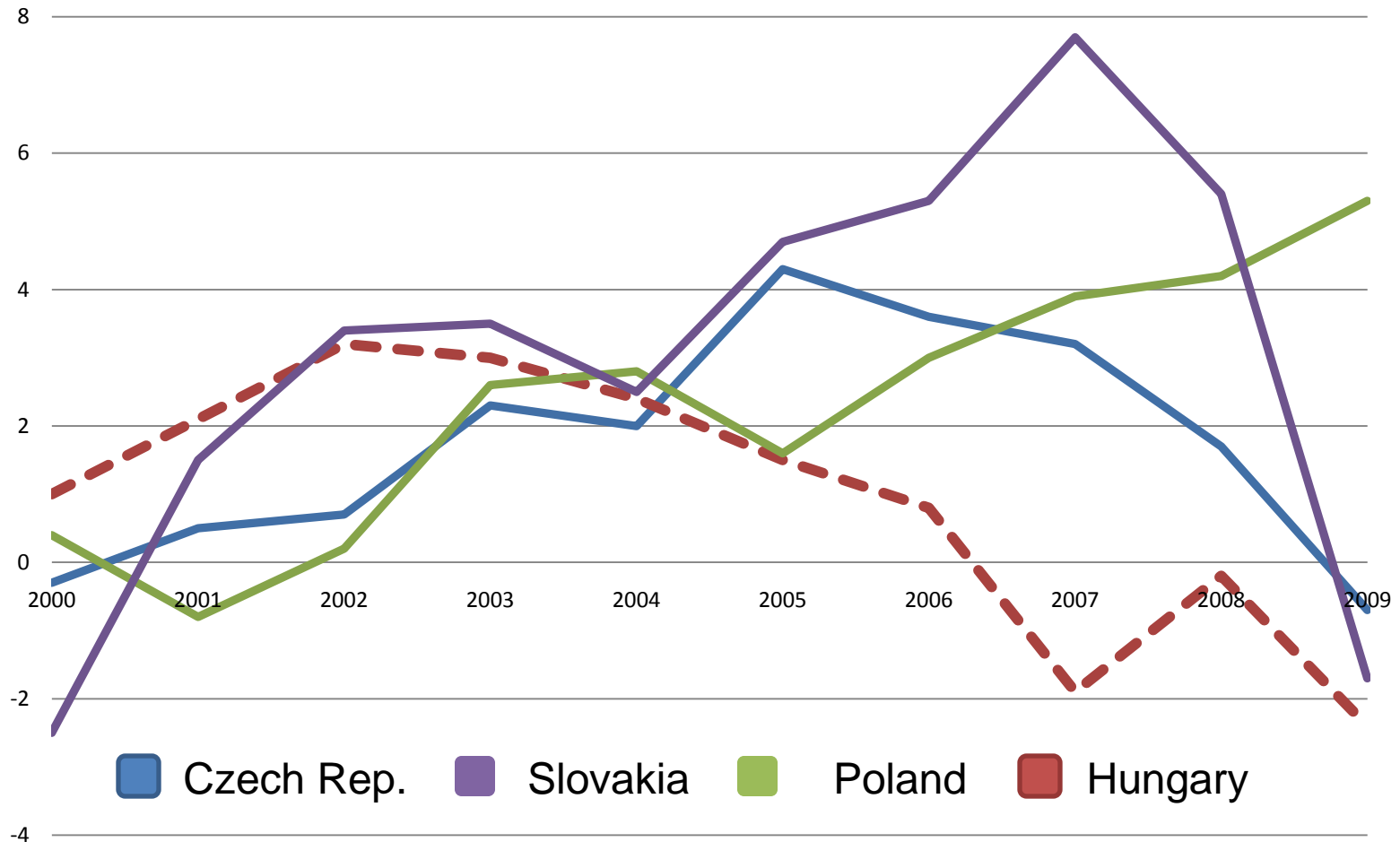




MINISTRY
FOR NATIONAL ECONOMY

Economic strategy
of the new Hungarian government
2010

Annual real GDP growth compared to the EU 27



Lessons to be learned from the global financial crisis

- We must tackle fiscal imbalances and debt,
- ... while achieving stability and competitiveness at the same time !
- Therefore we should redefine the distinction between state and market and their respective responsibilities.

