



**The New Hungary Development Plan  
2007–2013**

***Employment and Growth***

*(National Strategic Reference Framework of Hungary)*

*Accepted by the Hungarian Government on the 25<sup>th</sup> of October, 2006*

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## **Preface**

Hungary has reached the gateway of a historical opportunity. Between 2007 and 2013, the country will be eligible for a **development fund of EUR 22.4 billion** to re-align itself with advanced countries. This is the money of European tax-payers. Together with the funds available for rural development, Hungary can use almost HUF 8,000 billion. Through the successful use of this enormous amount, we can **strengthen our existing capacities** and eliminate obstacles that hamper our development. If we are able to find our own key leverage points and study our competitors, the **economy can show a spectacular growth** within the next couple of years. The outstanding performance of the most talented is a precondition for our welfare. If we **support the renewal of the society**, we can **increase the number of employees** and efficiently **contain poverty**. More and more people will be able to advance and fend for their families. Meanwhile, **a fair share of public burdens** will create resources enabling the **solidarity based society** to provide reasonable living conditions for those unable of self-reliance. **If we stick together, we will succeed.**

This **historical opportunity**, however, **may be lost** if we cannot grow up to the task or if we settle for less, i.e. we are satisfied with common places instead of **an offensive strategy based on our own strengths**, if we fragment resources under the pressure of excluded groups instead of **selecting large-scale objectives working in synergy**, if we prefer some prestige investments instead of everyday work, if we measure success by achievements of tomorrow instead of **long-term effects**. If we chose isolation instead of fighting and **winning in global competition**, we will establish ourselves only for survival. The example of countries in the front-rank of realignment shows that we need a **brave and creative economic development concept embracing issues of employment** as well that respects both the satisfaction of social demands and **macro-economic stability**.

Therefore, we have to consider several aspects when elaborating the underlying **vision** of our development strategy. We have to examine our ideas in the light of the actual situation and bearing capacity of the country. On the other hand, we should not forget that a **European Union endeavouring progress has expectations requiring modernisation** in terms of the absorption of development funds. We have to consider also that other **emerging regions** – like South-East Asia or South-East Europe – are our competitors. It is obvious that our economy – as Member State of the European Union striving for realignment – cannot be competitive with low wages anymore: instead, we must offer products and services that represent high added value. Especially in a situation where our competitors are not regarded as ‘enemies’ to be defeated – quite the contrary, we establish **prospering co-operation** with them. The history of the European Union is a good example for the fact that **everyday co-operation** can create **mutual trust** opening new horizons of development, eliminating long standing conflicts. This lesson can be an excellent guideline not only in the global competition but also in solving old internal conflicts!

Our development strategy can be implemented only if driven by the synergic effects of several governmental measures. Without **long-term balance**, the indebtedness of the country will further increase, and we fall behind compared to developed countries. We want a state characterised by less privileges, higher performance, less bureaucracy and cost efficient operation. To ensure safe financing, we have to **increase revenues and cut expenditures** – the lost balance can be restored.

The existing welfare system cannot be maintained **without re-thinking the role of the state** and individual responsibility even in the near future – although it has been consuming too many resources at the expense of economic growth. Therefore, we have to **re-organise public administration** serving the citizens and companies. We have to **modernise healthcare, education and the social system** available for everyone so that these systems can perform at a higher quality level. Development implemented from EU funds can be based on these – within seven years, these efforts can result in a **physically and socially new Hungary**. But, we have to do a lot until then!

First of all, we had to define the **two most important objectives** to remedy our most acute problems, resulting in the improvement of the life of most people: these objectives are the **expansion of employment and the establishment of the conditions of sustained economic growth**. The effects of the implementation of these two objectives cannot be appreciated enough in a country where half of the people of active age cannot find a job, and the GDP does not reach even the two-third of the EU average.

However, we have a crucial task as well, representing **counterbalance** for our development course focused on employment and growth. The imperatives of **sustainability and cohesion** are curbs calling our attention to the fact that only long-term viable processes can be launched. Environmental sustainability means the **conservation of our natural values**, so that also our children can enjoy them. Economic sustainability in turn means that **we do not have to pay more taxes** to ensure the successful operation of the results of development. Similarly, social sustainability means that we have to assist more and more people to **care for themselves** and take responsibility for the country as a whole.

Social and regional cohesion is the manifestation of the principle of solidarity. Its message is that we need everybody. We shall create opportunities for the citizens to **prosper**, even for those living in the most disadvantaged regions with the least hopeless situation.

Nevertheless, good and commonly accepted objectives alone are not sufficient. We need **clear principles** as well to avoid the reproduction of new problems to be solved after several years of development. With the help of the EU funds, we have to put the country onto a development course leading us to sustained welfare even without further external assistance. Therefore, the following principles will be considered during development:

- Instead of maintaining the existing wrong structures, we have to **support the reforms of major state distribution systems and public services**, moreover, they have to become catalysts of development;
- the development policy should contribute to **reducing the rate of redistribution** by changing the structure of state expenditures;
- within the structure of redistribution, **burdens of employment must be reduced** while the **role of consumption and wealth increased**,
- instead of the substitution of private capital, **investments of private capital without return must be supported**,
- development actions with **synergic and multiplier effect** must be supported,
- a **cultural change** must be promoted by which
  - performance and **individual initiatives** are respected more,
  - **self-reliance** is appreciated,
  - social **solidarity and co-operation** is strengthened,
  - the necessity of **equal and returning opportunities** is appreciated,
  - compliance with the **law** becomes standard in the society, and

- the capacity of action and **autonomy of individuals** and communities are strengthened.

The New Hungary Development Plan was prepared on the basis of the above principles. This Plan

- sets out the **development strategy** for extended employment and economic growth;
- outlines the most important developmental tasks that can secure the improvement of our social, economic and environmental circumstances in a sustainable fashion;
- defines **developmental programmes** that are adjusted to the expectations of and changes in the society and the economy for the purpose of efficiency, and release the developmental and innovative power of people and their businesses;
- sets the objective that national and regional programmes should mutually support each other, so that their joint and synergic impact can go beyond the **successful implementation** of partial objectives;
- gives a broad outline of a transparent, simple and efficient structure of institutions that is able to **effectively implement the programmes** and to ensure the use and wide accessibility of funds.

The Government or the **state alone cannot implement these changes** and development actions: we can achieve our goals only by the co-operation of millions. A country can rely exclusively on the performance of its citizens – this understanding is a precondition for success. Again, competitive economy is the condition of economic growth whereas extended employment is a prerequisite of a solidarity based society. **Therefore, we have to empower our citizens to cope with the competitive world of ours. Similarly, we have to enable the state to support those unable to compete.** If the country cannot adjust itself to the rapidly changing world, our system of values cannot be maintained anymore. If we do not allow the talented to soar and we do not support the eager in becoming stronger, then we will not be able to provide security for those falling behind. Envisioning extended employment and economic growth, the Government intends to put the country onto a **new and sustainable course of development** through the **New Hungary Development Plan**. Still, the Government can achieve its goals only by the active co-operation of businesses, municipalities, non-governmental organisations and churches successfully applying and utilising available funds. **Hungary can be in the front only by concerted efforts on national level.**

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## **Executive Summary**

### **The Role of The New Hungary Development Plan**

The most important objective of The New Hungary Development Plan (short: NHDP) is to expand employment and to create the conditions for long term growth. For this purpose it launches co-ordinated state and European Union developments in six priority areas: the economy, transport, for the renewal of the society, environment and energy, regional development and state reform.

### **Situation Analysis**

#### **1. The growth of the economy implies structural risks**

The Hungarian economy has seen unbroken and rapid development since 1996. Labour productivity has grown at a higher rate than in developed countries since the political change. However, recent years have seen a strengthening of equilibrium programmes, the risks of which are aggravated by the very high level of openness of the Hungarian economy. Our dependency on imported energy is another substantial macro-economical exposure factor.

