

National Reform Program of Hungary

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Introduction

In line with the relaunch of the Lisbon strategy, Hungary – as all the Member States of the European Union (EU) – has prepared a National Reform Program (NRP) in order to summarize the main challenges and reform needs in the following mid-term period (2005–2008). In line with the Lisbon process, the main fields analyzed are macroeconomic, microeconomic and employment challenges and reforms. The document was prepared with the involvement of three ministries (Finance, Economy and Transport, Employment and Labor); the overall coordinator was the National Development Office (NDO). The NRP also contains proposals for concrete steps in the above period. The NDO is also responsible for the preparation of the National Strategic Reference Framework (NSRF) for the period 2007–2013; the close link between the NSRF and the NRP enhances the credibility of both documents. This co-report presents the main elements of the Hungarian NRP (they are discussed following the structure of the NRP), as well as an evaluation of its credibility both in economic and political terms.

Evaluation of challenges and reforms

Macroeconomic stability and financial balance are fundamental for the achievement of the objectives set in the NRP. Economic growth is expected to remain dynamic (4–4.5% annual real GDP growth) until 2008. Consumption is also expected to grow dynamically, but at a slower pace (3–3.5% per year) than GDP; this means a positive change on the demand side structure of Hungarian GDP. An important underlying factor of this dynamism is the continuously increasing presence of foreign capital; the attractiveness of the country for foreign investors has to be further increased. Firms with foreign capital play a very important role in the Hungarian exports, as well. Exports are crucial for growth, and the optimism of the NRP in this respect can be justified by the experiences of the previous

Hungary: Key structural economic indicators

Indicator	2000	2004	2005	2005 EU15	2005 EU25
General economic indicators					
GDP per capita in PPS	53.0	60.2	61.8 (f)	107.9 (f)	100
Labor productivity per person employed	60.6	68.2	70.0 (f)	105.6 (f)	
Employment					
Employment rate (total)	56.3	56.8		64.7*	63.3*
females	49.7	50.7		56.8*	55.7*
males	63.1	63.1		72.7*	70.9*
Employment rate of older workers (total)	22.2	31.1		42.5*	41.0*
females	13.3	25.0		33.2*	31.7*
males	33.2	38.4		52.2*	50.7*
Innovation and Research					
Youth educational attainment (20–24) (total)	83.6	83.4	83.3	74.5 (p)	77.3 (p)
females	84.0	84.9	85.4	77.5 (p)	80.0 (p)
males	83.1	81.9	81.3	71.6 (p)	74.6 (p)
Gross domestic expenditure on R&D	0.8	0.89 (i)		1.95 (ps)	1.9 (ps)*
Notes: s) Eurostat estimate; (f) Forecast; (e) Estimated value; (p) Provisional value; * 2004.					
Source: Eurostat (2005) Structural indicators.					

years (Hungarian exports grew 3–4 percentage points higher than external demand even in recession). Inflation is expected to decelerate gradually, and to be around 2–3% in 2008.

Priorities and measures in the macroeconomic field are related to different aspects. Structural changes are foreseen in order to secure economic stability (a pre-condition for sustainable growth). In order to reach long-term sustainability of the general government, inter-related reforms are necessary: pension reform, reform of health-care, measures targeted at the increase of employment, and budgetary balance ensuring the appropriate rate of decrease of government debt. Decentralization of income is a fundamental objective of fiscal policy, reform of the tax regime and of the contribution system being important instruments. Increasing price stability creates a more predictable economic environment; in 2005 the government has proposed to contribute to greater predictability by launching a debate on a more predictable wage policy. This can also contribute to the objective of making macroeconomic, structural and employment policies more coherent.

The microeconomic situation and its development is also crucial for Lisbon-related reforms. In Hungary, productivity is relatively lower than in the EU. This is due to a number of structural characteristics, the availability of capital (both physical and human), the competitiveness of the busi-

ness sector and the efficiency of public services. Innovation expenditure in the business sector is low, as innovation capabilities, as well as demand for innovation are limited. R&D expenditure approximates only 1% of GDP (instead of 3% defined among the Lisbon objectives), and the share of the business sector is only about 30%. Concerning information society, despite recent dynamic development, Hungary lags far behind the EU average.

In order to induce positive changes leading to improve competitiveness, the NRP 'puts emphasis on the spread of new (production) technologies, the training of flexible and adaptive labor, the development of intense R&D and innovation activities as well as operations creating ICT (information and communication technology) assets, and on the modern physical infrastructure serving the economy' (NRP, p. 5). There are different measures foreseen, including direct market developing steps (in order to extend competitiveness) encouraging the private sector to participate more actively in the R&D activity, and to facilitate the spread and utilization of ICT. In Hungary, the quality of physical capital is a crucial question; especially, the development of infrastructure is an important pre-condition of improving competitiveness. This relates most importantly to transport infrastructure, but other infrastructure development (R&D, innovation infrastructure, broadband etc.), as well as the improvement of the business environment and the intensification of competition is also important.