- Industrial policy increasingly matters
- We need to find new sources for growth
- Growth should be sustainable
- Growth should result in job creation

Major economic policy decisions taken in the first months

- Fiscal stability and increasing competitiveness at the same time - without increasing competitiveness we cannot solve the problem of fiscal imbalances in the long run
- Integrated framework and targeted industry policy at the same time: without changing the business environment we can't use the support from EU efficiently
- Industrial policy based on networked, clustered, value chain: without identifying the main target, we cannot attract foreign and domestic investment needed for a successful convergence.

Hungary's competitiveness performance has fallen back (World Economic Forum (WEF), Institut für Management-Entwicklung (IMD))



Hungary's relative competitiveness rank has fallen by 23 places at the WEF ranking, while it has decreased 12 places at the IMD ranking.

Where are we now?

- 1 Hungary has dropped behind its regional companions, Poland and the Czech Republic.
- 2 We lag behind by 20 places according to the IMD ranking, or even 40 places by the WEF ranking from, the „Dream Team”. (Belgium, Netherlands, Finland, Austria, Germany)
- 3 What shall we do, to advance the Companions, the Dream Team, and improve our absolute competitive ranking?

	„Companions” CZ, PL,RO,SR,SI	„Dream team” A, NE, BE,SF,D	Absolute rank
IMD	Fiscal policy Employment Institutional setting	Attitude and values Scientific infrastructure Institutional setting	Fiscal policy Employment Attitude and values
WEF	Macroecon. environment Fin. market development Goods market efficiency	Business sophistication Goods market efficiency Institutions	Macroecon. environment Fin. market development Institutions

- 4 Good examples: Poland and Indonesia has achived improvement.(Despite the crisis, they improved by 20 places)
- 5 We need systematic changes, to avoid the fate of Dlovenia and Slovakia (18-20 place fell)

The Government faces a tough challenge

What are the key expectations and challenges ahead?

- We have to keep the budget deficit under control – *fiscal consolidation*
- We must support recovery from the crisis – *growth oriented economic policy*
- 1 million new jobs within 10 years – *main economic policy objective*
- We have to develop a long term strategy, which is in accordance with the EU 2020, while we also have to serve as Council Presidents in 2011.
- We must serve the Hungarian economic interests, while tackle the grim economic situation.

