are necessary in addition with the radical reform of the entire institutional system of the job market, as well as its vocational and professional training and retraining mechanisms. It needs to be understood clearly that private companies can be *the only means to solve the employment problem* effectively for the long term, and not alternative state-sponsored employment projects.

Almost every political force agrees that creating jobs is a crucial task, but there are only a few who admit that instead of supporting jobs or job-seekers directly, those must be helped who can actually offer jobs in the end, namely private companies. The impression after eight years of Socialist-Free Democrat governments is that they have had general distrust of private companies and their independent, confident, 'maverick' managers, who were taking their life into their hands instead of expecting the backing of the state. That was why the centralized Socialist economic and social policy never dared fully adopt the representation of private companies' interests. The Socialist-Free Democrat governments have never truly trusted private companies. One of the indicators of their thinking is the country's distorted and unhealthy tax

system, with all its regulations basically perceiving the population as potential tax evaders rather than as honest tax payers. We need substantial change and we need to comprehend a simple correlation with all of its consequences. *The creators of the nation's wealth are private companies, because they can produce jobs and it is the jobs which can create the welfare for all.*

Creation of welfare by independent private companies

However, so that private companies can create many new and tax-paying jobs, they must be freed of all the burdens which have been put on them by the Socialist-Free Democrat government during the last eight years. That is why, through the New Széchenyi Plan, we shall make the following radical steps to improve the business environment and competitiveness:

- *Tax cuts* — depending upon the balance of the budget and the returns of economic progress, there will be gradual cuts first and foremost on direct business taxes and after that on the taxes and duties weighing on employment.
- *Cutting the number of taxes*, radically simplifying taxing procedures and tax administration.
- *Cutting by half the costs and duties* of private companies.
- *Simplifying accessibility to domestic and EU support funds*, including tendering procedures and the tendering system
- *Eliminating imbalances of competitiveness* like oligopolies or monopolies, as well as *fighting corruption*.
- *Restoring legal security in the economy*

Creating low administrative costs, eliminating monopolies distorting competition, restoring legal security in the economy

While Hungary stays in the crossfire of economic debates about tax cuts, relatively little is said about administrative costs, monopolies distorting competition and legal security in the economy, although the above factors also play a crucial role in boosting the competitiveness of private companies and their ability to create jobs. Lately the annual administrative costs of private companies have been around 2800bn HUF. Out of this, the unnecessary burden on top of administrative costs needed for the orderly running of a business, or in other words the completely superfluous expenses originating from the sprawling bureaucracy is, in companies' estimates, as much as 800bn HUF. In Hungary, the administrative costs paid by private companies are over 10% of GDP, while the same figure in some developed European countries like Great Britain or the

Netherlands is around 2.5%. Additionally, during the last couple of years the developed European countries have launched a number of projects to cut administrative costs, so our competitive disadvantage has only deepened. Similarly little is said about monopolies and oligopolies, although they weaken substantially the independence of private companies too. Namely, the better can only win if a real competition takes place at all. However, if a competition is restricted by oligopolies or monopolies of superior positions, only the stronger and not the better party can win. In today's Hungarian economy there are far too many monopolies or cartels in trade, as well as in industry, which deform competition and weaken the position of other companies and the customers. That is why it is the duty and responsibility of the state to stand up against such formations and prevent cartels from operating either by introducing new competitors, or in the case of natural monopolies, by introducing tougher measures or the rearrangement of ownership rules.

Finally, while debating factors influencing the business environment and competitiveness, the question of legal security in the economy often goes unobserved. During the past couple of years in Hungary the state has been declining into a form of paternalist, redistributing Socialism unable to perform some of its basic duties like guaranteeing legal security or calculable, stable and reliable state performance in the economy. A good example of this behaviour was the repeated mid-year modifications of taxes and tax regulations. To improve the competitiveness of private companies we need an economic policy which can ensure the rule of law, enforce regulations and guarantee a stable and calculable regulatory environment for the economy.

Alliance for competitiveness

In modern economics not only individual companies, but economic policies of states compete with each other too. During the last decade neighboring countries have become more successful not because the Slovaks or the Slovenes were more talented or diligent than the Hungarians, but instead because they have had a growth-oriented and business-friendly one while Hungary has had a Socialist-style distributional policy. They have had an economic policy which has made private companies more independent by cutting their taxes and administrative costs, and who in this way have become able to contribute meaningfully to the development of the economy and job creation.

So that entrepreneurs can be made the heart of economic policy, so that the competitiveness of entrepreneurs can be increased and so that the plan of creating one million new and tax-paying jobs can come true, an alliance must be sealed between the public and the private sector. The New Széchenyi Plan, like its predecessor, is the base of this alliance. It is an alliance where everybody wins. Private companies win

opportunities and progress. People aiming for a better life win jobs, salaries rewarding knowledge and diligence, order, good schools, proper healthcare. The state wins with the easing of employment anomalies, by decreasing debt burden and by the resources released which may fund ambitious social objectives

4. A Compass to the Development Policy of the Next Decade: The Development Areas of the New Széchenyi Plan

Why do we need EU and state funds to create competitiveness?

Making private companies independent, cutting their tax and administrative expenses, conducting a calculable economic policy as well as having a stable and balanced budget are factors which can substantially increase the competitiveness of private companies, promote hiring and the eventually create one million new tax-paying jobs. Nonetheless, it is of equal importance for foreign and domestic investors and private companies to know our compass, just where Hungary is heading, which the privileged fields of development are, which governmental or municipal projects they can join, and which programmes the state can and will provide with additional domestic or EU funds.

Although the Socialist-Free Democrat governments of the past years have managed to spoil their compass, for several reasons a rational and responsible government must not give up making a support policy aimed at private companies. On the other hand, the means of regulation and taxation are limited. Without a doubt, the means of business-friendly taxation and regulation are vital for the creation of a competitive business environment, but especially because the rules of a game are good if they are permanent, simple, transparent and comprehensive. Merely on their own, they could strengthen the market position of domestic private companies only by distorting the operation of free markets.

Furthermore, there must be a counterweight to the privileges of the big businesses. Through their ability to enforce their interests, big companies and concentrated business sectors can achieve special advantages and assistance; they can gain state resources to create thousands of jobs at a time. If economic policy does not want to disregard smaller companies unable to capture the special attention of the state, some compensational measures must be implemented. This kind of balancing intervention is also necessary because of the dual nature of the Hungarian economy.

The following observation made a decade ago by the Széchenyi Plan for the first time has become a professional cliché by today: 'By the turn of the millennium, in Hungary,

Ireland and Portugal the economy has gained a unique dual structure. While the bulk of the GDP, the exports plus the research and development activity is created by a relatively small group of big multinational companies, the contribution of domestic SMEs to these factors is comparatively small, although these companies play a substantially more important role in employment.' Additionally, it did not only describe and define this duality, but it also put aside resources in so-called gap-bridging sub-programmes to ease it, so that supplier connections could be improved and collaborative teamwork for production between the foreign big and domestic small companies could be established. However, the first Széchenyi Plan together with its gap-bridging programmes has been swept aside by the 2002 regime change.

No wonder, that by the end of the decade this duality has not changed significantly. In Hungary these days almost only foreign-owned companies can cope with the challenges of efficiency expected by world markets, and according to international standards, small and medium-sized private companies are mostly uncompetitive. Considering fiscal data, multinational companies can utilize their resources more than three times more efficiently than their domestic peers. As Hungarian small and medium-sized private companies are in this way forced to work exclusively for the domestic market, they more acutely feel the heat of the budget imbalances, higher taxes and lower consumption due to state tightening than the big companies producing largely for export.

Thirdly, state support is necessary to eliminate the obstacles of running a business. In some regions of the country Hungarian companies are at a disadvantage even on the domestic market because of the lack of proper education, poor infrastructure, and the operational deficiencies of the underfunded financial system. Unless the proper human, physical and financial conditions are created which are vital for an optimal business environment, people living in these regions will not be able to enter the job market. Finally, the state must regain trust in economic policy after the hostile attitude of the state towards private companies over the last couple of years. Nowadays private companies consider economic policy as business-friendly only if it brings short-term quick profit for them.

The state helps the competition enter, but it does not compete

In most cases, the market operates more competently in the allocation of resources than the state. As revenues are made up from taxes and duties which generally tend to discourage market participants, these resources are actually more costly too. In addition, the state is permanently confronted by various needs and expectations. It cannot, and it should not, thrive to maximize the profit of projects it finances. The duty of the state logically is to take national, social and political objectives and goals into

consideration as opposed to market participants, whose main interest is in maximizing profits. If we took a narrow definition of economic policy, we might even rely solely on the market. However, the state is not the doctor to cure the market when ill — the government is not elected to do so. *The state is responsible for the community and public welfare: it does not directly improve economy, but it forms an alliance with it,* so that market participants can undertake to support the community in exchange for conditions facilitating higher returns. It is a fair business. You get a strong community for competitiveness and competitiveness for a strong community.

It is the duty of the market to organize resources and products optimally, for maximum return. However, the economy can only function orderly if private companies and employees are able to enter the market and the background conditions required for business success are in place. In the process of creating these conditions, local and national communities, as well as their respective institutions, must play a central role. In the allocation of funds aimed at private companies the state must follow up on the principles established to meet the government objectives of empowering the community, but it must not copy the market. *Through the New Széchenyi Plan this government aims to create an economic environment of opportunities for all those who wish to get a job or wish to establish a company.* It also aims to help people eager to improve their lives capable of doing so, generating personal success stories over the next decade.

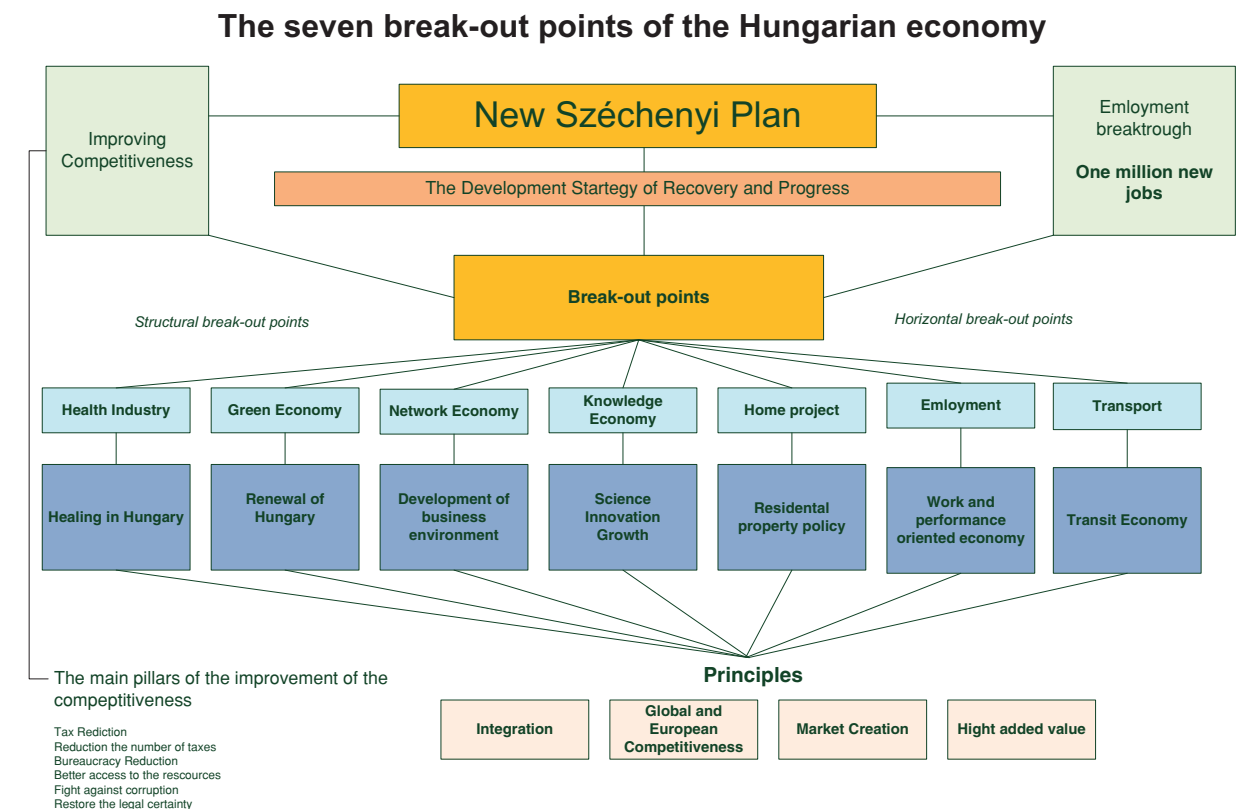
The break-out points of the Hungarian economy and the seven programmes of the New Széchenyi Plan

The economic policy of the coming years must not be based upon some exclusively promoted privileged sectors, but it must have a vision of the economic fields which could lead the expansion. It only makes sense to debate a development policy and competitiveness with a clearly outlined vision of the future. The future of the Hungarian economy is going to be determined not only by the achievements of monetary and budget policy, but also by the question of if the real economy could be placed on a sustainable fast lane. Now in the middle of 2010 this implies the double task of conducting a short-term crisis-management programme and forming a long-term strategic vision.