#### **2. There is a low level of activity and stagnating employment in Hungary**

There is an extremely low level of participation on the labour market, and there are particularly many untrained individuals who don't work. Many people are cornered out from the labour market due to ill health. Illegal employment also deteriorates the situation of employment substantially. While there is a generally high level of productivity of the workforce, this productivity is highly dispersed according to age. One of the main reasons for that is that very few people undertake continuous training or learning in addition to work.

There are very significant regional differences in employment on the level of micro regions. The issue is worsened by the low level of mobility of workforce and the pure accessibility of the nearest work opportunities in some of the regions. All of these factors mean that the market processes are unable to leverage the regional and structural disparities in the supply and demand of workforce.

#### **33. The economic structure is characterised by a dual nature**

The Hungarian economy could successfully integrate into the world economy, and its structure has been modernised. At the same time there are substantial and growing regional disparities in the economy.

International businesses play a key role in the Hungarian economy. Our major companies are competitive even on an international scale. Small and medium sized businesses are the most important employers, however, they carry major reserves in improving their productivity. Typically, it is the larger businesses that use state of the art organisational, developmental and management methods. We can see a low level of ability and willingness of SMEs to co-

operate, their market financing is difficult due to their disadvantaged situation resulting from their size.

Hungarian R&D spending lags behind the EU average, especially in the business sector. We have sizeable research capacities that are partly unused. Despite a substantial growth in the area, we still suffer from a large backlog in establishing the information society.

#### **4. The transport system needs development**

Hungary has a dense transport grid, but transport needs often exceed the capacity of the road and railroad networks. The transport network is characterised by a focus on Budapest and massive regional differences.

Hungary has a preferential economic-geographical situation, which offers good opportunities for the domestic development of international, commercial, transport and logistical services. The importance of highway constructions is well illustrated by the fact that the proximity of highways has been a defining factor for the choice of destination of foreign capital investments. However, the quality of the road network is far from the needs of traffic. The technical characteristics and the service level of the railroad network are weak. The competitiveness of rail cargo is going back in Hungary as well, however, we still see a better position than the European average.

There is an increasing rate of individual car use partly because public transport is unable to handle the increasing number of commuters.

#### **5. The change for market economy has required substantial social sacrifices**

Large masses of people were cornered out from the labour market during the nineties. This and the negative demographical developments (the population of Hungary is aging, and the number of population is decreasing) are an increasing burden on the systems of care.

While the general level of training of the population has increased substantially, there has been no improvement in the efficiency of education. The renewal of the quality and structure of public education is imminent, which is also necessary because the current school system reinforces social differences. There has been a dynamic growth in the number of students in higher education; however, the productivity and cost efficiency of higher education have deteriorated. Vocational training has not adapted to the needs of the labour market; the rate of participation in adult training is low, and the system suffers from large disparities. The utilisation of our rich intellectual and cultural heritage and the improvement of access to culture represent serious challenges that also carries large opportunities for the entire society.

The health statues of Hungarians is rather poor in comparison to the level of economic development. Health consciousness is on low level, the system of healthcare is obsolete and still focused on illnesses, while the infrastructure of care is outdated. Shortcomings in healthcare generate serious burdens on the economy. On the other hand, Hungarian healthcare services also provide a great deal of opportunities.

Inactivity has lead to a regeneration of poverty that is complemented by a geographical concentration of disadvantaged individuals. Social isolation has worsened through meagre and insecure income, poor housing, unemployed parents in families, more difficult access to

public services and the poor utilisation of advanced information service tools. Child poverty has been a growing problem.

Social backwardness is a particularly pressing problem for the people of Roma origin. Their situation is also aggravated by several forms of discrimination. People living with disabilities or impairment are hardly present on the labour market, at the same time, conditions of integrated education are also missing. Mothers with children stand rather poor chances on the labour market when returning after maternity leave.

Despite a growing level of non-governmental activity, there have been very little social dialogue and preparedness to co-operate in certain areas.

## **6. We have substantial environmental values, but risks are also high**

The environmental status of Hungary has been substantially influenced by both the quality of the ecological system of the Carpathian Basin and global climate change. We should be prepared for increasingly more extreme weather.

The country has very preferential natural characteristics with substantial thermal water and geothermic energy resources. The status of the environment is good, however, we must do a lot to keep it that way because current environmental processes are not sustainable. The level of environmental awareness is improving but still quite low; and the amount of energy used does not reduce despite improved energy efficiency.

Urban areas suffer from specific environmental issues. Architectural heritage is threatened by a number of risks. The revivification of urban quarters and rural areas offers serious perspectives.

## **7. Increasing regional differences**

Regional differences in development have not reduced over the past 15 years. Differences on the level of micro regions are by far higher than those on the regional level.

The level of development of Central Hungary stands above the level of other regions, but it is burdened with internal contradictions. The north-eastern regions are the most backward economically; southern regions require restructuring as the pace of their development lags behind other regions. Regions in the West and North-Transdanubia develop faster than the national average, but their internal contradictions remain strong. Tackling cross-regional issues requires co-ordinated, large regional development efforts.

## **8. The role of the state needs rethinking**

The system of democratic legal and other institutions meeting the requirements of the rule of law has been established by now, but its further development can release substantial resources. The Hungarian public administration is not efficient: its age composition and incentive systems are not right. The Hungarian society demonstrates a lower than the European average level of compliance with the law and public confidence. The reason for that lies with the massive arrears we have in good quality legislation. Public services do not rely on IT-communication technologies yet. Reconsidering the distribution of tasks among central and regional levels of public administration cannot be postponed any longer.

## **Experience from the First NDP**

The main objective of the First National Development Plan, namely to reduce our shortfall in the level of per-capita GDP has partly been achieved, however, the shortfall has still remained quite substantial.

Experience gathered with the implementation of NDP I has yielded a number of useful lessons. Legislative modifications effected in the meantime focused on the simplification and acceleration of processes and the protection of public funds.

Closer co-operation between implementation and planning can result in further improvement of the success of measures. During implementation, accountable and well-defined objectives are pivotal. The performance of the participants must also be measured. Overregulation should be resolved, while performance measurement processes should be introduced. Former interventions need to be evaluated, and more attention should be paid to the exploration of the effective mechanisms of development efforts.

## **The Development Strategy**

By eliminating the shortcomings explored in the situation analysis and by exploiting existing values, the strategy aims at the development of the country and strengthening its international competitiveness. Overall objectives of The New Hungary Development Plan:

1. extending employment,
2. creating the conditions for long term growth.

### **Overall objectives**

1. Measures to extend employment:
  - increasing supply of workforce: improving the employability of the individual;
  - increasing demand for workforce: creating jobs;
  - creating an employment environment that co-ordinates supply and demand.
2. Measures to promote sustainable growth:
  - improving competitiveness;
  - widening the economic basis;
  - improving the business environment, including
    - improved access,
    - improved regulatory environment, increased efficiency of state services

### **Horizontal policies**

Two general aspects should be focused on when implementing with developmental objectives. Sector and regional programmes must be transcended by

- the principle of environmental, macro-economic and societal sustainability; and
- securing regional and social cohesion.

### **Priorities**

In order to achieve above objectives, developmental efforts will concentrate on six areas. Accordingly the priorities include the following:

1. economic development,
2. transport development
3. social renewal,

4. environment and energy development,
5. regional development,
6. state reform.

Many of the elements of the priorities are inter-linked and have an impact on each other. When defining the contents of these priorities, we have concentrated on the solution of major social issues and tasks resulting from the comprehensive reform of public administration. These major social issues require an integrated approach. To solve these problems, we have worked out so called ‘flagship projects’ answering the most acute social troubles. During implementation, the tools of development policy will be coupled with other tools of the Government such as, for instance, re-structuring tools inherent in regulatory opportunities.