Fiscal consolidation

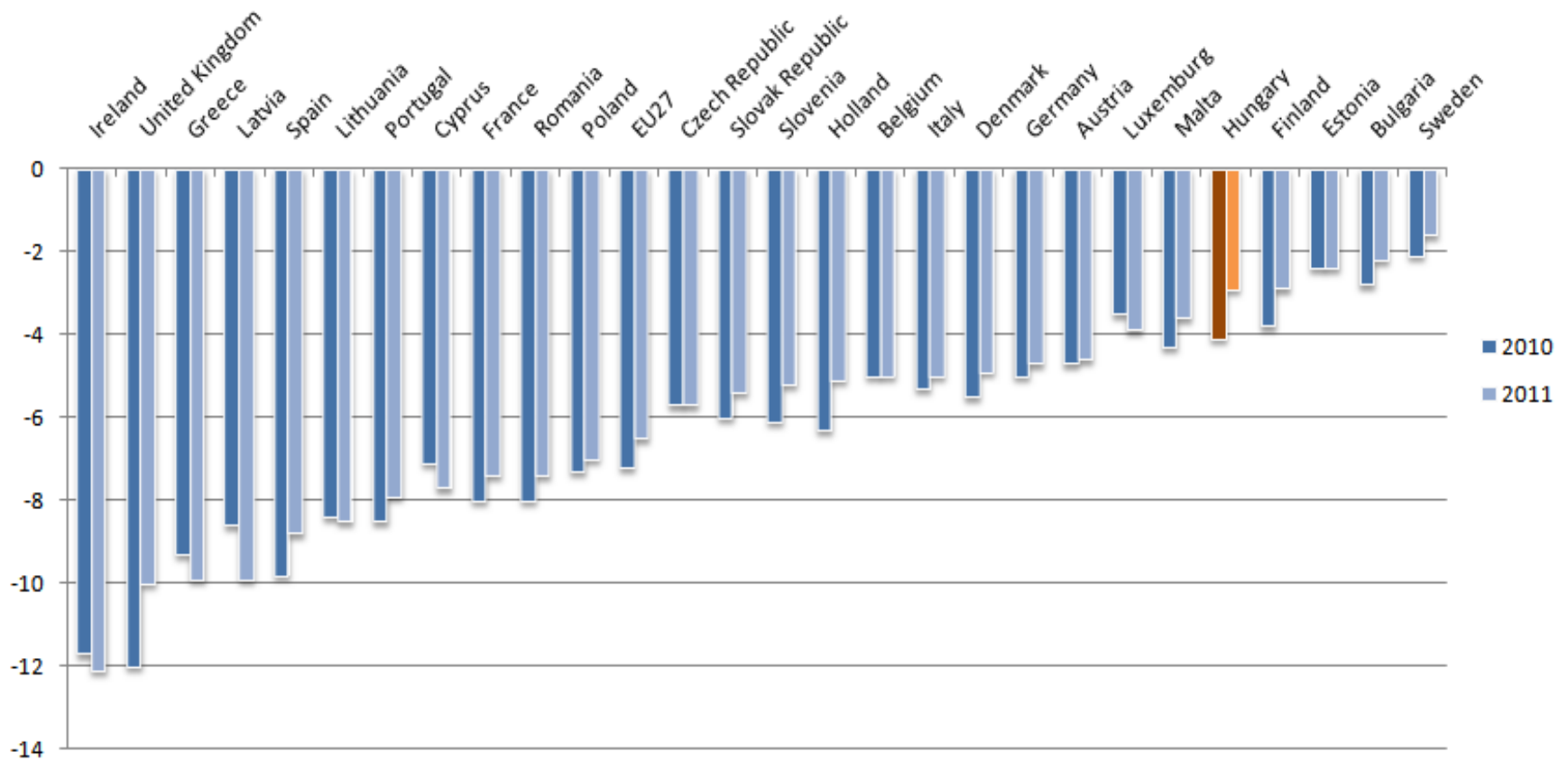
In summary

The government had to take serious austerity measures: this meant 2% of the GDP, (another 1% was due to better economic performance) since the 2010 budget had significant flaws.

2010 Measures

- Financial sector tax: 187 billion HUF in 2010.
- Retail chains progressive tax: 30 billion HUF.
- Energy sector tax: 70 billion HUF.
- Telecommunications sector tax: 61 billion HUF.
- Private Pension Fund freeze: (2*30 billion HUF + 30 billion in 2011.)
- Central Budget cuts: 120 billion HUF.
- Mining rent: 30 billion HUF.
- All together ca. 560 billion HUF consolidation in 2010.

Budget deficit forecast (2010-2011)



Growth oriented economic policy

Step by step

- Income tax system: From 2011, we introduce a single rate tax regime, which has the same rate for every type of income (inc. interests and dividends)
- The tax system promotes families, besides proportional taxation, this is the central piece of the new system.
- The increasing disposable income also spurs domestic consumption, which in turn helps the retail sector.
- Decrease of the corporate tax: first to small enterprises, from 2013 universally.
- The Government wants to radically decrease bureaucracy, while tackling corruption as well: this would mean another 6-800 billion HUF cuts in the long run.