As for strategic objectives, the question must be asked just which possibilities a small, open country rich in unique resources like Hungary can have which might enable it to enter domestic and international markets with competitive products and services.

We need to find the break-out points, or those industries of the future which could (re) vitalize the entire economy. Furthermore, those devices which could connect these break-out points must be found and by establishing their relationship, the network making up the body of the New Széchenyi Plan can be drawn up:

1. Healing in Hungary — health industry
2. Renewal of Hungary — development of green economy
3. Home projects — residential property policy
4. Network economy — development of business environment
5. Knowledge economy - science — innovation — economic growth
6. Employment — work and performance oriented economy
7. Transport - transit economy



It is a conclusion drawn from the first Széchenyi Plan that a state-sponsored development and support policy can only be successful if it has clearly defined focal points established and supported unequivocally by the state and market participants. It is also a conclusion from the first Széchenyi Plan that for the common debate and the shaping of these focal points *a preliminary version of the Plan is required* which may serve as a platform for private companies, local governments and business federations to form their criticism and comments upon or to provide it with their proposals. That is why the New Széchenyi Plan starting next year employs the same method and offers seven break-out points up for debate.

The shaping of the seven break-out points and the fields of development is a result of one-and-a-half years of expert research. About 500 experts and researchers were consulted; all were acknowledged economic specialists of excellent professional credits

have taken part in more than seventy action groups. The outcome of their efforts is about one-hundred-and-fifty working papers, altogether about three thousand pages, each of which explore possible fields of development, analyze the actual situation, summarize corresponding research results, form the principles of development and draw up the means of improvement.

Based on these essays seven break-out points, four of them sectoral and three of them horizontal, can be distinguished:

The 4 sectoral break-out points:

- Health industry
- Green economy
- Network economy
- Knowledge economy

The 3 comprehensive break-out points:

- Home creation
- Work- and performance-oriented economy
- Transit economy

Integration

A common characteristic feature of all these points is that they tend to integrate various traditional industries which all offer a good chance that in the medium term their promotion can *boost the creation of domestic products and services competitive Europe-wide or internationally*, or it can result in the establishment of private companies. Furthermore, later they can *open up additional markets* of development and *provide high domestic added value*.

There is no single tool in today's rapidly changing economy to define the growth sectors of the future within each branch of industry. But it is not the objective of the New Széchenyi Plan to describe such future growth areas, because they are bound to be discovered and improved by private companies through a lengthy process of trial and error. On the other hand, as the tendencies of technology and economy of the last 200 years suggest, real changes have been taking place not within the framework of single industries, but it is *entire technological and economic systems* or paradigms incorporating complex series of industries which have been evolving. Undoubtedly, the production of semiconductors is one of the crucial branches of computer industry, but through the microchip-operated computers by today a new technological-economic paradigm affecting almost every aspect of life has been created, which covers areas

such as traffic control, heating systems, and internet communication. Similarly, in the individual sectoral break-out points defined by the action groups of experts there are series of traditional industrial fields:

- *Health industry* includes amongst other sectors, the pharmaceuticals industry, medical precision engineering, medical appliance industry, spa or health tourism and the related health-tourism training, balneology, horticulture, cultivation and procession of herbs, medical use of thermal water, beauty industry and mineral water production
- *Network economy* encompasses a broad area which aims to create and manage production network. To pick just some of the most important areas: the automobile industry and the related domestic subcontractors' industry, regional hubs, transport networks of trade, logistics, branches of industries related to the more optimal exploitation of Hungary's transit position, the Carpathian Basin area economic network, the networks of the business, financial and real estate development and management services providers.
- *Green economy* is also a broad area with branches which, when compared to past eras, can promote more efficient and economical management of nature as provider of resources. Some of the examples: use of renewable and alternative sources of energy (geothermal energy, biomass, energy plants, solar and wind energy, etc.), organic farming and procession of organic farm produce, biotechnological research, means of adjustment to climate change, energy efficiency in construction, nature and water conservation
- *Knowledge economy* similarly embraces diverse fields such as industries getting just started, whose main characteristic feature is the creation and application of new knowledge like research & development and innovation in the vehicle industry, health industry and informatics; creative industries (film, design, architecture, applied art, show business, web and internet services, etc.)

As the break-out points defined by the expert workshops encompass a variety of industrial branches, these break-out points can single out areas of Hungarian economic policy without restricting the ideas and aspirations of private companies. A further great advantage of loosely defining the break-out points is that *it makes development policy flexible*, as it is well-known today that industrial sectors and groups of products creating substantial added value are usually born on the boundaries of classical divisions of science or industrial sectors instead of coming from a particular discipline or industry.

Global or European competitiveness

Yet another common characteristic feature of the break-out points is that each of them has considerable market potential. In Hungary *there is a real chance in each and every field of development to generate groups of products or groups of companies which, already in the medium term, may become competitive on a European or global scale.* As the successful growth stories of the last decades reaching from Ireland to South-Korea suggest, a small country with an open economy can only be competitive in an integrated world economy and on the cut-throat international market if it relies on its own unique and exceptional resources, which the country can then turn to its special advantage and get them reach global standards.

After these lost eight years Hungary, naturally, is in need of serious improvement in many fields. However, the tight means from domestic and EU funds must be concentrated around such break-out points where there is a real chance that in the foreseeable future four or five world class groups of products or businesses can be created. To accomplish this is crucial because having these products or businesses competitive enough on a global or European level could then boost and revitalize the rest of the economy, for example through their subcontractors.

Let us list just some of the promising candidates. Within the *health industry*, pharmaceuticals industry enjoys a world class status, but spa tourism or mineral water production may soon reach the same standing too. In the field of the *network economy*, the background supplier systems of the vehicle industry could soon be of globally recognized quality and some providers of business, financial and real estate development services reaching across the Carpathian Basin may operate Europe-wide. In the *green economy*, the utilization of geothermal energy is an exceptional opportunity, and organic farming together with the processing industry of organic foodstuff could also be elevated to European competition levels. As for the *knowledge industry*, chances are high for the vehicle industry, health industry and innovations in informatics, as well as for domestic cartoon- and design-related sectors, internet and web services.

Market creation

The third principle in defining the break-out points has been the creation of markets. Such areas of development had to be recognized *whose focused support by domestic and EU funds would call to life a series of further market and investment opportunities.* The first Széchenyi Plan and especially its sub-programme promoting health and spa tourism had provided some useful experiences. Namely, as this sub-programme

facilitated the creation of recreational centres or spas by adding almost 20bn HUF in 2001 and 2002 each, it also opened a series of new markets for local private companies, including restaurants, medical clinics and makers of thermal water-based cosmetics.

However, every break-out point has its market-making potential. In the *health industry*, for example, the medical use of thermal water may facilitate the production of medical equipment or the beauty industry may boost cultivation of herbs. This kind of market creation is even more pronounced in the *network economy*, as networks mean a system of business relations and centres, so a particular logistics or industrial hub can logically mobilize the entire sector. The *Green economy* and the *knowledge economy* have similarly strong market creation potentials where, being new economic areas, the trends of market creation may materialize in the process of their own formation and development.

High added value

Finally, another basic principle in the definition of break-out points has been their potential for creating domestic added value. In Hungary it was the first Széchenyi Plan which described for the first time that by the turn of the millennium the reserves of the economic development model characteristic of the 1990s had been exhausted. These reserves had been based on 'cheap domestic labour and foreign direct investment, the latter of which had been brought in through privatization in the first half of the decade, and through greenfield projects in the second. The result was a typically outwork-style modern mass production with low added value and extreme sensitivity to economic cycles.' The project had also worded the basis of a *novel, innovation-led economic development model* which was to shift Hungary toward the production of higher added value. Additionally, one of the primary objectives of the first Széchenyi Plan had been the promotion of this shift through most of its competitions. It was exactly because it had got a clear vision that this might be the right method to help broad social groups catch up and enjoy a better life. Quoting the first Széchenyi Plan again, 'As the market value of trained labour force is higher than that of the untrained, the innovation-led economic development model change creates the double challenge of turning Hungary from a country of low wages into a country with European income levels *and* competitive cutting edge economy.'

The only way for broader layers of the society to rise to improved wages and greater wealth is if the economy can move away from the simple assembly-line work forms toward production of higher added value. This economic and analyst cliché of today had also been described for the first time by the previous Széchenyi Plan. Nonetheless, after the 2002 elections the governing Socialist-Free Democrat coalition was not of

the same opinion. On the contrary, they argued that welfare is basically a question of redistribution and it does not come from a shift toward production of higher added value. So they suspended the Széchenyi Plan and instead of it, they started the system of dispensing uncovered benefits they called 'welfare transformation' which destabilized the budget within a relatively short period of time. However, the last eight years have clearly proven that *increasing the country's welfare is not possible by merely changing the proportions of redistribution, but it can be achieved through the transformation of the economy toward higher added value.*

That is why the New Széchenyi Plan undertakes to define such break-out points which have the potential of gaining higher added value.

In the *health industry* there is a trend of dual value creation. On the one hand, the improvements in the health industry can simultaneously translate into the improvement of people's health conditions. On the other hand, as the role of research & development is crucial in the health industry, e.g. pharmaceuticals industry, innovation plays a central role too, and as it is highly sensitive to trends in fashion as well as the economy, innovation must play a central role too, as it does in the beauty industry.

It is the very essence of the *network industry* to operate with high added value, as this particular value comes from the optimization of means managing and mobilizing the entire economic system. In our contemporary, globally integrated economy *it is not individual industrial fields or even some giant multinational companies which compete, but whole production chains and networks intertwined with them.* For Hungary and domestic companies the ability to join these evolving global networks and leading production systems is of vital importance. Until now unfortunately most domestic companies have been able to attach to these with simple assembly-line work forms of low added value. Against this tendency, the New Széchenyi Plan's aim is to get domestic private companies to build industrial and value-creating networks based on production phases of high added value, for example through logistics, automobile supplier industries or by establishing *an economic area of the Carpathian Basin.*

Finally, the *green economy* together with the *knowledge economy* is naturally built upon added value production. It is well known that there must be some extra knowledge behind every economic advantage. Whether technical, organizational or resource-processing, it is such knowledge which other competitors lack that affords advantages to the successful. It is also widely known that there must also be a good idea to make a business work.