### **Priority 1: Economic development**

The following groups of interventions will serve the promotion of the economy:

- **Creating innovative, knowledge based economy** with planned tools as follows: supporting market oriented R&D activities; promoting the innovation activities and co-operations of businesses; motivating the establishment of technology intensive (spin-off) small businesses; promoting technology transfer; strengthening bridge building and incubation activities; development of the background infrastructure of R&D.
- **Improving the income generating ability of small and medium sized business** with planned tools as follows: improving the capital supply of SMEs; widening the culture of entrepreneurship; organisational development; technology update; encouraging partnerships between SMEs.
- **Developing the business infrastructure and services** with planned tools as follows: developing industry parks; improving info-communication technologies (ICT) and the physical infrastructure; establishing the network of logistics parks; building broadband IT networks; further development of electronic public services; developing the legislative and regulatory framework for the business environment.

These interventions can be implemented within the framework of the Economic Development Operational Programme and the regional operational programmes.

### **Priority 2: Transport development**

The following groups of interventions serve the objective of developing transport:

- **Improving the international accessibility of the country** with planned tools as follows: expanding the rapid way network; modernisation of the railroad backbone; improving the shipping infrastructure.
- **Improving regional accessibility** with planned tools as follows: expanding and surface improvement of main tangential roads; establishing regional transport associations.
- **Developing urban and suburban community transport** with planned tools as follows: developing and linking suburban railroads to local mass transport; building bicycle roads; reducing the rate of traffic in downtown areas.
- **Developing the transport infrastructure of cargo and logistics**, which includes the establishment of inter-modal logistical hubs and related infrastructure.

These interventions can be implemented within the framework of the Transport Operational Programme and the regional operational programmes.

**Priority 3: Social renewal**

The aim is to renew the society and to eliminate disadvantages in terms of chances of living through a process re-structuring education already from early childhood.

The following groups of interventions will promote the renewal of the society:

- **Improving employability** with planned tools as follows:

services to promote entry to the labour market and employment; developing knowledge and skills necessary for employment; preventing long term unemployment; measures to promote migration within the labour market; subsidies to support the employment of disadvantaged individuals; social security discounts; improving employment rehabilitation;

- **Improving adaptiveness** with planned tools as follows:

transforming the institutional structure of vocational training and establishing the regional system of vocational training and accredited adult training; developing the capacities of social partners; reducing the impacts of restructuring processes on the labour market; flexibility and security on the labour market; promoting the adjustment of non-governmental organisations and churches to their roles as service providers.

- **High quality education and availability for all** with planned tools as follows:

improving problems solving capacities; developing digital literacy, language, natural science and lifestyle skills; co-ordinating the needs of training with those of the society and the economy; developing business and entrepreneurial skills and developing the cultural capital;

complex educational development programmes; creating of a measurement and evaluation system; modernisation of the training and further training of teachers; introducing cost efficient organisational forms; promoting regional partnerships and helping the integrated education of pupils in disadvantaged situation.

- **Developing human resources necessary for research and development and innovation** with planned tools as follows:

reform of higher ed continuation of the Bologna process, quality development of higher education; creating regional knowledge centres; supporting research universities and colleges; developing the institutional system of talent support; practice oriented programmes in higher education; expanding technical and natural science training.

- **Conservation of health, social inclusion and participation** with planned tools as follows:

developing health and the conservation of health, promoting healthy lifestyles; developing social services, reducing child poverty; social integration of disadvantaged groups – with special regard to Roma people and disabled people; measures targeted at the reduction of erosion and deviances in schools; fighting against discrimination, developing social services, services for children and the youth, services promoting equal opportunities, strengthening social capital and local communities, strengthening non-governmental organisations, protecting consumers and the attended, developing cultural capital.

- **Developing the human infrastructure** with planned tools as follows:

eliminating physical, environmental and communication obstacles, modernisation of the rehabilitation system, developing services of day-care for children, establishing multifunctional human services centres; modernising social and child protection institutions with large staff; improving the background infrastructure of vocational training, creating regional training networks; information technology development in the field of education and healthcare; strengthening the basic infrastructure of higher education, infrastructure serving technical and natural science training, strengthening service and innovation centres; improving service forms facilitating the re-structuring of the healthcare system, improving conditions of infrastructure; developing priority healthcare institutions with objectives of prevention, healing and rehabilitation; establishing infrastructure for integrated employment and social service systems; developments related to cultural services and creative economy; cultural capital of Europe project.

These interventions can be implemented within the framework of the Social Renewal and the Social Infrastructure Operational Programmes. These programmes will be complemented by measures of the State Reform Operational Programme and the Electronic Public Administration Operational Programme. The elimination of physical and environmental obstacles must be implemented during all developments foreseen under the operational programmes.

#### **Priority 4: Environment and energy development**

The following groups of interventions serve environmental and energy developments:

- **Environmental improvement** with planned tools as follows:  
waste and waste water management, protection of the water basis, improving the quality of drinking water, physical planning of inland waters and external waters, environmental indemnification; protection against floods and inland waters, measures aimed at the management of accumulation bases, integrated measures of water use; good husbandry of natural values; promoting sustainable production and consumption habits.
- **Environment-friendly** energy developments with planned tools as follows:  
promoting development actions targeted at energy efficiency and saving, as well as at the production and use of renewing sources of energy.

These interventions can be implemented within the framework of the Environment and Energy Operational Programme and the regional operational programmes.

#### **Priority 5: Regional development**

The following interventions should take us towards balanced regional development:

- **Co-operative and** competitive urban network based primarily on the establishment of developmental poles.
- **Renewing countryside:** integrated and sustainable development of villages and rural areas.
- Realignment of backward regions, meaning the implementation of complex realignment programmes.
- **Sustainable development of the regions of Lake Balaton, and the rivers Danube and Tisza.**

These interventions are included in seven regional operational programmes: South-Great Plain OP, South-Transdanubia OP, North-Great Plain OP, North-Hungary OP, Central Transdanubia OP, Central Hungary OP, West-Transdanubia OP.

The most important objectives of the regional operational programmes include:

- strengthening regional competitiveness;
- increasing the tourism attractiveness of regions;
- developing regional transport infrastructure and community transport, improving the status of local alignment;
- promoting energy efficiency and saving as well as the use of renewable energy sources;
- general, integrated development of settlements,
- reducing social and regional disparities within the regions,
- developing social infrastructure.

### **Priority 6: State reform**

There are two groups of interventions to promote state reform:

- **Renewal of public administration** including the following elements: renewal of legislation; supporting a stronger civil society; turning public administration into a service provider; strengthening integrated micro regional and regional decision levels.
- **Modernising public services** with the following elements: developing the infrastructure of electronic administration and electronic public services; establishing coherent inter-sectoral services; publishing data of public interest; spreading e-culture, green public procurement.

These interventions can be implemented within the framework of the State Reform and the Electronic Public Administration Operational Programme.

## **Planned Distribution of Funds among Operational Programmes**

Hungary is entitled to receive **EUR 22.4 billion development funds – calculated at price levels of 2004 – from the cohesion policy of the EU** between 2007 and 2013, which is supplemented by domestic co-financing and private capital. Also, an additional app. EUR 3.4 billion are available from the European Agricultural and Rural Development Fund and the European Fisheries Fund.

The following aspects were considered when planning the distribution of funds:

- relevant European Union regulations on the use of the Cohesion Fund and Structural Funds;
- the relative weight of certain areas of intervention in attaining the main objectives set;
- developmental obligations in the protection of the environment and transport arising from Hungary's EU membership;
- the size and relative level of development of individual regions of the country;
- the assumed absorption capacity of individual areas of intervention;
- the objectives set forth in the Government Programme.