EU 2020 – Hungarian commitments

5 key priorities

Raising the national employment target in the 20-64 age group to 75% by 2020

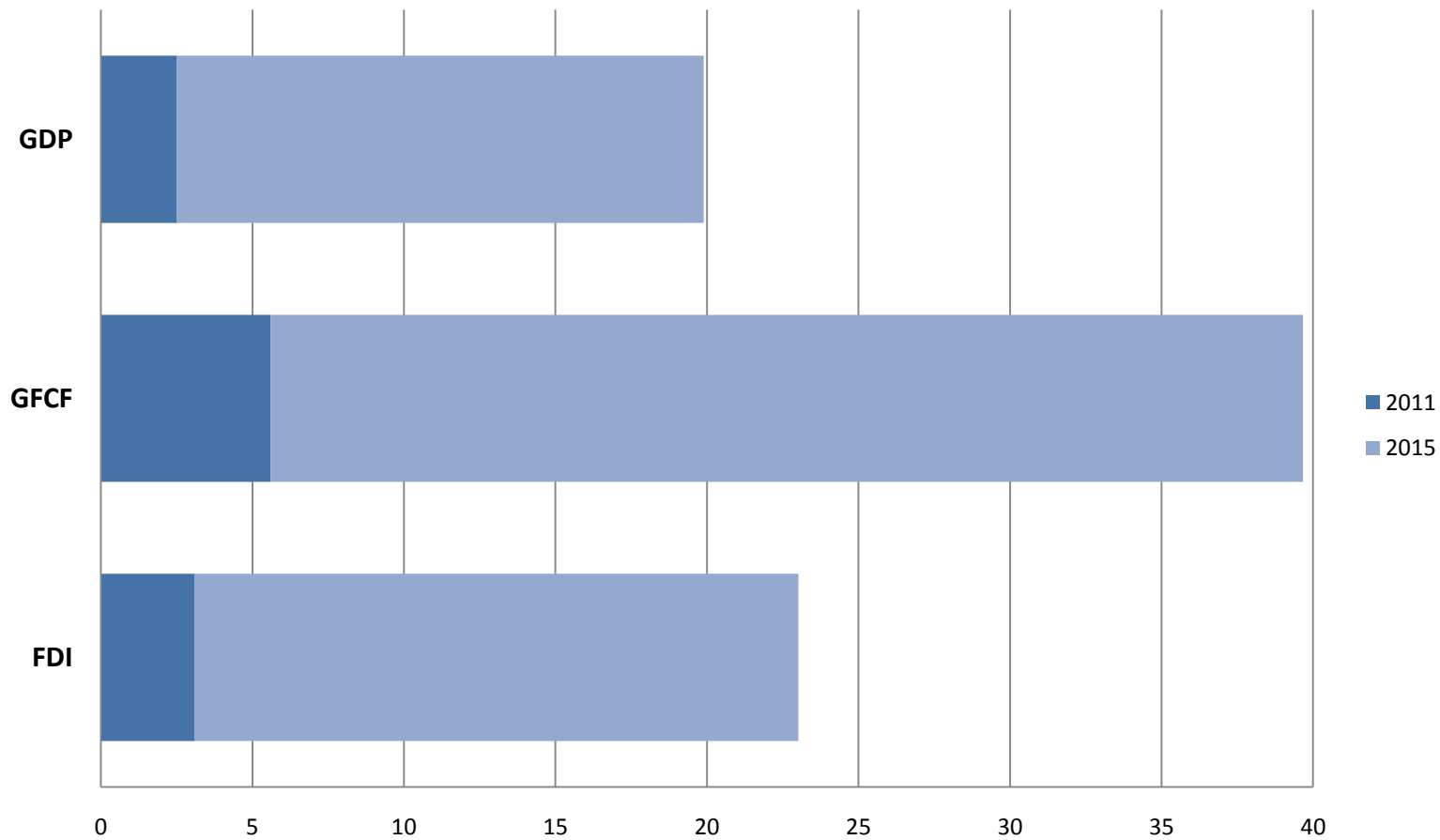
Boosting R&D expenditure to 1.8% of GDP

Increasing the share of renewable energy sources by 14,6 per cent.

Increase the share of the population having completed tertiary level education or equivalent to 30.3 per cent, while reducing the school drop-out rate to 10 per cent by 2020.

Reducing the number of people living in poverty or social exclusion by 5%.