However, in some branches and sectors of the economy, like the green economy or the knowledge economy *the new information and new knowledge being constantly processed as well as created is precisely the key to their success.* These are such

industries where the idea is of the greatest value. Therefore, when the New Széchenyi Plan identifies the green economy and the knowledge economy as two break-out points, it purposefully places these sectors of exceptionally high added value into the centre of economic development.

Comprehensive break-out points

The three comprehensive break-out points focuses on improving the conditions for a meaningful life and on the general business conditions necessary for a company's successful operation. Their objectives are to secure the background of sustainable employment and business, to develop infrastructure exploring our geographical potentials to its full extent, and to improve residential neighborhoods.

An economy based on work and performance

The government of national co-operation regards private companies as its allies necessary for the development of the economy and the community. Its objective is to provide private companies with the optimal state- and community-level environments to ensure their successful operation. The three main pillars of the government's business initiative are the formation of a business-friendly state, the improvement of the status of businesses and the strengthening of business relationships.

The guarantee of this business-friendly state is the substantial reduction of the administrative costs for private companies, like cutting taxes and duties and radically simplifying tax regulations. Bureaucracy needs to be streamlined and administration rationalized. To ensure that regulations do stay simple, they must also be legally secured.

The foundation of establishing a work-based economy is the restoration of the respect of work by cutting taxes on labour for every social group and cutting back on incomes without actual performance. So that many more people can join the labour market, flexible and simple employment forms must be made widely available, public services like nurseries, kindergartens and public transport must be improved, and training and retraining facilities must be created according to labour market needs and operated country-wide.

Transit economy

The competitiveness of the Hungarian economy can be improved by the construction of a transport system exploiting the exceptional geographical potentials of the country. Such a network must be created which can be incorporated into the European and regional integrated transport systems, and which can meet environmental, energetic as well as European technological standards. By the principle of intermodality or the instigation of the combined usage of various means of transport, one can reach an optimal level of utilization, where systems are complementary and not counterproductive. To get there, the organizational, financial and regulatory conditions of the co-ordination between sub-departments must be reinforced. To improve the competitiveness of combined transit systems, the expansion and improvement of the networks of existing intermodal logistics centres are already being planned.

Home projects

A determining factor in the quality of life and one of the main objectives of active people's efforts is to create a home to provide comfort and security and to create an agreeable living environment. When one can secure the optimal living conditions relative to his financial means, the agreeable environment can improve the quality of life, but working conditions, saving and taking a credit can be more calculable with it too. We could, however, have got even more agreeable living conditions if some of the anomalies of Hungarian residential real estates were corrected.

Nowadays having a home is not just a goal or a dream people can make real by hard work, but often a burden too. The maintenance of privately-owned homes is often problematic. Keeping a private home is for many families beyond their purse. Lots of people are forced to buy their homes and be in debt for decades, because renting has got legal obstacles and rented properties can seldom serve as real homes. A number of families suffer under high utility costs, because the heating system or the insulation of their homes is outdated.

To solve all these problems, the regulatory anomalies of home financing must be fixed and the long-term renting of homes must be made a real alternative to buying. The financial projects promoting home ownership must be linked to the number of children in the family, to income tax, to energy efficiency, to legal and high-quality construction. We must avoid creating further difficulties for future generations.

5. New Széchenyi Plan: an Open Platform and Risk Partnership

An open platform

New Széchenyi Plan is a broad platform which various economic organizations, private companies and local governments can join with their ideas, plans, suggestions and competitions. The New Széchenyi Plan is similar to a typical base of today's ultramodern modular automobile industry, upon which luxury cars, sports cars or sedans can just as well be built. The New Széchenyi Plan starting next year is a frame which can be filled with substance by the participants of the economy, let it be their ideas or project plans or completed investments.

New Széchenyi Plan is a platform open to integrate development projects of other sectors like education, healthcare or sport. Actually, it is also open to integrate the projects of sections not mentioned among the break-out points, but which create high added value. Similarly to its predecessor, the New Széchenyi Plan is open to welcome and incorporate the plans, projects and proposals of private companies, local governments and micro regions.

Risk partnership and the reform of the EU funds' allocation

Just like the first, the New Széchenyi Plan relies on the sharing of risks between companies, local governments and the state. Due to the actual budget situation, by the means of the New Széchenyi Plan the state will take part mainly with EU resources in the risk partnership of development projects' participants. Let us make it clear that *EU funds do not come free* — on the contrary, they are costly because of the EU membership payments, the domestic share required in a competition and because of the expenses of competition administration. When calling for tenders, we must be aware that one-third of all EU funds are practically domestic money, and a debit on the budget.

For the above reasons *the system of EU fund allocation and tendering must be radically changed*. First of all, instead of the free-for-all policy prevalent until now, *we must focus on the demands of private companies*. It is not the duty of the public sector institutions or ministries to find out what kind of competitions private companies or local governments need. On the contrary, the competitor, a private company or a local government, must have an idea, a project to develop and spend their resources on, and the role of the state is to add some extra optimal financing alternatives like credit grants or preferential credit to it. Contrary to the practice of previous years, *it is not*

the role of the state at all to determine the winners of market competition by awarding and wasting competition money on them. It is not the role of the state to portion out cheap money to private companies or local governments for projects they initiate just because there happens to be some EU funds allocated to that particular field.

Secondly, the number of competitions must be cut, and tendering procedures as well as the competition administration must be extensively rationalized. We need to distinguish clearly between smaller competitions requiring lower funding where all competitors can eventually receive resources, and those related to bigger projects which need a longer period of preparation and consideration.

The New Széchenyi Plan — an alliance for the recovery and progress of the Hungarian economy

The finishing of the New Széchenyi Plan is the task of the coming months. This short preliminary version summarizes the main objectives of the government of national co-operation, and the principles and guidelines of its economic policy. The plan is far from being completed. The members and officials of the government are continuously informed about and inspired by many promising ideas and development concepts meeting these guidelines day after day.

It is the task of the weeks and months ahead to complete the New Széchenyi Plan in close co-operation with the participants of the economy. *We are hereby opening a consultation process so that this Plan can become the project of the entire Hungarian economy. We welcome all comments and proposals which can contribute to the success of this common enterprise.*

THE PROGRAMMES OF THE NEW SZÉCHENYI PLAN

Co-operation and open planning

Since the summer of 2009, action groups of experts designated to seven central economic areas have been researching and working out proposals in their respective fields concerning analysis, fact-finding, the setting of goals, and defining roadmaps of action. As a result of the professional co-operation of 500 researchers, experts, economic and other specialists working in 70 action groups based on seven topics, 175 essays, research papers and proposals have been completed since the summer of 2009.

The Programmes of the New Széchenyi Plan

Based on the break-out points of the Hungarian economy defined by action groups and expert workshops, the New Széchenyi Plan outlines seven main programmes opening a debate for domestic businesses, civil organizations and local governments.

To stimulate a recovery and encourage the Hungarian economy to progress, there must be a clear vision of the future which points out the potential leading areas of growth and industries which can eventually boost the entire economy, and by which the New Széchenyi Plan's programmes can connect the break-out points.

The 7 programmes of the New Széchenyi Plan are the following:

1. Healing in Hungary — health industry
2. Renewal of Hungary — development of green economy
3. Home projects — residential property policy
4. Network economy — development of business environment
5. Knowledge economy - science — innovation — economic growth
6. Employment — work and performance oriented economy
7. Transport - transit economy

There are two simple goals at the heart of the vision for the next two decades, to make our country the best place in the region to live and work in. By the extension of employment and the speeding up of the economy we will create a sustainable balance, the balance of bringing up economic development and living standards to European levels. Jumpstarting the economy will be conducted through an alliance with businesses, because we want to make one million new jobs over ten years. And these jobs can only be created by the private sector with the help of the state and not vice versa.

I. Healing In Hungary — Health Industry

The health industry as a break-out point

The health industry includes preventive and rehabilitation services, the supply and background sectors as well as their research facilities, and the production/distribution of goods related to a health-conscious lifestyle. Out of all the break-out points, this area is the most promising one. Its significance is determined by its connections to almost every other sector of the economy, the favourable natural characteristics of the country, the available intellectual capital and the gradually opening international market. The development of curative and thermal tourism has been one of the most successful programmes of the first Széchenyi Plan too.

Due to its innovative and research-intensive branches, its largely unrealized foreign market potential and the size of its available skilled workforce, the health industry could facilitate the broad-based consensus necessary for the reform of the anomaly-ridden healthcare system's provider and financial structure.

The health industry can best operate as a break-out point if there will be optimal, sound demand of its products and services. As in the case of the previous projects of the health tourism, in this regard we must take domestic as well as foreign demand into account.

The objective and expected results of the programme

The comprehensive programme for the health industry aims first at the more optimal and efficient exploitation of the country's thermal water and geothermal potentials. The second focus is upon organizing a network out of related production and service sectors. As most sectors of the health industry could boost production and the related service industries, the success of this programme would increase the productivity of the country and result in the substantial rise of the employment rate.

The objective of the health industry's development is to create a distinct, national industrial sector emphasizing the positive attributes of the country. Both human and natural benefits can provide strategic advantages to exploit. There are a number of strong synergies between the sectors of health industry.

The most important potential benefits from the development of the health industry include:

- Job creation, improvement of the SME sector
- Improvement of the health of the general public
- Boosting education and training facilities due to the higher demand for skilled labor
- Facilitation of permanent expansion
- Reduction of Hungary's dependence on foreign energy resources
- Sustainability from the viewpoints of environment, macro economy and society
- Regional and social stability by bridging income gaps
- Creation of a national strategic advantage out of the given natural potentials

Elements of the programme:

1. Health tourism
2. Utilization of geothermal energy
3. Horticulture
4. Beauty industry, cosmetics
5. Mineral water production
6. Pharmaceuticals industry
7. Biotechnology, nanotechnology
8. Medical appliance engineering
9. Balneology
10. Horizontal aspects — health industry hubs
11. Education related to the health industry
12. Specialized construction industry

This programme intends to provide the Hungarian economy with cutting-edge developments across diverse fields, emphasizing the uniqueness of the country. It will lay the foundation for job creation, higher incomes and an increase in the gross domestic product.

II. Renewal of Hungary—Green Economic Development

In the 21st century the success of a country is largely determined by its ability to effectively handle the problems such as, among other things, the security of energy supplies and rising energy prices (which have been created by a consumption model based on fossil or non-renewable energy resources), by developing lower energy consumption, energy efficiency, energy security and the use of alternative energies. Global warming, the world-wide growing energy demand and the sharp increase in the price of fossil fuels forces the world, including the members of the European Union like Hungary to respond quickly.

The last time the country's energy policy was described by the Hungarian Power Companies Ltd. (MVM) in their essay of November 2006, titled 'Hungary's Basics of Energy Policy 2006-2030'. The observations made in this work are still partly relevant and applicable, but there have been some noteworthy, critical changes since then that must be accounted for. The unprecedented, extreme fluctuations of global fossil fuel prices over the last couple years present new challenges. For two years in a row, Hungary, as well as this entire region, has been exposed to disruptions of natural gas supply. The global finance and economic crisis of 2008 deeply affected the energy sector which had its consequences on the supply chain too. The energy policy of the future and its development strategy must consider all these novel factors.