The following funds may be available within the individual operational programmes also considering the 15% national co-financing – of **indicative character**, calculated at price levels of 2004:

265 HUF/euro, prices of 2004

<b>Operational programmes</b>	<b>Total billion HUF</b>
Economic Development OP	674.03
Transport OP	1721.47
Social Renewal OP	933.29
Social Infrastructure OP	538.95
Environment and Energy OP	1053.56
West-Transdanubia OP	128.25
Central Transdanubia OP	140.46
South-Transdanubia OP	194.99
South-Great Plain OP	207.05
North-Great Plain OP	269.64
North-Hungary OP	249.91
Central Hungary OP	430.29
State Reform OP	40.61
Electronic Public Administration OP	99.49
Implementation OP	94.88
National Performance Reserve	98.38
The New Hungary Development Plan in total	6875.27
European Territorial Cooperation*	106.81

\*Note: Programmes under the objective of the European Territorial Cooperation are described in separate documents.

The list of projects contained in the Annex to the Development Plan is of indicative character only; the Government will decide on the finalisation of the list after comparison to other project lists and evaluation.

## 1. Introduction

### 1.1. Premises

The development of Hungary comes to a turning point on the 1<sup>st</sup> of January of 2007. We will be granted the opportunity by achieving a proper use of a total of EUR 22.4 billion from the Structural Funds and Cohesion Fund of the European Union to strengthen those directions of development that have proven to be successful over the past 15 years, and we can face the issues that hinder our progress. This may launch an unprecedented wave of development in Hungary, by which we might approach and in many regards even reach the average level of development of the European Union by 2013.

**We can approach the average level of development of the EU by 2013**

Certain strong measures are needed by the administration in the operation of the public sector in order to make sure that this process of realignment, which has been successful for long from many aspects, can remain sustainable, and also in order to make sure that Hungary can stand the global competition. In line with the Lisbon Agenda of the European Union, the Hungarian strategy focuses on *improving employment and growth*, while it also respects the Gothenburg principle of *sustainability*.

**The main objective of the Development Plan is to increase employment and to strengthen conditions of growth**

### 1.2. The purpose and motivation of this document

The New Hungary Development Plan has been formulated as a strategy based on the most important findings of developmental policy work over the past twelve months, and with regard to the requirements for community and domestic strategic documents. This strategy is in line with the formal and content requirements of the National Strategic Reference Framework for the use of funds from the Structural Funds and the Cohesion Fund of the European Union between 2007 and 2013.

**The New Hungary Development Plan corresponds to the expectations of the EU**

#### 1.2.1. The determinant role of the geo-political position of Hungary

When creating our strategy, we have to consider increasing global processes happening in world economy as well as the impact of the eastward enlargement of the European Union on the country. **Hungary is located at the intersection of three major European regions.** As member of the EU, it is an attractive entry point to the largest market of the world, at the same time, it is an excellent starting point when heading to the integrating South-East-European region and the East-European market. The geographical position and the system of contacts of the country can be very attractive in the eyes of professional investors looking for production and service bases and regional management centres. However, the increasing integration of the world economy, the explosive development of the region of South-East-Asia and the expected further enlargement of the European Union represent new challenges in the field of competition. These trends call

**When creating our strategy, we paid attention to the advantageous geo-strategic position of the country and the increasing integration of world economy**

for the strengthening of factors influencing the competitiveness of companies, the strengthening of globally competitive businesses and the extension of the basis of competitiveness of the country.

Resulting from the advantageous geo-strategic location of Hungary, the country can undertake important logistic roles. Diversity in terms of ethnic groups as well as the presence of Hungarian nationalities can considerably facilitate the spread of regional co-operation, the transfer of technology and knowledge and innovation.

The lack of workforce in certain sectors resulting from increased growth, can be reduced by immigration from neighbour countries, in addition to the strengthened flexibility of national labour market.

### **1.2.2. Theoretical foundations of the strategy**

The New Hungary Development Plan is based on the strategic objectives contained in the National Development Policy Concept (NDPC) and National Regional Development Concept (NRDC), both as approved by the Parliament. These elements are supplemented by the decrees defining the terms of reference for the cohesion policy, the Community Strategic Guidelines (CSG) containing community priorities, the Sustainable Development Strategy as accepted by the European Council in Gothenburg, and the National Action Programme attached to the renewed Lisbon Agenda. The Development Plan is also in line with the National Agricultural Rural Development Strategy that is being compiled in parallel.

**The Development Plan is built upon a number of background documents**

The long-term objectives and priorities of Hungary's development policy and the measures to obtain these objectives are contained in the National Development Policy Concept approved by the Parliament in December 2005. The Concept provides that Hungary should become one of the most dynamically developing countries of Europe by 2020. The living standards and the quality of life of the people should improve, i.e. there should be more and better jobs, higher incomes, safe, clean and quality environment providing healthier, longer and more complete life.

**NDPC formulates objectives for the planners until 2020**

The National Regional Development Concept approved by the Parliament in conjunction to the NPDC sets out the objectives, concepts and priorities for the country's regional development policy. Thereby it creates a framework for the consequent enforcement of regional aspects in working out both sector policies and national or regional programmes. This also secures the regional perspective of national developmental planning. The regional development policy intends to secure the harmonic and efficient operation of all regions of the country and their balanced and sustainable development, while we also want to reduce the rate of regional backwardness.

**NRDC provides the regional aspect of planning**

***Documents used to compile the strategy***

**Frames adopted by the European Union:**

- Community Strategic Guidelines, 2007-2013; cohesion policy in support of growth and jobs (communication from the Commission orienting cohesion policy planning),
- Regulations containing the rules of use of the European Social Fund, the European Regional Development Fund and the Cohesion Fund and Council Regulation (EC) No 1083/2006 containing the general rules of the Council of the European Union for the three funds, and the regulation of the European Parliament and the European Council on the European grouping of territorial cooperation,
- Integrated Guidelines for Growth and Jobs (guidelines of the national reform programmes compiled by individual member states for 2005-2008 in the framework of renewing the Lisbon process),
- Regulations on the European Agricultural Fund for Rural Development (EAFRD),
- Sustainability Requirements as formulated in Gothenburg, and the Sustainable Development Strategy renewed by the Council of the European Union on 15 June 2006,
- Environment Action Programme 2001–2010,
- i2010: A European Information Society for Growth and Employment Programme

**Key Hungarian documents considered:**

- National Development Policy Concept (2005–2020),
- National Regional Development Concept (2005–2020),
- National Action Programme (2005–2008) and the Revised National Lisbon Action Programme of September, 2006,
- New Hungary Rural Development Strategic Plan (2007–2013, version sent to social discussion),
- National Programme of Environmental Protection (2003–2008),
- Lifelong Learning Strategy,
- Updated Convergence Programme of Hungary of September, 2006.

**Underlying sectoral concepts and strategies:**

During our work we relied on the sector development concepts attached to the National Development Policy Concept and the National Regional Development Concept. These include the following:

- Competitiveness concept paper,
- Hungarian information society strategy (HISS) – (1126/2003. government resolution),
- National Broadband Strategy,
- Transport policy concept,
- National strategy report on social protection and social cohesion 2006–

**The Development Plan also builds upon sector and regional concepts**

- 2008 (in development),
- Healthcare development concept (HDC),
  - National Tourism Development Strategy,
  - National Programme for the Disabled

Conceptual proposals and strategic plans **under preparation**, used in their draft version:

- National Strategy for Sustainable Development,
- SME strategy (working draft, under development),
- Science, technology policy and innovation strategy (concept development in progress),
- Energy policy concept (approval pending)
- National strategy report on social protection and social cohesion 2006–2008 (in development).

In addition those to described above, a few overall strategies have also be compiled that can typically be implemented through the co-operation of several sectors. Some elements of these are treated by the relevant operational programmes as a priority (e.g. developmental poles, renewable energy or the healthy society).