The Hungarian labor market is characterized by a relatively low level of employment (56.8% in 2004), coupled with a low rate of unemployment (6.1% in 2004, slightly over 7% in 2005). The main challenge for labor market policy is the high rate of inactivity in the working-age population. This is especially the case of for the elderly and men, who both have low employment rates. While for high-skilled people, labor market prospects are better, whereas for low-skilled people, such prospects are poorer than in other EU Member States. A specific feature of the labor market is the clear disadvantage faced by the Roma population. Also, the disabled face serious disadvantages on the labor market. Finally, territorial disparities regarding employment and unemployment are significant (with employment rates about 62% and unemploy-

ment rates under 5% in Central Hungary and Western Transdanubia, and employment rates about 50% and unemployment rates above 7% in the poorer Southern and Eastern regions; regarding smaller units, disparities are much more important).

In order to improve this situation, the NRP (in line with the Hungarian employment strategy re-drafted and adjusted to the period 2005–2008 in 2005):

- Supports the elaboration and introduction of programs furthering the acquisition of basic skills and key competences in school education and training.
- Ensures rapid adaptation to the ever changing labor market demands in professional training both from the aspect of content and organization.
- Strengthens the role of education and training systems in the fight against discrimination, in the creation of equal social opportunities and regional realignment.
- Helps the general introduction of practice oriented courses reacting better to economic demands in higher education – as part of the Bologna Process – and improves the physical, personal and organizational conditions for an enhanced innovative participation of the sector (NRP, pp. 5–6).

The NRP tackles in all the three fields the major problems and challenges. The description of the situation is realistic, the reform needs – from the point of view of the Lisbon Agenda, but also in line with the development needs of the country – are well identified and have good chance to be effective.

Credibility of the National Reform Program

The NRP has an important place in the economic strategy of the government. However, this role is not stemming alone from the NRP itself, but also from its connection with the NSRF. Consensus on the NSRF can make the NRP also successful, while political debates around the NSRF can also question the effectiveness of the NRP.

The time span of the NRP (2005–2008) does not correspond to the national political cycle. The next elections in Hungary will be held by spring 2006, so a tough campaign can result in a slowdown of the processes initiated in the first year of the NRP. However, if the delay caused is not exceptionally big, there is real chance to implement (or at least initiate) most reforms described in the Program. Political consensus on strategic issues can be crucial for this, because the time span of the NRP goes beyond the current phase of the political cycle.

The government has taken the task of preparing the NRP seriously, and has produced a valuable document. However, the document is not a genuine 'final product', but part of the process of developing economic policy instruments for the economic development of Hungary. The close and organic connection to the NSRF (the first one having a time span 2004–2006, the second one having a time span 2007–2013) is very clear (especially with the second one), and it also makes the NRP more credible.

The person responsible for the implementation of the NRP ('Mr. Lisbon') is *Etele Baráth*, Minister for European Affairs. As he is also responsible for the coordination of the NSRF, his position in EU-related planning is important. As documents like the NRP or the NSRF are a result of cooperation of different ministries, the balance of power between the contributors (and the coordinator) influences to a great extent the effectiveness of the programs described in them. A major change from today's situation can be caused by next years elections (if the current opposition wins them), as they can also influence the positions (result in the change of the person).

Concerning the content of the NRP, political changes as a result of next year's elections probably would not lead to major changes. Despite intensive political debate between government and opposition in general, development strategy is not a 'topic'. On the one hand, it is not very positive, because questions of highest importance are not part of everyday political debate; it can also mean that there is no real strategic thinking, just fulfilling the tasks received as a result of EU membership. On the other hand, this situation can imply that no significant

changes (regarding the NRP and its realization) can be expected, even if next year's elections result in major political changes.

The government has put emphasis on launching a public debate on the NRP⁶. This debate enhances the chances of the NRP being effective. On the other hand, the lack of a broad (and real) debate on development strategy is also the case for the NRP.

Conclusions

The NRP is a very important document for Hungary's economic development in the next years. It is linked to other key documents of the development of the economy (the most important of them being the NSRF), therefore it is part of a well-structured and continuous planning process. Such a planning process is exactly what has been missing in Hungary during the first decade after the systemic change. Now, this process is supported by the mandated requirements arising from Hungary's membership in the EU.

It is also very important that the key documents of Hungarian economic development refer to different (partly overlapping) time periods. This makes the structure more flexible: corrections, reactions on unexpected events, changes can be done on the short-run and incorporated into mid- and long-term programs. The NRP (due to its relatively short time period) can be an important element of this process.

The time span of the NRP coincides with the period when the development effects of EU (Structural Funds and Cohesion Fund) transfers begin to intensify. This is a clearly positive condition. From the internal political point of view, the situation is not so clear, as elections will be held in Hungary by Spring 2006. We do not know by now, how far (and how long) the elections campaign will disable cooperation between government and opposition. However, we can say, that recently, in development-related ('strategic') issues, political parties tend to put more emphasis on reaching a consensus. If this tendency is continued,

⁶ The comments of a large number of very different organizations, associations, as well as individual experts can be found at the website of the NDO: <http://www.nfh.hu>.

National Reform Programs: Key to Successful Future of the European Project?

the NRP has good chance to be a real key document in the next years; its importance is reinforced by the large number of comments from organizations and individuals from various segments of the economy (and also science), and incorporated into the finalized document.

The NRP contains a realistic evaluation of the situations in all the three fields – macroeconomic development, microeconomic development, employment – analyzed,

and the proposed reform steps are based on this evaluation. One can always have doubts (remembering missing/failing reforms from the past), but the continuous planning referred to above (as a positive result of EU membership) makes the chances of its realization much higher than that of earlier reforms. In the case of a realistic program – like the NRP – it can also mean good chances to be effective.