Situation analysis

The basic principles of energy policy:

1. The energy policy of the future must be organized by bearing in mind the proper responses to domestic concerns/obstacles, the energy policy guidelines of the EU, as well as our specific geopolitical conditions.
2. The domestic energy situation is influenced by some special circumstances, opportunities and challenges slightly different from the mainstream European tendencies. Anomalies of special importance are the one-sided dependence on gas imports, the various different, mostly private, companies of the energy sector, as well as the low utilization of renewable energy resources.
3. It is highly advisable to build the energy policy of the future alongside the following guidelines:

- Boosting economic growth and employment
- Increasing supply security and diversifying resources
- Decreasing dependence on energy imports
- Promoting the production and utilization of renewable energies
- Climate change protection
- Nuclear energy
- Setting up a stable and business-friendly governmental institution network responsible for energy policy

Priorities

1. Energy policy at the service of economic growth and job creation

The effort to help create an energy infrastructure and supply system which may best serve the expansion of the domestic economy is at the core of our energy policy. A basic requirement of it is that the economic players as well as the country's population must receive these services in *good quality, with definite security and for reasonable prices*. Additionally, we must take advantage of the opportunities offered by energy policy developments such as a *higher employment rate or higher economic growth*. So that we can achieve all these, we must make progress in the following points:

- Revision of the competitiveness of the electricity and gas market and the revision of the regulatory system
- Creation of a stable regulatory and investment environment
- Creation and maintenance of efficiency and economic competitiveness
- Promotion of regional energy sector integration with due regard of the interests of domestic participants
- Creation of a comprehensive energy efficiency programme
- Definition and promotion of potential growth sectors of the energy industry
- Concentration on technological progress and on research & development
- Price policy

2. Security of supply and diversity of resources

A basic principle of energy policy is to ensure the security of supply. Increasing the diversity of resources, the productivity of transport and supplier systems, the building and operating of strategic storage facilities as well as utilizing renewable energies more extensively are the essential tools of this principle. When realized, these modifications can guarantee reliable supplies for the consumers and decrease the country's dependence on energy imports.

To increase the security of supply, the further synchronization and development of the below sectors are needed:

- * Balanced diversity of resources
- * Diversity of acquisitions
- * Strategic storage facilities
- * Production and utilization of renewable energies
- * Development of infrastructure, central role of the state
- * Energy diversification of local governments and improving their energy efficiency

The objective is to create an energy policy and an energy structure of pronounced national influence whose ultimate beneficiaries can be the society and the economy alike.

3. Decreasing dependence on energy imports

Due to the conditions of domestic natural gas consumption, there are a number of risks affecting competitiveness, the security of supply and politics. Most heating systems of domestic households and institutional consumers operate with natural gas, so energy strategy must concentrate on *moderating their exposure*. The most important elements of such a policy can be the following:

- Cutting overall gas consumption by rationalizing and downsizing unjustified discounts on natural gas;
- Supporting efforts aimed at energy efficiency;
- Promoting projects aimed at replacing natural gas with renewable energies in heating systems;
- Maintaining the invigorating funding of high-efficiency, renewable energies-based electricity production.

4. The focused encouragement of the production and utilization of renewable energies

Besides the obligation to meet our EU quota, the increased utilization of renewable energies has been made necessary by its positive effect upon the security of supply and the developmental potential of the related sectors of agriculture and the national economy. The measures below could stimulate the orderly expansion of the utilization of renewable energies through domestic support funds:

- Revision of discounts on fossil fuels (e.g. discounts on gas consumption, carbon tax, etc.);
- Overhaul of the actual support system (revision of investment support, preference of domestic added value, introduction of a green certificate);

- Modification of the support mechanism to promote the renewal of heating systems;
- Facilitation of renewable energy producers' network connection.

5. Climate change, mitigation and adaptation

The Plan regards projects affecting climate change and projects of mitigation and adaptation in connection with the energy sector as of supreme priority. These include the reduction of the emission of greenhouse gases, the promotion of climate-friendly investments, as well as projects increasing social acceptance and awareness of environmental protection issues. To this end, the Plan works out and implements measures and development projects to support the National Climate Change Strategy.

6. Nuclear energy

One of the most efficient tools for ensuring the security of supply is the utilization of nuclear energy. It can meaningfully contribute to the reduction in the emissions of greenhouse gases and subsequently help achieve the objectives of protecting the environment and climate. It is a precondition to the production of cheaper electricity, price stability, the long-term economic predictability and with this to the optimization of the country's competitiveness.

For the above reasons nuclear energy must be given an important role not only today but in long-term domestic energy supply too. As the fuel cells used in a nuclear power station can be stored for many years in a small space, in case of a temporary shortage of other fuels, a nuclear power plant can operate excellently even at higher capacity utilization. For nuclear energy to be more widely accepted by the domestic population, an open information policy about the utilization of nuclear energy must be implemented.

The possibility of prolonging the Paks Nuclear Power Plant's operation license must be examined, paying special attention to the intransigent enforcement of security requirements. For the medium and long term, the building-in and operation of new nuclear reactors for the power plant should be considered.

Summary

The development policy of green economy can bring about several benefits:

- On the international stage, Hungary may play a more important role in the formation of the basics of climate policy

- Some new opportunities can be presented for domestic farming, special mechanical engineering and applied researches
- A restructuring of agricultural production may take place, 'surplus cereals' can become a competitive produce
- GDP can increase by up to 1%, the trade balance can improve
- A new division of science can open for higher education, an alternative system to train skilled workforce can get started, the quality of education can be enhanced
- The number of new jobs in small regions can increase substantially, overall unemployment rate can fall, the employment rate in the provinces can rise
- The energy-dependency of the country can decrease, the national economy can be partially self-sufficient in the energy sector
- The CO₂-emission can be moderated, there can be additional resources gained by the orderly organized sale of CO₂ quotas (prefinancing)
- The requirements, regulations and specifications of the EU will be met, membership sanctions can be avoided
- The functioning of local governments and agriculture will become more efficient and optimal
- By the production, proccession and utilization of biomass such improvement objectives of the provinces can be achieved which have partly or entirely failed during the last couple of years

III. Home projects — residential property policy

For the last couple of years, the question of home projects has been largely outside the focus of the government. There has been *no national home project programme*, no long-term housing plan, and no vision. This attitude has of course created further problems and substitutes instead of effective measures.

During the period of crisis management the construction sector of residential properties has received no meaningful funding; in 2009 the aid for this year's home projects was cut by ninety-five percent. The 2010 budget of housing programmes stands at 147bn HUF, or 0.6% of GDP; the bulk of this sum is aimed at the credit refinancing of earlier mortgages.

The negative characteristics of the construction sector's actual situation are the following: multilevel indebtedness, the lack of financial resources, bank demand of disproportionate collateral, unpaid bills, construction sector criminality, hectic modifications of regulation,

quality deficiency, temporary or permanent closure of factories, large-scale lay-offs, bankruptcy of SMEs. This year, the number of completed residential properties is the lowest it has been for decades.

Furthermore, as a growing number of people have been unable to pay the costs of living, the lack of available HUF credit can result in foreign currency-denominated debts. The second biggest part of household expenses other than loan repayment, after the expenditures on food, was the cost of keeping a home at about 22% of the overall spending in 2008. During the last couple of years the costs of keeping a home have risen significantly. For example, in 2008 people have spent twice as much as they did in 2000 on property maintenance, water, electricity, gas and other heating material.

For the majority of people their home is their most important asset, the fruit of lifelong work, and as such, a token of financial security. However, the maintenance of private homes has been problematic for many, and the number of tenement flats available or under construction is shockingly low.

Present state of affairs

- The number of flats planned or under construction is very low, without further investment it is estimated at 15 000-17 000 units in 2010
- Home projects have not been a priority of the previous government
- Lack of a national housing programme
- Lack of public sector strategies organized together with civilian organizations either for the short, medium or long term
- Widespread irregularities in public sector support of home projects
- Anomalies of the construction sector (multilevel indebtedness, black employment, legal insecurity)
- Lack of a control mechanism overseeing the efficiency and the working of the support system of home projects
- Insufficient EU and state funds and their disproportionate allocation
- High bank interests, the suspension of earlier forms of support
- Risks of foreign currency-denominated loans, loan defaults, danger of eviction from home
- Lack of sufficient private collateral and insufficient incentives to encourage the population to save more
- Difficulty of obtaining the first private home (see young couples)
- Deterioration of the figures in demographic statistics, families falling apart because of the lack of reasonable accommodation solutions
- Lack of tenement flats, of care homes, of social housing projects

Recommended objectives and directions

The housing programme must be integrated into a short and long term state plan of economic development and a social vision. Haphazard measures must be replaced by responsible planning and lasting measures in the legislation. The housing programme must be sustainable and not dependent on market fluctuations (see foreign currency-denominated loans).

It is of primary importance to create *a vision of a society where work and merit are central values*, where it is worth living from work rather than from benefits, it is worth working white rather than black, where honest work is available and its reward can make a decent living.

The SMEs of the construction sector must be provided with much greater operational and legal security. The domestic producers and retailers of building materials, the planning, building and real estate management capacities must be supported. The public procurement system must be made fit to carry out its duties.

Because of the obsolete quality of the available residential properties today, and so that this entire stock can be gradually renewed, the building of 40 000-50 000 new units is justified. For these home projects the country still has sufficient, utilizable industrial and human capacity worth preserving. A well functioning residential real estate construction sector could be an economic power house and a catalyst for economic growth and workforce mobility.

- The annual number of new homes must exceed 40 000 within the next three years
- Consultation councils for home building and purchasing should be set up
- Home savings programmes should be promoted both in size and in value
- The establishment of the preconditions facilitating high quality and energy-efficient construction is an absolute must (the annual per-unit energy consumption must be cut to 120 kWh/m² within five years)
- Support of the utilization of renewable energy resources (domestic production of facilities, support of consumers)
- State help for first-time home ownership
- Start of a Hungarian social housing programme
- Complex programme for the revitalization of system-built apartment blocks
- Building of care homes

Most important proposals

- The available financial facilities of the two real estate savings banks must be drawn into the state support system. This would result in the rise of lending, and it can begin as soon as there is an agreement with the real estate saving banks. The effects of this plan on the budget must be further examined.
- Such a housing programme should be initiated which would involve the internal funds of private companies which could enable employers to build real estate for their own employees through substantial state support. Only in this way can we ensure that the sufficient number of skilled workers necessary for the development of the industry and small regions is available. The exact role of the public sector in this plan should be clarified.
- The funding opportunities offered by the EU for nature-friendly construction must be fully exploited.
- Home savings programmes together with new elements should be promoted and widely marketed in co-operation with the savings banks involved.
- Such a project must get started which enables recently married couples to have their first home together with the help of real estate savings programmes.
- Every form of state support must consider the characteristics of a property like, among other things, energy-efficiency or how environmentally-friendly the building materials are.
- The programme to have more care homes should be restarted with the active co-operation of local governments and churches.
- A programme should be started for the modernization and renovation of valuable flats, especially in cities.
- A long-term programme for system-built apartment blocks must be worked out which can utilize private capital in case it is viable and reasonable, and which can determine and initiate the demolition of certain blocks too. The comprehensive revitalization or demolition of system-built housing blocks or entire housing estates should be the ultimate objectives.

1. The challenges and responses of Hungarian housing policy

Hungarian residential real estate

On January 1st 2009, there were 4.3 million residential units in Hungary. Hungarian residential real estates typically consist of houses of 1-3 units. Two-thirds of residential units, altogether 2.7 million or 64%, are detached houses or traditional country

cottages. One-fifth of units, 19% or about 800 000, are flats in housing estates of high-rise system-built buildings made by industrialized technology. Another 17% are other multiunit houses; out of these 700 000 units are in typical inner-city tenement houses and the rest in greenbelt buildings.

It is worth pointing out that as a consequence of the housing estate building projects of the 1970s and 1980s, the proportion of housing estate flats is the highest in county seats (43%) instead of in the capital (35%). Out of the residential real estate units built between 2000 and 2009, more than half (54%) are detached houses, 36% are in blocks of flats with more than three units and more than one storey high, and the rest, or 10%, can be found in settlement buildings or in old houses remade as modern flats, for example by roof reconstruction.