**New, comprehensive strategies are also conceived as part of the planning process**

### **1.2.3. Participants in the preparation of The New Hungary Development Plan, the work progress**

Pursuant to the Government Resolution 1076/2004.(VII.22.) on the Contents and Organisational Framework of Compiling the Development Plan for the period between 2007 and 2013, the Development Plan has been written in co-ordination with the National Development Office and its legal successor, the National Development Agency, under the leadership of the minister without portfolio responsible for the co-ordination of European integration matters (later for European matters) and – from June 2006 – under leadership of the government commissioner for development policy. In addition to line ministries and national agencies, the Hungarian Academy of Sciences, regional development councils and, through experts, several scientific research institutions and advisory bodies also participated in the development of the contents of individual chapters.

**Representatives of the science community and NGO's also participated in the planning in addition to public administration**

During the elaboration of the plan, we had regular consultation with Managing Authorities of the 1<sup>st</sup> National Development Plan to utilise experiences collected.

According to those set out in the Government Resolution 1076/2004(VII.22.) the first step included the National Development Policy Concept and the National Regional Development Concept, which were approved by the Parliament in a resolution on 14 December 2005. The preparation of The New Hungary Development Plan started on the basis of these documents and the National Action Programme for the implementation of the Lisbon Agenda in September 2005.

**The main objectives of the plans were defined by the Parliament**

The National Development Office co-operated with the planning departments of relevant ministries, and organised a series of workshop discussions with the participation of almost 400 persons to lay the foundations for the development plan. The findings of the workshops were integrated into the situation analysis and strategic chapters of the plan.

Workshop discussions were organised in the following 13 fields:

1. improving the demographic situation,
2. strengthening social capital,
3. improving physical access
4. sustainable improvement of the competitiveness of the Hungarian economy,
5. enfoldng the information society,
6. increasing the level of competitive knowledge and culture,
7. improving the health status of the population,
8. expanding employment,
9. the role of culture,
10. protection and sustainable use of natural resources and environmental values,
11. improving security,
12. medium term objectives of balanced regional development,
13. strengthening social cohesion.

**Several hundred people participated in the professional discussions preceding the planning process**

#### **1.2.4. Public discussion on the New Hungary Development Plan**

Stakeholders from the society could join the preparation of The New Hungary Development Plan from the earliest phases. We introduced the concepts on the main objectives in several dozens of fora and events when compiling the National Development Policy Concept as a preparation for the plan. Professional and regional discussion series were organised to collect the opinions as a backbone for our work. The public discussion on the concept was conducted for two months in the summer and early autumn of 2005. Approximately four hundred organisations gave their opinions. All of the proposals sent in writing and the questionnaires returned by our partners were published on the webpage on the National Development Office. The thirteen planning workshops were the first step in establishing a partnership for the development plan. These meetings were organised with the participation of several hundred experts and the representatives of many organisations. These workshops were complete with a series of fora organised in 19 counties in co-operation with the local media and with the participation of the widest audience to introduce regional and local development concepts.

**Stakeholders participated actively already in the preparation of the concept used as a foundation for the plan**

On its meeting on 27<sup>th</sup> February, 2006, the Development Policy Cabinet chaired by the Prime Minister accepted and submitted for discussion with the stakeholders the first reading of the Development Plan. That document did not contain the social-economic situation analysis used as the foundation for the strategy, or the planned distribution of funds among operational programmes or the proposal for the institutional systems.

**Several hundred people commented on the previous version of the Development Plan**

Stakeholder reconciliation was conducted from 28<sup>th</sup> February, 2006 to 3<sup>rd</sup> April, 2006. The process included specific requests sent to 4900 social, professional, civil and local organisations to participate in the discussion about the document, while there were approximately 30,000 downloads of the document from the National Development Office webpage during this period. Finally, 470 organisations sent back comments on the document. In order to secure synergy among the development programmes, we organised ten discussions during the public debate, which made it possible for the most important interest groups to develop a common platform.

A new period of reconciliation with social stakeholders started on 1<sup>st</sup> August, 2006 when the Government sent the New Hungary Development Plan – its second reading – to partnership discussion. That document already included a situation analysis, tables of financial allocations and major indicators as well. The document was available for all on the Internet during social reconciliation ended in the second half of September: almost 11 thousand people have downloaded in one month.

**A new period of reconciliation with social stakeholders started on 1<sup>st</sup> August, 2006**

The National Development Agency asked about 4 and a half thousand organisations to formulate their opinions and proposals concerning the document. The development plan has been discussed by the most important national reconciliation fora including the Economic and Social Council, the National Council for the Reconciliation of Interests, the National Regional Development Council, the National Environmental Protection Council and the Hungarian Academy of Sciences. In addition to that, consultation was held with representatives of historical churches in Hungary. Moreover, the Agency has initiated sectoral and regional reconciliation relating to the priorities. The document has been discussed by the Developmental Councils of all the seven Hungarian regions. A special discussion was held for professional organisations active in the field of transport, human sector, economic development, state reform, environmental protection and regional development. The schedule and contents of the reconciliation process can be downloaded from the homepage of the National Development Agency (<http://www.nfh.hu/>). By the deadline of 4<sup>th</sup> September, almost 300 opinions were sent by about 600 organisations and individuals. These opinions and proposals have been processed. To ensure high transparency, all of these can be downloaded from the homepage. A special reconciliation was held with experts of the parties in the Parliament. The Parliament held a discussion about the New Hungary Development Plan in 17<sup>th</sup> October, 2006. The National Development Council set up with regional representatives, delegates of the Economic and Social Council and acknowledged experts of fields involved has also discussed the development plan modified according to opinions of partners. The Government has decided about the document based on the results of those reconciliations before submitting it to the European Commission.

The list of the most important social organisations involved in social reconciliation can be found in Annex 1.

The partners formulated several ideas that will be considered and examined when planning the operational programmes serving the implementation of the New Hungary Development Plan. The National Development Agency started the social reconciliation of operational programmes in the second half of October.

The discussion with all stakeholders fundamentally confirmed the justified nature of our original objectives. However, stakeholders laid a bigger emphasis on improving accessibility, the importance of the information and knowledge based society, and on the aspects of environmental and social sustainability.

**Stakeholders mostly confirmed the proposals of the planners**

Based on the opinions of the partners, the development plan should put more emphasis on fields as follows:

**Modifications of content after social reconciliation**

- enriching elements of social cohesion and equal opportunities as horizontal policy, with special regard to equal opportunities of genders;
- importance of the human dimensions of sustainability, containment of the decreasing demographic trend, counter-balancing expected effects of migration;
- developing the SME sector with special regard to the spill-over of R&D and innovation results in services and products;
- enhanced presence of tourism;
- increased demand on labour through job creation within the field of economic development;
- promoting flexible employment forms, strengthening elements targeted at the elimination of unreported work;
- preventing the reproduction of poverty and the development of social exclusion already in childhood;
- developing basic skills (language competency, mathematical abilities, digital literacy, business skills, mother tongue).

Partners also pointed out the following:

- solving problems also requires an integrated approach and additional tools parallel to those defined in the plan;
- coherence with the Convergence Programme is critical, therefore, negative effects of the creation of balance must be reduced in the initial stage of development, whereas in the second stage of that, development resources can contribute already to absolute growth;
- resources must be spent on the renewal of public service systems in a way contributing both to cost efficiency and quality improvement;
- the development of the human sector and improved co-operation also serves the purposes of the strengthening of the civil sector, therefore, social-economic return on funds allocated to these fields is crucial;
- due to the importance of integrated rural development, co-operation must be maintained with the European Agricultural and Rural Development Fund;
- the institutional system of implementation should be more simple and ‘applicant friendly’ in the next programming period.

In the framework of the stakeholder reconciliation (and beyond the timeframe given above) we had continuous discussions with the European Commission as required by the relevant decrees. The results of this consultation have been integrated into the strategy.