Hungary's macroeconomic scenario according to the 2020 strategy



New Széchenyi Plan

Focuses

- Healing Hungary – Health Industry
- Renewable Hungary – Green Economic Development
- Home Creation – Apartment program
- Enterprise Development – Business Environment Improvement
- Science – Innovation - Growth
- Employment
- Transit Economy

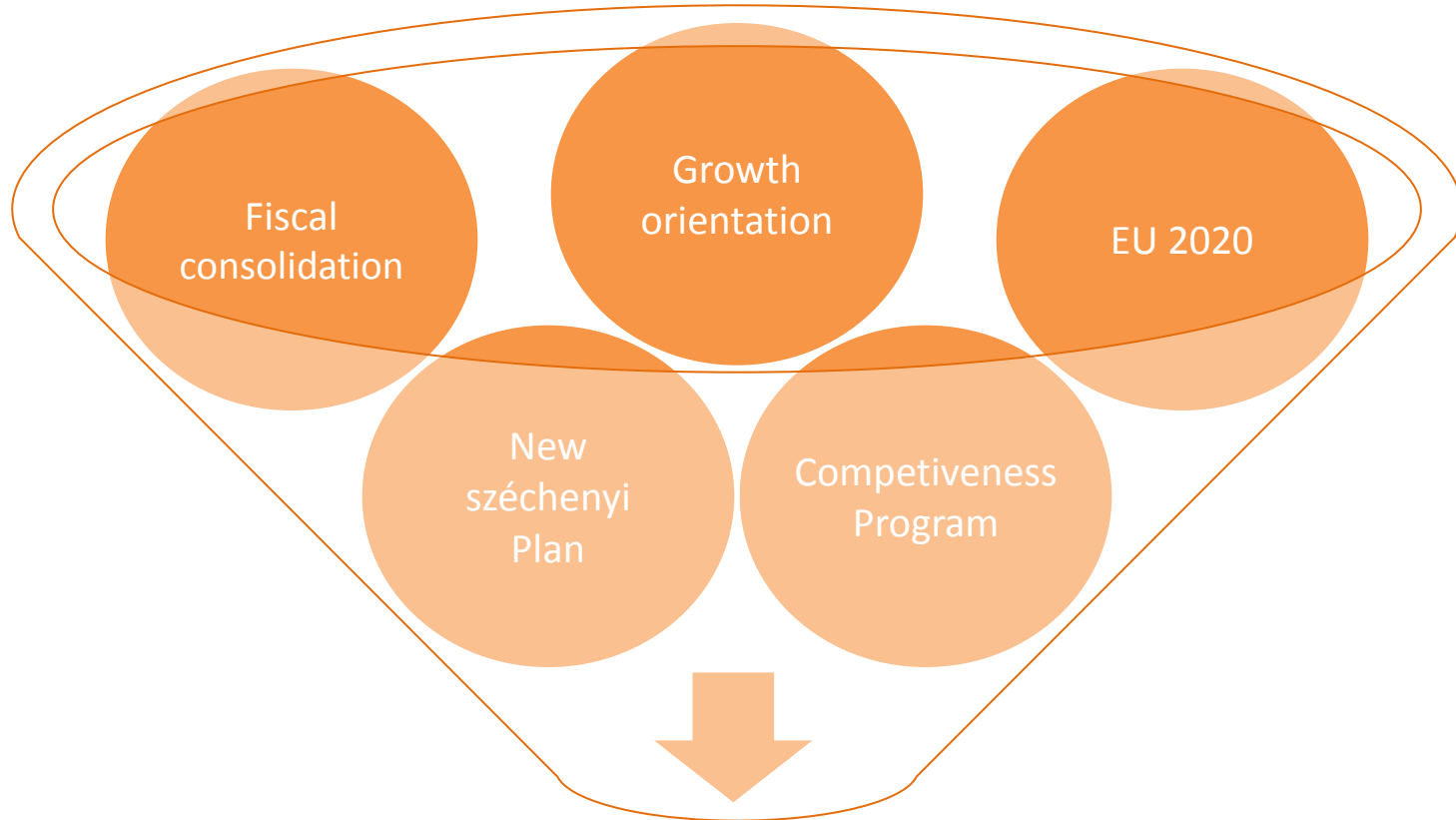
Competiveness Program

Goal: Getting in to the top 30 tier of the competitiveness rankings.

- Identifying the most relevant factors of competitiveness
- Selecting the most problematic areas
- Program design for the specific fields, acknowledging their specific issues.
- Harmonizing the various programs into a single Government Program.

As a result, Hungary will be the most competitive country in the Central European region.

In summary



Competitive Economy