The quality of flats

Out of today's flats almost half a million can be qualified as substandard which cannot meet even basic quality requirements. They are without a toilet or a bathroom, have no basement or they are adobe-walled. In Hungary, there are approximately 1.3 million people living in such flats.

The number of rented or tenement flats

The proportion of tenement flats owned by a local government and preserved for the socially disadvantaged is 4-5%, and another 4% are privately-owned rented flats, so there are 91% private real estate units and 9% rented units in Hungary. With these figures the proportion of rented units is the lowest in Europe.

Crisis management in the real estate construction industry

The resources necessary for an effective crisis management of the real estate construction sector in Hungary can come from the EU. Out of the 1800bn HUF crisis management fund for the construction industry announced by the Socialist government at the beginning of 2009, the real estate sector has received nothing. Instead of making further funds available, in 2009 government measures cut existing resources for the support of home projects down to 5% of the original sum. Inside the construction industry, the crisis of the real estate sector is the most serious as there are hardly any new projects. The issue of Hungarian real estate construction has been made problematic by the lack of EU support, restrictive domestic measures, reduced bank financing, and high loan costs. The sector has no access to a crisis

management fund and the role of the public sector in real estate construction has been diminishing significantly.

2. Objectives and directions in housing policy

Humane development policy

It is not possible to have a housing programme and a development programme for the real estate construction sector without more intensive public sector involvement, because the market cannot harmonize the long-term social and economic objectives on its own. Without state incentives, the would-be real estate units would fit the specifics of affordability instead of the social demands of comfortable living, and so the quality and quantity deficiencies would be reproduced over and over again.

The right balance needs to be targeted and the housing issue must be included among the privileged agendas of development policy! The allocation of even a tiny part of EU resources to home projects could bring about substantial improvement.

Without a housing policy, no European prospects exist for Hungary

All across Europe state-sponsored home projects are an essential tool of economic crisis management and job creation. The shrinking of a sector which can ensure the employment of so many people and provide the country with high-quality living environment, energy-efficient and low-cost homes should not be overlooked. A future without an active home policy at its centre is incomplete and potentially devastating. Additionally, a home policy strategy is insufficient without a concept for real estate construction. More and more people should be enabled to improve their living conditions.

The right to accommodation facilities

In certain Western European countries the right to accommodation facilities is legally guaranteed. The Hungarian Constitution also includes the right to social security (70/E§.). The state must create such a social and economic policy which can provide humane, 21st century living conditions realizable from the income paid for legal and diligent work.

IV. Enterprise promotion–development of business environment

1. The needs of SMEs

How can we make Hungarian SMEs successful? How can they create several hundreds of thousands of new jobs? How can a small Hungarian company become multinational? So far the state and the government have not given SMEs the support they deserve. There is the need to rethink this position. To this end, the measures below are necessary to incite private companies.

Vision and strategy

We need a clear national vision of the future and a strategy upon which everybody can build his or her personal and business vision and strategy. It has become obvious today that the majority of the problems affecting the SME sector cannot be solved without complex measures for the economy, regulation, education, institutional reform and the development of infrastructure. It is also crucial to define the objectives of this new strategy so that enterprise promotion could be shaped to bolster national goals. We need a programme which can stimulate the rise of the country's middle class by promoting an enterprising spirit and with domestic capital accumulation. Furthermore, this programme should facilitate the creation of jobs and labour force demand primarily in Hungarian SMEs.

Stability and predictability

The last one-and-a-half decades have been a period of constant reform and transformation for the Hungarian businesses. The transition to a parliamentary democracy and market economy, the preparation for European integration, and the process of joining the European Union have created a previously unfathomable, insecure business environment in Hungary. Members of the domestic business community had expected this instability to decrease after joining the European Union, but on the contrary, in 2004 and 2005 all security and predictability had vanished from the Hungarian economic policy. Domestic entrepreneurs desperately need a predictable, functioning state apparatus for the medium term.

What we must have are objectives and devices, a stabile tax and duty system, as well as regulations and aid mechanisms. The business community wants no more mid-year measures which could turn their plans upside down. Another keen wish is that an

end should be put to the contradictory mid-year explanations of rules issued earlier. Every private company suffers from this kind of unpredictability, but small businesses suffer most because they do not have those operational provisions the big ones can secure. The operation of the Hungarian state apparatus must be reformed in a way that the business environment can become stable and predictable. Its precondition is the creation of business-friendly regulatory environment based on a transparent social and economic agreement.

Rationalizing bureaucracy

With the disproportionate burden of many meaningless state regulations and obligations, the state bureaucracy and administration in their current forms paralyze domestic private companies. The rationalization of bureaucratic burden would bring down the size of administrative staff too, as a smaller number of procedures would need a smaller apparatus, which in turn could save money for the budget. Indirectly, from such a move private companies could profit too, because if the state spends less on bureaucracy then it requires less in revenues; taxes can be cut and businesses can keep more resources.

According to international statistics, the administrative costs of businesses in Hungary are twice as high as for private companies in countries of reasonable administrative mechanisms; additionally, the time devoted to office work is also double the average. It creates an invisible, but genuine competitive disadvantage for domestic businesses relative to their global competitors. The expensive and slow administrative procedures affect every aspect of the business environment, from real estate registration, establishment of a company and tax declaration to the analysis of statistical data. Although multinational companies operating in Hungary are better prepared to bear the high administrative costs than domestic SMEs, this bureaucratic situation has become truly worrisome. The impact of these costs substantially weakens the country's attractiveness for foreign capital to invest here.

The ultimate goal is to cut the expenses by half, in both money and time, that business administration demands. The system of taxation, regulation, licensing and competitions must be simplified and stabilized, or in other words, they must be made transparent. To achieve this objective, a stable legal environment must be created by the issuance of lasting and competent rules. Tax declarations must be simplified and digitalized, and their drafting must be assisted by an agile electronic customer service.

Tax cuts

The most pressing problem for domestic private companies is the heavy burden of high charges on the workforce. According to the concordant opinion of employees and employers, the greatest challenge the Hungarian economy will face in the next couple of years is how to keep and create jobs. As only private companies can create jobs, there must be a radical cut in expenditures on employees. So that the charges on workforce can be reduced, a comprehensive reform of the actual system of taxes and charges must take place.

Instead of complicated petitions, a simple system should secure that the rate of social insurance contribution as a percentage of gross income is at least 10% lower in the case of career-starters, of people above 50-55 years of age and in the case of mothers with children under six. For the long term, the social insurance charges should be determined by age and demographic status. There must also be cuts in the number of other duties and taxes, the declaration of some charges and taxes should be merged, and as a whole, the entire tax system should be made predictable.

It is also a common complaint of Hungarian private companies that the state often draws tax from such special sectors and activities which bring in very little revenues. In case of these duties or ransoms, tax administration and the control mechanism cost far more than the budget can bring in. Such 'mini taxes' remarkably destabilize the business environment and add to the woes of private companies, because they make the tax system opaque and confusing.

Business-friendly local governments

Recently, private companies and their associations have been increasingly critical about municipal governments. The local taxes and duties are high, the tax on the practice of trade they regard as a ransom denting their competitiveness, and simultaneously they receive poor economic infrastructure and encounter much red-tape bureaucracy.

However, root causes, as well as solutions, originate less from local governments than from the state. The state has been swallowing most of local tax revenues, for example 90% of personal income tax, and after that it redistributes this sum according to a per-capita quota system to fund various communal services, education, healthcare or social provisions. Nonetheless, the state can legally oblige settlements to provide communal services without sufficient or zero central financial contribution. Logically, a settlement must then try to choose the less of two evils, it either taxes

local businesses or it reduces expenditure on development or investment projects to make bridge the gap. The end results, in any case, are high local taxes and poor local economic infrastructure.

Competitive businesses can only operate in competitive settlements. So the solution could be to decrease the proportion of revenues the state draws from local governments, instead of further suffocating them. However, if the goal is to spend more on the local economic environment as private companies wish, the stimulating role of the market must be restored in the financing policy of settlements. The policy to provide local private companies and investors with an optimal place of business, for example by developing infrastructure, is very expensive. If local governments cannot recover these costs from the higher taxes on businesses and from the personal income tax of their workers, they cannot be motivated to improve the local economic environment.

Unless there is a system for the fair allocation of local and central taxes, which could secure a direct relationship between the economic development efforts of a settlement and its revenues (or between the expenses and the wealth of a settlement), there is nothing to motivate local governments to improve the economic environment.

The reasonable, fast and uncomplicated utilization of EU funds

Nowadays the actual impact of EU resources is so low because their utilization works by the watering-can principle: there are many small sums spent on many small projects, and a lot of these funds have been allocated without having a concrete goal. Because of this, EU resources must be rearranged according to the principles of the New Széchenyi Plan for growth-oriented and employment-focused sectors. Such a system must be built for the allocation of EU funds which can ensure prompt utilization. Due to the economic crisis and the restrictions on loan allocation, the economy is suffering from the lack of financial resources and market demand. It is startling that substantial EU funds cannot find their way to the Hungarian economy because of bureaucratic red-tape. In the new system, competition administration for businesses and local governments must be reduced to a minimum.

Stable financing of working capital and ready money for developments

Almost without an exception, small businesses have been functioning lately without sufficient capital and so they cannot develop or improve. However, capital and preferential credit are also needed if they want to reach and keep new

markets. This endeavor requires new technologies, knowledge and investment. As a solution to this problem, the programmes providing small businesses with capital must be revived.

The significant majority of domestic businesses agreed with the economic philosophy of the first Széchenyi Plan and its development grants system. They also agree that today domestic SMEs should receive EU funds in the form of grants. To this end, EU resources must be redirected to sectors where they can work best, and competition procedures must also be simplified.

It is recommended to extend investment credits by upgrading the so-called Széchenyi Card and issuing credit grants to domestic SMEs. Domestic private companies need such extensive, stable, consistent and transparent governmental investment support programmes which could enable businesses to fully utilize EU grants. They also regard a 50% deposit on them as a fair deal.

However, these financial means cannot cover the entire SME sector. Small businesses are rarely creditable, and there are particularly few start-ups or micro-businesses which can obtain bank credit as companies. To handle this anomaly should be the main role of the EU-funded Jeremie Programme, but as it has not been really successful until recently, it should be reformed to deliver the expected results. The EU support for micro credits should be tuned to achieve its original objectives of aiding non-creditable newcomers with capital.

Growing domestic market

Small businesses need to find new market segments to take roots and grow to multinational levels. Without an expanding domestic market, the appearance on the world stage is incredibly difficult. Due to this, the priority should be on steadying the domestic market first. Competition supervision and consumer protection can be two important tools of helping the domestic market. It is the duty of the state to protect consumers from inferior-quality goods, often unhealthy, dangerous or counterfeit, which have been flooding the domestic market unhindered and which have been driving domestic businesses out of the market through unfair means.

Another duty of the state is to create an information system which can sufficiently inform consumers about more than just how much goods cost, because, for example, nowadays faceless mass products from abroad have been beating domestic agricultural goods of superior quality simply due to their prices.

Creating fairness in trade

Trade in Hungary has been radically transformed during the last one-and-a-half decades. With the appearance of huge shopping centers, supply has got broader and competition has grown fiercer. However, shopping centers often have depressing dominance over domestic suppliers. And by exploiting this dominance, they can force domestic supplier SMEs and farmers into an awful position.

It has become a typical phenomenon by now to have an extended deadline for paying bills, so actually SME suppliers credit the big shopping centers. It is also common practice to sell goods of domestic suppliers below their purchase price. Furthermore, it often happens that acquisition departments swap domestic products of superior quality for poor quality, cheaper goods delivered by their own supplier. Naturally, the market operates by its own rules in trade too, and the state cannot constrain it. Limiting the markets would only impose a disadvantage for the consumer. It is, however, obvious that exercising unfair market advantage is not a free market routine. It is no coincidence that in European countries of developed market economies the interests of suppliers and small businesses are protected against the might of big shopping centers with a sophisticated net of regulations.