**We also consulted  
the European  
Commission**

## 2. Foundations of the strategy

### 2.1. The medium term macro-economic course

#### 2.1.1. Situation and prospects of our macro-economy

The structure of the Hungarian economy is healthy and driven by export and investments in growth. The rate of GDP growth was significantly higher in 2004 than the average of previous years. Consequently, actual output exceeded potential output in 2004, therefore, the output gap became positive – the situation remained until 2006.

**Growth structure is essentially healthy**

According to economic policy expectations of the Government, the medium term macro-economic course can be divided in two clear-cut sections. The period between 2006 and 2009 is the period of creating long term balance to be achieved by the considerable cut-back of the general government deficit and the restoration of external equilibrium. As a result of measures targeted at the improvement of balance, actual growth will significantly slow down in 2007-2008 then it returns to the former higher level of balanced course while the level of output will decrease below the potential output. As a result of that, the output gap will become negative by 2007 and in 2008-2009, it may reach –2% of potential output.

**Until the balance is restored, a temporary slow-down can be expected in economic growth until 2009**

Sustained and long term growth can start on the basis of the balance created by 2009. According to the forecasts, the actual growth rate can reach the level of 2007 after 2009 but the output level won't reach the level of potential output until 2011, thus output gap will remain slightly negative.

**By 2009, we can return to a balanced course of growth**

The international environment will support national economic growth in the coming years, although monetary restrictions and changing oil prices represent some risks. The growth of world economy will entail a significant expansion of world trade in the next couple of years. We consider the prognosis of the European Commission to be authoritative: according to that, growth will be around 2.3% this year. In 2007, the growth of the European Union will also be expectedly decreasing as a result of the German consolidation package. At the same time, through the entire horizon of the prognosis a long term and high growth can be expected in new Member States that are crucial from the aspect of Hungarian export, in the entire horizon of the prognosis. The potential further increase of oil prices can be risky for the growth forecast. At the same time, the recent increase of the consumer price index in the United States calls the attention to inflation risks of increased use of capacities. Off-balances of the global paying deficit have not been improving either, consequently, they are still long term elements of uncertainty.

**External factors basically favour the strengthening of the national economy, however, elements of risks are also present**

**Table 1:** Medium term macro-economic indices

	2006	2007	2008	2009	2010	2011
	<i>Change compared to previous year (%)</i>					
Increase of gross domestic product at the constant price	4.1	2.2	2.6	4.1	4.2-4.5	4.5*
Domestic consumption	2.0	-0.2	0.5	3.1	3.5*	3.5-4
Households consumptions	2.4	-0.9	0.0	1.5	2.5-3	3.0*
Gross accumulation of fixed assets	6.6	2.1	3.7	7.0	5-6	5-6
Foreign trade volume						
Export (goods and services)	12.0	10.9	9.9	9.4	8-10	8-10
Import (goods and services)	9.5	8.5	8.0	8.8	7-9	7-9
Number of employees	0.3	0.0	0.3	0.7	0.7-1	1*
Consumer price level	3.5	6.2	3.3	3.0	2.5-3	2.5-3
	<i>In the percent of GDP</i>					
Current account deficit	7.9	5.9	4.4	3.6	3.0*	2.0*
General government deficit	10.1	6.8	4.3	3.2	2.7	2.2
Gross debt	68.5	71.3	72.3	70.4	68-69	65-67

\* approximate values

Source: Ministry of Finance<sup>1</sup>

### 2.1.2. Macro-economic objects

The long term objective of economic strategy is modernisation and catching-up to the EU-15 average. On the short term, however, major task is to restore balance. Long term objective remains the support of extended employment as well as the promotion of strengthening competitiveness and capital attracting capacities.

**The continuation of the catching-up process requires balance at the moment**

The economic policy programme of the Government focuses on creating equilibrium and structural reforms in the next two years. This will lay the foundation for faster growth in the coming period and for the introduction of the euro in harmony with the performance of the economy. In addition to the government programme, these objectives are also expressed by the New Equilibrium Programme for 2006 through 2008 and the Convergence Programme built upon that.

**The equilibrium is an internal need and a requirement of the European Union**

Macro-economic stability is a condition for the successful development policy. The reasonable and efficient use of European Union funds also helps to achieve such stability. Accelerated economic growth generates additional funds in the budget. Developmental funding from the cohesion policy help the reform of major public service systems (pension system, healthcare and social systems, education) in order to make sure that they can operate more successfully and efficiently.

**European Union funds also help to achieve stability**

<sup>1</sup> Convergence Programme of Hungary 2005-2009, September, 2006, pp. 6-7

## 2.2. Hungary is eligible for Community support

The terms and conditions for community support eligibility are regulated in Articles 5-7 of the Decree 1083/2006 of the Council<sup>2</sup>. This provides that so-called NUTS-II regions come under the Convergence objective, where the per-capita GDP on purchase power parity is less than 75% of the community average in the 2000-2002 period.

**Hungary is one of the main winners of the cohesion policy of the European Union**

The 2005 supplement to the 1059/2003/EC Decree of the European Parliament and Council of 23 May 2003 sets out that the area of Hungary is divided into seven NUTS-II regions. The table below shows the GDP data of the individual regions.

**The area of Hungary is divided into seven regions**

**Table 2:** Per-capita GDP in Hungarian regions, average of 2000–2002

Region	PPS (unit of effective demand)	Percentage of the EU-25 average, measured by parity-based effective demand
Central Hungary	18,374	89.7
Central Transdanubia	10,706	52.3
West-Transdanubia	12,362	60.4
South-Transdanubia	8,470	41.4
North-Hungary	7,392	36.1
North-Great Plain	7,436	36.3
South-Great Plain	8,075	39.4

Source: Eurostat, News release 47/2005

The Community average of per-capita GDP in 2000-2002 was EUR 20,478. On this basis the following regions come under the **‘Convergence’ objective**:

**Six of the regions fall into the highest support category**

- Central Transdanubia
- West-Transdanubia
- South-Transdanubia
- North-Hungary
- North-Great Plain
- South-Great Plain

Central Hungary is in a special situation. Pursuant to Article 5, Section (1) this region does not come under the Convergence objective because its per-capita GDP was above 75% of the EU 25 average in 2000-2002. However, the region does match the requirements of Article 8, Section (2), i.e. it comes under objective 1 as defined in 1260/1999/EC in 2006, and the per-capita GDP in 2000-2002 exceeded 75% of the EU 15 average according to Article 5, Section (1). This means that the region is eligible to the so-called phasing in support under the **‘Regional competitiveness and employment’ objective**.

**Central Hungary is in a special situation**

The per-capita gross national income (GNI) was EUR 11,666 in Hungary between 2001 and 2003, which corresponds to 54.9% of the EU 25

**Hungary is also eligible to**

<sup>2</sup> For the references on decrees the draft 9077/06. order was used (stand on 19 July 2006).

average (EUR 21,254)<sup>3</sup>. Hungary has compiled the convergence programme as defined in Article 104 of the EC Agreement. On this basis – and pursuant to Article 5, Section (2) – Hungary is eligible to use money from the Cohesion Fund.

**Cohesion Fund instruments**

### ***2.3. The development of the country is strongly determined by international trends***

The Hungarian economy is extremely open, therefore, changes of world economy have a great impact on the development of the country. World economy has been increasing recently. As expected, it will further expanding by about 4.5% in the next year. Although international monetary policy has become stricter and prices of the oil and other energy sources have been significantly increasing, the growth of world economy remained stable in 2006. Sustained growth can be attributable primarily to economies of Asia – especially to stronger Chinese and Japanese economy – while the impetus of the American economy has decreased. As expected, Chinese GDP will be increasing by 9-10% in the coming years due to high investment levels and the rapid expansion of export and services. At the same time, several elements of international economy represent uncertainties from the aspect of Hungary. For instance, energy prices are increasingly volatile, there are large scale movements of portfolio capital caused by great deficits in the balance of payments and increasing differences of interest surcharge – all these have dramatic effects on financial and real estate markets of smaller countries.