Similarly, in Hungary the state could more actively deploy the tools of regulation at its disposal for the protection of fair trade and domestic suppliers. If necessary, even some new measures could be introduced to get big shopping centers to adhere to the deadlines set in their contracts. The state could help develop an institutional system safeguarding the legal and financial interests of domestic suppliers. The tools of regulation could also secure the presence of domestic goods on the shelves of big shopping centers. The state could similarly ensure that market competition is more dynamic by promoting opportunities for alternative trade chains.

Consumer protection

For domestic consumer protection it had been a great challenge to adopt the European Union's public services model. The task to create a comprehensive, nationwide institutional system for consumer protection built upon regional public services was accomplished. Making consumer protection institutions more adequate in staff size, resources and tools has been a basic precondition which could eventually secure their more efficient, homogenous and updated operational capabilities.

However, besides this positive achievement, the phenomena such as the shrinking of competences, and the adverse effect of the state's inappropriate responses to the economic crisis upon businesses, has been without a doubt primarily negative. This has diminished society's trust in the state's authority and the credibility of its professionalism. There has been an increasingly close correlation between consumer protection and market competitiveness, and the present system must be transformed accordingly, focusing on organization, staff size, legal conditions and the more efficient co-operation between civil associations as well as the creation of business-friendly, preventive measures.

Support of associations and networking

Today's fragmented small businesses sector desperately needs networking opportunities and the creation of associations, which could be facilitated by the relevant aid programmes of the state. Building associations must foster the co-operation of small businesses, and the fragmented small production capacities must be united into an integrated production system based upon the Northern Italian model. Associations must support the creation of clusters of domestic supplier companies and, through these, help integrate foreign multinational companies deeper into the Hungarian economy. The one-time domestic production superstructure capable of delivering excellent basic materials should be reconstructed, which can then produce goods of high added value directly marketable to consumers.

An all-in-one enterprise promotion agency

The various enterprise promotion agencies operating with superfluous parallel capacities must be regrouped and merged into, for example, a National Small Enterprise Promotion Agency similar to the ones which Slovenia or the members of the Visegrad Group operate. It will then be the duty of this agency to create all-in-one enterprise promotion customer service points all over the country with the help of economic chambers. These enterprise promotion centres must be vested with the authority to provide useful assistance to the managers of any would-be or existing small business in every aspect of business development, taxation, licensing or administration; additionally, they must be empowered to function as educational, advisory, consulting or micro credit facilities as well.

Similar to the Small Business Development Centers supervised by the Small Business Administration of the USA, these agencies must compile such statistics of the local market, such as the number of potential customers in that area sufficient for the starting of a new business. A stable, personal business relationship with one, and the same, consultant

can be of great help for an entrepreneur to obtain the necessary state support. Mentors could fill these positions in the agencies to further facilitate collaboration. The National Small Enterprise Promotion Agency must also create a permanent, up-to-date website comprehensively covering every field of interest for entrepreneurs, and one which they should be familiar with, use often and contribute to. Through the website and the mentors, entrepreneurs could easily find and reach experts, lawyers and public notaries specializing in business registration, accountancy, patenting of intellectual property, organizational development, consultancy, education, etc. This system would not only contain price lists or possible state classifications, but by using the 2.0 opportunities they could publicize the opinions of previous clients too.

Up-to-date information

Exact market information can be crucial for the running of a business. These can be pieces of information like who the competitors are, who the potential customers or suppliers are, how reliable a businessman or a company can be, what the latest technologies are, and how these can be employed in production. Compared to the quantity of information multinational companies can process, small businesses are at a disadvantage; to close this gap requires the assistance of the state. It is very important to provide small businesses with precise statistical data, credit reports, information on markets and technology free-of-charge. All this information would be best if easily accessible on the website of the National Small Enterprise Promotion Agency. On the other hand, consumers also have insufficient information about small businesses which cannot afford to advertise enough. After numerous aborted or misdirected initiatives, a common, state-funded and organized product qualification system of domestic small businesses should be established, which could satisfyingly inform consumers too.

Meaningful roles for economic chambers

So far the government has not fully exploited the opportunities presented by the public service status of economic chambers, nor has it taken advantage of their legally-defined competencies. The system of chambers, which is an important tool of economic self-regulation and patriotic economic policy all over Europe, should be renewed. Such a system should be created in which entrepreneurs would support the restoration of obligatory chamber membership. The lobby system to promote the special interests of small businesses should be improved so that their demands could be integrated into the initial phase of legislation. Simultaneously, more competent laws could be codified to downsize administration.

Chambers, as the partners of the potential enterprise promotion agency, could play a significant role in the operation of the all-in-one enterprise promotion centres and the mentoring programme. Although the law on chambers explicitly describes their duties in connection with the improvement of international trade, up to now the chambers have not been commissioned to overtake any duty of the state in relation to this field, nor have they been assigned to work upon any state-financed trade promotion project either. Regardless, a new, growth-oriented economic policy must offer more help to domestic private companies so that they can be more successful on foreign markets. Local chambers could efficiently perform their duties in trade development, because they remain permanently in contact with the most active economic organizations, and independent of state intervention, they do carry out such tasks on behalf of their members.

Chambers could also play a crucial role in helping private companies form associations, in organizing courses for entrepreneurs and in mediation-focused conflict management.

A change in public procurements

Another way of supporting the domestic market could be to make a change in the system of public procurements. In most European Union countries the proportion of domestic and foreign companies in the overall number of public procurement competitions obtained is exactly the opposite of the Hungarian figures. While in EU member states the proportion of procurement contracts obtained by domestic companies is about 70%, in Hungary its maximum reaches about 40%. Considering these figures, allocating EU funds according to European standards would suggest that at least 70% of Hungarian public procurement contracts should be directed to domestic companies. An action plan of the state should make this goal feasible through some direct and indirect measures, for example by ordaining the proportion of suppliers to be involved.

Public procurements are one of the biggest markets in Hungary, and it is even more so in the EU. However, the reputation of the public procurements system by the Hungarian society, as well as entrepreneurs, is quite unfavourable. The opinion of the public has been aggravated by the negative publicity about the misuse of power, the predominance of political interests and the corruption-induced high prices disclosed by the media or entrepreneurs. At the same time, the procurement procedure is wearisome and complicated to such an extent that it can prevent several entrepreneurs considering bidding from eventually doing so.

One of the causes of these problems is that politics and the central apparatus have tried to regulate this issue independent of the private sector. There have been expectations incompatible with business mentality integrated into the system. At the same time, it has not been in the interest of the most influential and most frequently successful big companies to have a transparent and sustainable public procurement system capable of generating competition. Therefore, the community of domestic private companies must be given a greater role in the formation and operation of the system.

2. The economic development programme of the Carpathian Basin

A vision of global, European and Carpathian Basin dimensions

The Carpathian Basin is a European macro region like the region of the Alps, the region of Northern Europe or the Mediterranean region. From an economic viewpoint we can regard Hungary, Slovakia, Romania, Slovenia, Croatia, the Republic of Serbia and Sub-Carpathia, an area of Ukraine inside the curve of the Carpathian Mountains, as members of the region of the Carpathian Basin. Most of these countries are either already member states of the European Union, or sooner or later, expected to join the EU (with the exception of Ukraine, whose EU membership looks unrealistic even in the long run). It is a natural phenomenon in the world of globalization today that economies get organized according to their geographical situation rather than alongside the political borders of nation states. The natural sphere of action for the Hungarian economy is the Carpathian Basin; which shares many similar attributes, including geographies, traditions, history and cultural characteristics. An even more important aspect than these factors is that the size of this area could most optimally bolster the potential, desired productive capacity of the Hungarian economy. Just as the area capable of utilizing the productive capacity of Germany out of the European economies is the entire world, or as it is Europe for the Netherlands or Sweden, it could be the Carpathian Basin for the Hungarian economy.

Belonging to the same political-economic community, and having similar experiences and relationship networks, all promote the integration of the Hungarian economy into the Carpathian Basin economic region. Hungarians living in neighboring countries around can act as mediators and as a stimulating force. Their experiences, skills, talent and their knowledge of the locality can serve the Hungarian economy and can help overcome the existing communication difficulties. Hungarians living outside the border of Hungary are an organic, inseparable part of the Hungarian nation as a whole, and

the economy must serve to promote their progress and prosperity too. This kind of co-operation can only be successful if the participants are equal partners working together for their mutual interests.

Furthermore, Hungary should become the economic, financial and cultural powerhouse of the Carpathian Basin by further improving its actual status there. It is important that the programmes focusing on sectors at the forefront of Hungarian economic development, like renewable energies, the green economy, the health industry based on thermal potential, the pharmaceuticals industry, the food industry of high added value, the vehicle industry, etc. should influence the economic policies of every other country in the region, assisting in the development of regional hubs. If the Hungarian economy could become a role model for other regional growing economies, then there is the possibility that Hungary may become a model state for states of the Carpathian Basin to follow and emulate. In this case, Hungarians living outside the border of Hungary could also enjoy the advantages of belonging to the Hungarian nation and they would more efficiently exercise their role as mediators between countries and cultures.

Time frame and strategic goals

- The amount of working capital invested in the macro region of the Carpathian Basin by Hungarian economic players must be increased substantially.
- An increasingly higher proportion of Hungarian GDP should be produced outside the border of the country.
- The overall living standards of Hungarians inside and outside the country should be improved by boosting the influence of the Hungarian economy.
- In the Carpathian Basin, Hungarian cultural traditions and their expansion must be assisted and promoted by the increasingly greater weight the economic activities can carry.
- We can and we must put an end to and reverse the negative demographic tendencies of the Hungarian society and add to the attractiveness of the Hungarian culture and language.

Programmes planned:

- A programme to promote investment projects
- A programme to help the creation of regional hubs
- A programme to aid SMEs working in the Carpathian Basin
- Programmes of special importance
- Programmes tailored to individual countries
- A programme for training, retraining and adult education

V. Knowledge economy: science — innovation — economic growth

Innovation is one of the most significant factors amongst the sources of economic growth. According to its social function, it is the token of improvement in the quality of life, while it means essential competitive advantage to entrepreneurs. A country's scientific, technological and innovation policy is, on the one hand, a strategic programme composed independently and with a well-defined set of goals and instruments; on the other hand, it is a fundamental social and economic policy concept that penetrates every element of planning and action.

By the middle of the decade, the implementation of an efficient scientific, technological and innovation policy based on our conditions of reinforcing the national and regional market based on original products and services, of creating new values, and of exporting intellectual property may generate national economic growth of an additional 1.5- 2%. To transform the country in a positive fashion and become crisis-resistant, the knowledge-based economy must be enhanced (and through this, the promotion of sustainability as a source and token as well).

The goal of the programme is to make the economy more dynamic through innovation and ensure that in four years, economic growth in Hungary reaches the highest value among EU countries with the help of the power of innovation and other measures. The instruments for realizing this economic goal include objectives like ensuring that *the country's R&D expenditure reaches 1.5 percent of the GDP* by the middle of the decade, while innovation performance measured on the basis of the aggregate innovation indicator hits the EU average and moves on to belong to the upper third of EU countries in the next term.

Compared to the formerly defined science, technology and innovation strategies, the programme does not strive to create a new theoretical concept. Instead, it strives to ensure and guarantee that:

- * The undertakings set in the programme are realistic and will be realized.
- * It sets the research and development priorities — economic sectors — which can become the key areas of the entire economy if their R&D and investment activities receive special stimulus.
- * It evaluates the results and effects of both R&D expenditures and science and innovation policy measures by exercising regular professional control (validation) and ensures feedback to the necessary management levels.