**The development of Hungary is strongly promoted by the dynamic development of world economy expected, nevertheless, there are considerable risks as well**

The peace process in South Slavic countries and the accession of Romania and Bulgaria create particular opportunities from the aspect of the development of Hungary. The further integration of the internal market of the European Union and the accession of the two Balkan states generate stronger competition among actors of domestic economy, at the same time, they also create greater market opportunities. Romania and Bulgaria will show spectacular growth – as expected, their GDP will increase by 4-5% annually. Their integration into the economy of the EU will increase after the accession. The turnover of goods in case of Bulgaria has been doubled in the previous two years, whereas in Romania, the same has been tripled – most probably, this tendency will be even stronger after the accession. As a result of expansion, countries of the region will attract considerable amounts of working capital due to lower wage costs and high market potentials. This opens new horizons for Hungarian enterprises as well. In addition to that, a large number of workforce will move from these countries, heading primarily to Spain, Italy and Greece and secondarily to Great Britain and Germany.

**The enlargement of the European Union puts Hungary to a new competitive environment**

As expected, contacts of Hungary to neighbour countries will further be

**Opportunities**

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<sup>3</sup> Source: [http://ec.europa.eu/economy\\_finance/indicators/annual\\_macro\\_economic\\_database/ameco\\_applet.htm](http://ec.europa.eu/economy_finance/indicators/annual_macro_economic_database/ameco_applet.htm) used for calculation.

strengthened parallel to the elimination of the Schengen borders and the introduction of the euro. These changes will be salient especially in regions with major towns near to the border (e.g. Bratislava, Kassa, Szatmárnémeti, Nagyvárad, Arad). Improving infrastructure contacts and the presence of international companies strongly influences the distribution of work and labour market situation in settlements on both sides of the borders. A world without borders opens new markets for several small companies. Common cultural traditions and background provide excellent basis for innovative companies as well as for co-operation in the field of education and culture. Within the ecological system of the Carpathian Basin, standard requirements of the European environmental regulation to be applied will expectedly decrease risks and enhance partnership with neighbour countries.

**provided by the Carpathian Basin create strong economic, social and environmental background for the development of Hungary**

## 2.4. Social-economic situation analysis

### 2.4.1. Economic growth with structural risks

In the past one and a half decade, Hungary became a market economy. The Hungarian economy has integrated into world economy and in May, 2004, the country became a Member State of the European Union. Economic growth has been unbroken since the mid-nineties – growth rate has constantly been above the EU-15 average. In 2005, GDP increased by 4.2% that is significantly higher than the rate of old Member States. The performance of the Visegrád Countries has been similar to that of Hungary, sometimes even exceeded that in the past years.

**Since 1996, our economic growth has been fast and steady.**

Just like in other Visegrád Countries, the dynamic economic growth has not been accompanied by a significant growth of employment. It means that growth was based primarily on labour productivity growth (although both employment and the number of working hours completed have been increasing). In an international comparison domestic labour productivity (GDP per employee) is good.

**The increase of Hungarian labour productivity has been higher than that of well-developed countries since the political change**

**Table 3:** Economic indices (changes in percent of the previous year)

	2000	2001	2002	2003	2004	2005	2006 <sup>a</sup>
GDP	5,2	4,1	4,3	4,1	4,9	4,2	4,1
Households consumption	5,0	5,7	9,8	7,8	3,2	3,8	2,4
Gross fixed capital formation	7,7	5,1	10,1	2,1	7,7	5,6	6,6
Export of goods and services	22,0	8,1	3,9	6,2	15,7	11,6	12,0
Import of goods and services	20,3	5,3	6,8	9,3	14,1	6,8	9,5
Consumer price level	9,8	9,2	5,3	4,7	6,8	3,6	3,5
<b>General government deficit (in percent of GDP)</b>	3,0	4,2	9,1	7,2	6,5	7,8	10,1

<sup>a</sup>Forecast,

Source: Eurostat

Problems of balance have been increasing in the past years. Since 2002, state deficit has been higher than the growth rate of GDP. This may result in severe tensions. Therefore, the reform of the structure of revenues and expenditures is an imperative. State re-distribution has also been increasing since 2003. The coherence of budgetary and monetary policy has improved in the past years. Inflation has also been significantly moderated compared to the nineties but it is still not in line with the Maastricht criteria. Having recognised the dimensions of the budget deficit, the Parliament approved an important package targeted at the improvement of the balance, as proposed by the re-elected Government. Still, general government deficit of 2006 will reach 10,1% according to the Government.

**Problems of balance have been increasing in the past years**

Hungarian economy is highly open, therefore, trends of world economy and especially the situation of European prosperity have a great impact on that. The Hungarian economy has organically integrated into world economy during the nineties. The volume of foreign trade approaches two-third of GDP nowadays. At the same time, the long-term foreign trading deficit represents high risks that can be counterbalanced by large-scale investments of foreign direct investments. Constantly high deficit of the general government and the decreasing saving willingness of the households result in a higher risk of changing exchange rate. Due to the rapidly increasing productivity of countries of Asia and the enlargement of the European Union to the Balkan, the international competitive environment of Hungary has also been dynamically changing. As expected, export from South-East Asia will represent high pressure on several domestic productive sectors.

**The Hungarian economy is extremely open**

Considerable energy import is a critical element of the dependence of the country on external markets. Including the fuel used by the nuclear power-station in Paks, energy dependence was of 74 % in 2003 and it has been increasing ever since. Rising and changing process of carbon hydrates represent high risks for the economy. Just like in the case of new Member States in Central Europe, the primary source of gas and oil – representing extra weight within consumption – is still Russia.

**Dependence on energy import represents high macro-economic risks**

#### **2.4.2. Low level of activity, stagnating employment**

The Hungarian labour market is characterised by a typical feature, which is also its major problem, namely that the level of employment is low by international standards, and it is matched by a moderate rate of unemployment and a high level of inactivity. This low level of participation on the labour market emerged after the political change because of the low retirement age and the rather poor health conditions of the population, but also because people who lost their jobs or felt that their jobs were at risk could access a relatively wide range of various income substituting benefits. From the end of the nineties this process was

**There is a low level of participation on the labour market in Hungary**

also reinforced by the fact that employment policy was focused on reducing unemployment instead of expanding employment. The more rigorous system of unemployment care motivated people without jobs to try to obtain benefits that did not support the finding of a new job. The policy aimed exclusively at cutting unemployment instead of increasing employment and the level of activity did not prove to be sufficient answer to the challenges of the Hungarian labour market. This is why the unemployment and social benefit system was transformed at the end of 2005. Measures taken so far to curb down early retirement have not been sufficient yet. At the same time, the extension of the employment is strongly supported by labour market regulations that are rather flexible in European comparison and by granting policy encouraging employment.

**Table 4:** Key labour market indices in 2005

	Hungary	EU-10	EU-25
<b>Employment rate*</b>			
<b>Men</b>	63.1	63.3	71.3
<b>Women</b>	51.0	50.7	56.3
<b>Total</b>	56.9	56.9	63.8
<b>Rate of unemployment<sup>a</sup></b>			
<b>Men</b>	5.8	10.4	6.5
<b>Women</b>	6.4	12.4	8.5
<b>Total</b>	6.1	11.3	7.4
<b>Activity rate<sup>b</sup></b>			
<b>Men</b>	67.9	72.4	77.8
<b>Women</b>	55.1	59.2	62.5
<b>Total</b>	61.3	65.8	70.2

<sup>a</sup> Population elder than 24 years of age

<sup>b</sup> Population between 15 and 64 years of age.

Source: Eurostat.