- * R&D competition conditions, competitions and the financial statements of competitions will be considerably simplified, become schedulable and free of bureaucracy due to being based on the principle of trust.
- * Preparing and making decisions will be governed by total publicity and personal responsibility.
- * It develops a stable institutional system — ensuring both vertical management and horizontal co-ordination — in order to develop and realize the innovation strategy.

The European Union's Hungarian presidency in 2011 offers an excellent opportunity to demonstrate our commitment to innovation in an authentic way. Therefore, the immediate and critical mass implementation of the measures and framework conditions of the development policy programme *Science — Innovation — Economic Growth* represents a step of decisive importance in grasping new opportunities.

The most important tasks of innovation policy

In the following period, two comprehensive tasks must be solved well:

- * The R&D and knowledge intensity of the Hungarian economy must be widely increased by supporting innovative companies with high growth potential operating in the processing and service sectors, increasing the innovation and absorption capacity of SMEs, developing innovative clusters and joining national and international knowledge sources and markets necessary for innovation.
- * Hungary's fragmented knowledge infrastructures (research institutes, universities) must be strengthened and their competences must be improved in order to contribute to the strategic realization of national economic goals substantially and in a measurable way.

A further important aspect lies in the *rearrangement of European Union financial resources with economic development purposes, primarily towards high-tech and innovative enterprises*. Only available to a limited extent at both the governmental and the entrepreneurial level in our country, our own contribution constitutes one basic requirement of utilizing these sources. Therefore, in harmony with all the critical external analyzing experts and in contrast with the practice used since 2002, a solution must be found so that national SMEs do not have to face a competitive disadvantage compared to international enterprises in the country.

It is important to emphasize that science, technology and innovation policy must be considered and treated as an organic part of the economic policy in order for us to be able to catch up with the more developed economies. Innovation represents one of the main driving forces of sustainable growth.

Innovation-oriented sectoral R&D priorities

One of the important principles of the national economic policy is the emergence of a more competitive business environment through the increase of knowledge content. In the near future, the needs of knowledge-, technology- and R&D-intensive sectors ensuring long-term growth advantage must come into the foreground. The efficiency of the existing instruments may be increased primarily by the more concentrated use of available community development resources in a way that focuses on priorities.

In the upcoming period, innovation policy programmes and concepts constituting part of the economic policy will become more accentuated, however, this requires a distinguished sectoral vision and strategy that is in line with competitive challenges and action must be built on related measures. Beyond improving the economy's competitiveness, the aim of sectoral research and development priorities mainly lie in facilitating a shift in the direction of activities carrying higher added value. Sectoral innovative action plans are not controlled from above but are based on realistic objectives developed with professional consent, which must be implemented by the government jointly with the R&D&I sector and the business and entrepreneurial sphere.

Sectoral priorities set both short- and long-term goals; in the short term focus falls mainly on direct crisis management, while in the long run structural improvement is emphasized. Measures substantially strive to reach a micro-economy based effect that improves competitiveness, and do not involve the macro-economic frameworks of the economy. In terms of their functions, measures target a mixed effect from regulation through public policy measures (typically education and training, human resources development) to direct funding policy action.

Sectoral research and development priorities serve the development of:

- * the transport and *vehicle industry* and,
- * the *health industry* that qualify as key sectors in terms of the entire economy and,
- * increasing the performance of the entire economy by developing *informatics* and computer science,
- * while new *energy developments* may contribute to achieving the safe operation of the economy and society.

VI. Employment — work and performance oriented economy

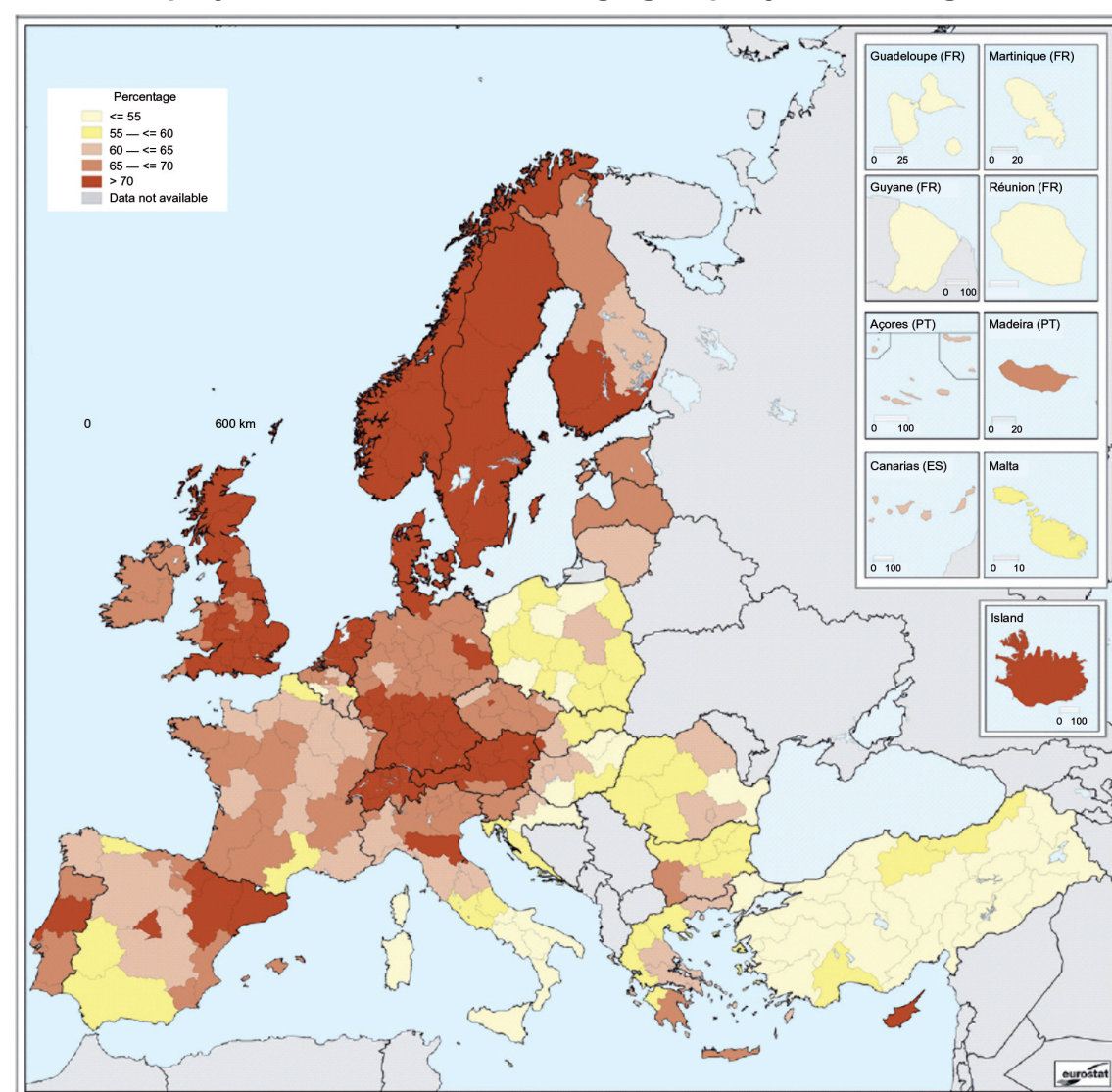
Breakthrough in Employment

Lagging behind in the area of employment

Economic catch up is not possible without catching up in terms of the employment rate. The USA and European Union's comparison in competitiveness clearly indicates that the USA's higher growth rate of GDP is due to stronger productivity dynamics and faster expansion in employment. Since *the increase of productivity and the expansion of employment represent the two main sources of economic growth*, it is no wonder that the Hungarian economy assumed the region's leading position in terms of economic growth when it achieved the best results in employment as well. After 2002, it experienced an increasing lag compared to the region's countries in the most important macro-economic areas like growth, balance, real wages, national debt/GDP, Euro-readiness. The lag cannot derive from the number of worked hours, since the number of employees' annual worked-off hours is less in Slovakia, while in Poland and the Czech Republic employees work as many hours a year as in Hungary. Productivity cannot be the source of lagging behind either, since only the Slovakian productivity level is higher than that of Hungary. Its real root lies in the lag of the Hungarian employment rate compared to that of the region's countries.

In the Czech economy, the number of those who work and pay taxes is almost one million higher than in our similarly populated country, while Poland's 18 percent and Slovakia's 16 percent of unemployment rate rapidly decreased in the years following the EU accession, therefore, in these countries employment expanded quickly compared to their former levels. The increase of employment rates was the most important source of fast GDP growth and improvement in the quality of life in the region's economies. The spectacular improvement of the Polish, Czech and Slovakian macro-economic indicators is due to gaining employment advantages, while the similarly spectacular deterioration of the Hungarian macro-economic indicators stems from losing the employment advantages and the further decrease of the especially low former employment rate. The Hungarian activity rate is also the second lowest in the entire European Union; our 62 percent rate leaves only Malta behind, while we lag significantly behind the Czech Republic and Slovenia's rate of 70 percent. The European Union's average activity rate is 74 percent; we are over 12 percentage points behind: this is the real source of our other lags.

Employment rate for the 15-64 age group, by NUTS 2 regions



Source: EUROSTAT

Economic catch up is possible only if fast economic growth occurs; and the two sources of growth are the increase of productivity and the expansion of employment. Out of the two, our performance is especially bad in the latter area, while our productivity level remains the second best in the region. The share of micro- and small enterprises in employment is decisive in Hungary too. However, only one fourth of the competitions submitted for EU resources arrive from micro- and small enterprises, while no jobs emerge without investment. *Only national micro- small and medium enterprises would be capable of bringing about a significant and constant increase in Hungary's employment*, which is not a special Hungarian attribute, but it is small and medium enterprises that create a considerable number of new jobs in all the areas and countries of the global economy. The connection that the employment rate is high where the job-creating activity of SMEs is dynamic is valid for all the developed countries of the global

economy. This, however, also requires technological development and investment. Large companies engage mainly in investments that do not make the number of employees expand, but their investments are governed by the aspects of productivity and exportability. On the other hand, the investments of micro- and small enterprises are typically accompanied by an increase in the number of employees, while medium-sized enterprises are situated between these two sectors.

Hungary's economic policy has so far been dominated by capital- and productivity-related aspects, and in fact, the considerations of work and employment were not included in the economic policy compass. The low employment rate and relatively acceptable unemployment rate jointly mean that the majority of people of active age are not present either on the labor market or in the social care system for unemployed people. This is mainly the consequence of the institution of retirement on account of age, which withdrew the employment problem from the labor market as well as the social care system and made it shift to the pension system. This is not the Asian model, where families weave the internal social web and support the unemployed family member, it is not the European welfare model, because the unemployed person is withdrawn from the social system, and it is not the American market model either, since in the meantime, the person who has become unemployed is not offered legal part-time employment.

Increasing employment

The new Hungarian government's most important goal is to increase employment. Creating new jobs is an indispensable criterion for realizing higher employment, but it does not happen from one day to another. The change requires the transformation of former economic and employment policy mistaken in many aspects. Large scale and comprehensive changes must be made in more areas simultaneously, changing the expectations and behavior of the economic and social players if necessary.

Various factors must be realized simultaneously which, in the short term, include the following:

- * Hungarian investments must be made financially attractive to foreign capital.
- * The development and growth of small and medium-sized enterprises must be helped, while their improvements must be encouraged.
- * People must be financially motivated to seek employment and avoid escaping into inactivity.
- * Training programmes must be harmonized with new economic needs.
- * Classical state public employment must move in the direction of 'meaningful work' (public employment means immediate job creation).

- * The bases of countryside and village public employment must be reconsidered, since the conditions, institutions and respect of work have been absent for as much as 20 years in very many places.
- * The social land programme must be expanded (mainly strengthening its effect to activate for work, linked to short-term training programmes).
- * Ensuring employment opportunities help the self-sufficiency of local governments is necessary by modifying the legislative environment.

Balance may be created if an increasing number of people become able to live on traditional market employment, since this way treasury payments may grow and those who were definitively excluded from the labor market can also receive higher-standard services.

A change of paradigm is necessary. Based on the principle of *'value-creating work enjoys priority'*, the employment of those who are able to work and, through traditional monetary provisions and services produced by their payments, can ensure the due living conditions of those who are unable to work must be supported with all possible tools. The population's consumption rates improve with better financial situations and that in turn improves the growth chances of the small and micro businesses relying mainly on national consumption.

1. One million new jobs in ten years

Work-centered economy, society and state

Since all performances are born in competition and out of work, therefore, beyond competition, work must be placed in the center of the economic policy. Today, the country's professional consensus is almost unanimous in that the Hungarian economy's balance- and growth-related problems derive mainly from the employment rate, which is especially low in European terms. However, more than professional agreement is required: the operation of the economy, society and state must be transformed to focus on work. *The goal is to apply such an economic policy that supports the creation of one million new tax-paying jobs in Hungary within a decade.*

'One million new jobs'

These one million new jobs must be created by private companies operating in Hungary; but in order for the enterprises to create jobs, they need trust and a predictable environment. However, a stable environment is not enough, since working capital is also required in order for new jobs to emerge. It is impossible to create new jobs without involving the interested parties in decisions on the local level.

By the spring of 2010, the unemployment rate reached 11 percent in Hungary, but unemployment influences mainly the countryside. Estimations suggest that by the end of 2010, the country will face an unemployment rate of 12-13 percent, which can reach an average of 15-18 percent in the countryside. The high unemployment rate further spreads poverty and leads to a cyclical problem.

The spread of poverty brings about the threat that certain locations and regions will definitively fall behind, and we have to face particular severe social tension in smaller and larger countryside locations. The spread of poverty may also cause an increasing number of families to fall into extreme poverty, which makes the chance of breaking out of poverty much more difficult. Reintegrating unemployed people over 45 years of age in their lost profession is hardly possible. No system has developed for measuring the efficiency and success of national programmes aiming at the reintegration of permanently unemployed people. The social aid system hinders breaking out of poverty, since its motivational effect is low. The socio-cultural environment developed over the past 20 years interferes with people's return to the world of work.

An emphasized role for the construction industry, agriculture and tourism

One million new jobs are required for the Hungarian economy to be characterized by sustainable growth and balance. Entrepreneurs must create a significant part of these new jobs for people without higher education degrees, since many of them are unemployed or inactive. The vast majority of such new jobs may emerge in three areas: **it is the construction industry, agriculture and national tourism that can absorb the presently unemployed workforce in massive numbers.** Consequently, these sectors may expect the distinguished attention of the enterprise development policy.

An emphasized role for the creative industry sectors, innovation and R&D

Enterprises must create the other part of the one million new jobs to facilitate the placement of freshly graduated young people who often speak more foreign languages than older generations. For this, the future lies in the hands of **creative industries, as well as European and global service centers.** If we win in promoting these sectors, we will also win higher living standards and quality of life. Constant innovation is necessary for both the small and the big companies, and this requires R&D strategy and organization. In harmony with the decisions of the European Parliament and Council, the competition system of small enterprises with weak research capacities must be developed to support innovative research and development. State funding must be ensured for the protection of small enterprises' intellectual property, and special support must be lent to foreign patent protection applications.

Regulations encouraging flexible employment are necessary

The expansion of the number of employed people is possible only if the rules of employment are adjusted to both the needs of the economy and of the potential workforce. In other European Union countries, *atypical employment forms* which by currently directly affect 40-60 percent of wage-earners in the more developed countries emerged as early as the 70s. Some — for example, women after child delivery — are affected only temporarily, while others, for example, those who perform tasks with the help of info-communications tools from a greater distance are concerned on a regular basis. There are those who live on substituting as temp workers for employees absent with leave and so on. The rules of flexible employment must be developed, since significant employment surplus may be achieved with the spread of atypical employment forms such as: *part time work, distance work and self-employment*. At present, however, if an employer would like to substitute two part-time employees for one full-time colleague, then they would have to undertake an administrative cost that is one-half or two times higher, which makes this structure uneconomical.

Encouraging the harmonization of family and work

In Hungary, the number of children planned by couples lingers around 2—2.2, while the total fertility rate fluctuates around 1.3. In global terms, this belongs to the one of the world's lowest figures. In Europe, the number of births changed in a relatively positive direction in those countries which place great emphasis on harmonizing the family and workplace responsibilities of parents with small children. Birth rates are high where women's employment is high. The Hungarian family support system withdraws women from the labor market for a long time, after which it is difficult for them to find placement again. However, the real problem does not lie in the duration of allowance, but the inflexibility of employment, and the lack of institutions providing for the care of children between the age of 0 and 3. Reducing the duration of allowances may result in a severe drop — at least temporarily — in bearing a second and third child.

The conflict of values that lies between the traditional approach emphasizing women's role as mothers and the views of those who promote the harmonization of child bearing and a professional career is experienced negatively by the representatives of both standpoints. This is why the state must accept both value systems and *through its measures serving the harmonization of family and work, it must create a real opportunity to make a choice*. The main direction of further development in the allowances ensured for the care of small children may also be defined in making these support schemes more flexible. It is necessary to transform the criteria system of these support schemes to help mothers' gradual (part-time) placement after the child reaches one year of age.

Creating a background of child care institutions that is adequate both in quantitative and qualitative aspects is an indispensable condition of harmonizing family and workplace related responsibilities. The *development of day-nursery care* in areas lacking day-nurseries is the most urgent task. The dynamic expansion of family day-care centers and *family child-care* is also necessary. The emergence and wide spread development of these two institutions makes it necessary for a revision of what principles the state should support. To provide day-care for children between the ages of 0-3 years old requires a comprehensive grasp of the weaknesses of the current conditions.

Part-time (and other atypical) work is the most approved way of harmonizing family and work for parents with small children. It would mean a breakthrough in the spread of *part-time employment* if a greater proportion of the public sphere utilized the possibility of part-time employment. The introduction of the 'Start' part-time card may be used to stimulate employers' responsiveness that would compensate for the extra costs deriving from the employment of part-time employees (distance workers, home-workers) by ensuring temporary allowance for contributions.

Creating a family-friendly workplace environment is also in companies' well understood economic interest. That is why the renewal of the '*family-friendly workplace*' movement is recommended with the active participation of the employer and employee side of the National Council for the Reconciliation of Interests: winning the title of 'family-friendly workplace' should be possible for businesses and institutions that certify the fulfillment and constant maintenance of these conditions.

A voucher that could be used for childcare and household services would serve the placement of women with small children, the harmonization of family and workplace responsibilities and the expansion of employment (legalizing informal employment) well.

VII. Transport — Transit economy

The economic importance of the sector

Transport constitutes the organic service background of the economy and society. Its benefits usually include ensuring availability, balancing territorial inequalities, making the mobility of persons, goods and services possible, a multiplier effect in terms of economic and regional development, while it directly contributes to the GDP as well. At the same time, it also imposes various costs— not or only partly offset — on the society that occur on the community level. *Maximizing benefits derived from transport, while minimizing social burdens, represents a fundamental goal of the current government.*

The macro-economic framework system of the transport vision

The vision of the Hungarian transport system is greatly influenced by the social and economic processes characterizing the region, mainly globalization (traveling time dominates instead of distance) and integration processes (Eastern Europe, North Africa). The effects of mobility needs is growing as a result of increasing migration processes, the concentration of settlement areas, the limited availability of fossil fuels, the emphasized role of environmental values and the increase of the average age of the population.

The above changes are accompanied by the following challenges in the area of transport:

- * Care provided for the elderly engages an increasing amount of resources, and their displacement habits are more and more intense;
- * The mobility needs among and within member states continue to grow;
- * Regulations on the emission of harmful materials are becoming increasingly stricter;
- * The carbon dioxide emission derived from burning carbon-based fuels is in direct proportion with the amount of the fuel used;
- * Fossil fuels are becoming increasingly expensive, while their quality becomes worse;
- * In the local environment of settlements, individual ways of transportation represent higher value;
- * The EU's foreign trade traffic develops more intensely compared to internal traffic.

Concerning the above listed problems, the EU wishes to handle the following areas with emphasis: *Infrastructure — Human — Technology*. On the national level, the EU's

common transport policy and future strategy determines the expectations that may provide answers to the challenges listed above, corresponding to the areas treated as priorities:

- * Creating the financial resources necessary for a sustainable transport system.
- * Providing safe and secure transport services that are fully accessible to disabled people, mothers with baby carriages, elderly people, etc.
- * Establishing a unified and open competitive freight transport market co-operating with surrounding regions in the EU.
- * Interoperability, that is, the co-operation ability of national subsystems, ensuring the conditions of transborder service chains.
- * Encouraging intermodal transports.
- * Developing value preserving, fully integrated transport networks.
- * Enforcing environmental and climate policy considerations.
- * Accelerating 'low carbon' technological developments.
- * Preserving the EU's leading role in the area of technical innovation.
- * Protecting and developing human resources.
- * Raising the awareness of the population, informing citizens and involving them in decision-making processes.
- * Implementing transport fares that reflect the real cost of services.
- * Executing efficient and co-ordinate actions in the administration.
- * The EU's harmonized representation towards the world.

From our country's aspect, the constructive economic-technical tendencies below, characteristic of Central Eastern Europe, should also be taken into consideration:

- * Co-operation in economic terms in the Carpathian Basin.
- * Identifying the break-out points relying on local circumstances (health industry, agriculture, etc.).
- * Increasing environmental awareness, economic policies striving to achieve (more) local operation spreading throughout Europe.
- * Individual and social scale mobility continues to be of decisive importance (despite the development of the information society).
- * Fuels of high energy density are still decisive.
- * Fossil energy sources become significantly more expensive: the price of fossil-based transport grows (specifically, definitely compared to 2010).
- * Transformation of the primary energy mix — a greater proportion of renewable energy is necessary.
- * The majority of energy sources utilized by transport become secondary energy carriers.

- * Far Eastern trade intensity is at least on the same level as in 2010.
- * The slight traffic rerouting effect of the Trans-Siberian railway.
- * Stagnating tourism.
- * The joint presence of centralization and decentralization in the structure of settlements.

Besides international expectations, the criteria originating from national economic development directions assume similar importance. These requirements can be built around the following major ‘engines’: *Water — Individuality — Geographical situation*.

The most recent and significant element from the aspect of transport: Hungary is situated in the hub of the transforming Central, Eastern and Southeastern European region, at the intersection point of the W-E and N-S direction transit axes — our competitors use this geographical situation excellently, while we have not been able to exploit it. The advantages of the geographical situation can be realized only if, having an adequate traffic and transport system, nodes as well as intermodal and multifunctional logistics centers and related industrial parks established in these nodes, we are able to stop part of the transit traffic and ensure added value.

At the same time, the national transport system must also support the following economic policy break-out points: Health care service industry — Horticultural management — Regionalization — IT — Biotechnology — Efficient energy use, reduction of dependence, renewable energy — Creative industry.

Ministry for National Economy Hungary
1055 Budapest, Honvéd u. 13-15.
(+36-1) 374-2700; (+36-1) 302-2394
www.ngm.gov.hu

Translation:
Chaminé Szabó Krisztina

Proofreading:
Colin Robert Delmore

2010.