The low level of participation on the labour market is mainly typical for people with lower skills. The labour market activity and the employment rate of employees with secondary and advanced qualifications and degrees is according to the OECD average. We can see a substantial shortfall at those who have elementary school as their highest education. However, the proportion of these people within the total population exceeds the OECD average: still every sixth young individual enters the labour market with not more than eight classes of elementary school. Skilled worker training does not respond to the changes of the labour market, and the contents were not right either over the past few years. This is why half of the employees do not find a job according to their skills when enter in the labour market with a skilled worker training certificate, so that they find jobs in other professions or places that do not require any skills. At the same time there are several industries where there is a shortage of skilled labour. Young individuals with less than advanced education and elderly individuals with a similar educational background (over 55 years of age) find it particularly

**Unskilled workers have the lowest rate of employment**

difficult to find a job.

The poor health conditions of people has a direct influence on the activity of individuals – or rather on their absence from the labour market. On average, people spend 13% of their lives ill, and every fifth person is permanently ill or living with disabilities.

**Many people do not work due to ill health**

There are substantial regional differences in employment, particularly on the level of micro regions functioning as local labour markets. Differences are significant not only in terms of the rate of unemployment but also as regards the composition of unemployed and inactive individuals.. Regions suffering from a high rate of unemployment typically also see an accumulation of programmes: the rate of low-skill people is higher than the average, the number of vacancies on the market is lower. This can be spotted in the high rate of inactive population not participating on the labour market on long term, resulting the higher number of people on regular social benefit.

**Regional differences are particularly high in employment situation on the level of micro regions**

The rate of migration of labour is low, and mobility is limited. Regional differences in employment and unemployment result partly from the fact that the population of Hungary has strong local links, therefore, they are not motivated by work opportunities alone. So, spontaneous processes leveraging the geographical differences of demand and supply can work to a limited extent only. Disadvantaged regions see the particular problem that even if there are possibilities to find a job (for example in county capitals or major towns), it is difficult to access these locations by public transport.

**Migration of workforce and possibilities of mobility are rather low**

One of the reasons for the low level of employment is the high rate of illegal work and employment. Black labour is a particular problem for unskilled workers. The majority of people employed in the black economy in Hungary comes from people who are cornered out from the official labour market because of their low level of skills, and/or because there is a small demand for labour with low skills in general. The background of this problem is related to the rapid and radical changes of economic transition, the high level of social costs, and the shortcomings in the regulation and controls.<sup>4</sup>

**There is a significant rate of unreported employment**

The productivity of Hungarian labour is good on the international scale, however, there are significant and growing differences between various age groups. In several sectors, Hungarian wages are lower than those in case of the international competitors although skills required by work meet international standards. As expected, the group of elder employees with greater experiences can represent further reserves parallel to increasing average life expectancy.

**Potentials arising from increased efficiency of labour can be significant**

Training while working and adult training to secure the basic development

**Very few**

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<sup>4</sup> There are many studies attempting to estimate the rate of ‘black’ and ‘grey’ employment, however, all of them use different methodologies, and so the results are also different. We use the rate of the informal economy to the GDP, as the same index is also used by the OECD and the EU to spot ‘black work’ and to compare countries.

of skills and knowledge of labour reserves not possessing such skills on the labour market are essential for professional mobility, the retaining of jobs and the improvement of employment opportunities. There is a relatively low level of participation of the working age population in adult training in Hungary. The level of participation is especially low in case of elderly generations and people with lower skills who are in a worse employment position already anyway.

**individuals actually learn 'life long'**

As far as labour demands of international companies are concerned the following can be essential factors: Hungarian working culture and morale are identical with the European, attitudes towards work are predictable, population and Hungarian employees like novelties and support innovation, Hungarian people are development-oriented (both on the level of individuals and the society). Social norms are in line with those in Western Europe. Non-governmental organisations are present and increasing; there is a higher social sensitivity in terms of minorities. A considerable part of the employees work at small and medium sized enterprises where competition is especially fierce. One-fourth of people employed in the business sector work at foreign companies, therefore, meeting international standards is a basic requirement for them.

**As far as labour demands of international companies are concerned, the innovation-oriented approach of Hungarian labour is of special importance**

### **2.4.3. The dual nature of economic structure**

The deep restructuring after the political change has come to a close; many sectors of the economy are now on the fast track of growth. The processing industry and particularly engineering and the manufacturing of tools and equipment could successfully integrate into the developed value chains of the western world. As the country's accession to the European Union approach, leading service providers of the world also had set up a presence in Hungary. Goods entering international trade represented 57.1% of the GDP in 2004.

**Hungary could successfully integrate into the world economy**

This development has been facilitated by the quick emergence of modern financial and telecommunication sectors supporting these business activities. Agriculture and light industries have lost some of their significance within the structure of the economy; at the same time the importance of engineering, chemical industries, construction and service industries such as tourism has increased.

**The structure of the economy has been modernised**

The economic development of Hungary is also assisted by the traditionally strong enterprising culture and the existence of management and labour that have already adopted western productive and organisational structures but are still cheap compared to their western competitors. International companies settling down in the country can largely rely on innovative employees capable of abstract thinking. These companies are also utilise the rich historical-cultural background similar to that of Western Europe and the stable set of values. Development actions are encouraged by development and investment friendly regulations and municipalities favouring investments. The Government has implemented large-scale investments in the past years in the

**The economic growth of Hungary is based on our excellent cultural background**

filed of developing the missing infrastructure and this can significantly facilitate the establishment of sites.

We can see substantial regional differences in the per-capita GDP on purchase power parity. The value in the Central Hungary region, which also includes Budapest, is close to the average of the EU 25 (89%), while North-Hungary (36%) and North-Great Plain (36%) are amongst the most backward regions in Europe. Polarisation is even worse on the level of micro regions. The rate of economic development of the majority of the least developed micro regions is far under the average, and sometimes even shows a continuous drop in absolute terms. Economically backward regions are located primarily in the north-eastern parts of the country and in South-Transdanubia.

**Regional disparities in the economy are significant and...**

Regional inequalities in economic growth keep on increasing. Investments providing the foundation for technological development concentrate in developed regions: primarily in Budapest and its suburban areas that form the fastest developing region. The northern and western parts of Transdanubia are also important destinations for economic growth (the main reason for that is easy access to western markets, developed infrastructure and skilled labour) together with county capitals (primarily Pécs, Szeged, Debrecen and Miskolc) that count as regional economic and knowledge centres. If current trends remain as they are, these regional differences may be the sources of substantial social tension.

**...growing**

**Table 5.** Distribution of gross added value according to ownership (%)

	2000	2001	2002	2003	2004
Community ownership	28.4	27.4	29.1	30.1	29.2
Domestic private ownership	49.6	50.5	49.0	47.3	49.5
Foreign ownership	22.0	22.1	21.9	22.6	21.3

Source: KSH.

The presence of international corporations and the amount of capital investments are outstanding also in international terms. Foreign direct investments (FDI) reached 5.9% of the GDP in 2005. In addition to productive and commercial activities, more and more multinational corporations relocate their research, development and servicing units to Hungary.

**International businesses play determinant role**

Large businesses operating in Hungary are competitive in the international arena. The majority of exports and the country's economic growth comes from competitive large businesses, primarily from the subsidiaries of international corporations. Some international businesses organise their entire Central East-European activities from Hungary. We can also see an increasingly intensive expansion of Hungarian large businesses in the region.

**Our large businesses are competitive on the international scale**

Despite this dominance of large companies, the sector of small and

**Small and medium**

medium sized businesses plays an ever increasing role. The productivity of this sector is somewhat lower than in case of large companies competing in the international arena – but this would be true in all countries of the world. However, this sector employs app. 60% of all employees. The main reason for the lower level of productivity lies with the relatively lower level of technical equipment and capital supply in comparison to larger businesses. A certain part of small and medium sized enterprises could successfully link up to large companies working in exports or serving domestic demand; another part of them is specialising in serving domestic and local needs. At the same time, the majority of small and medium sized enterprises are not real enterprises but ‘involuntary entrepreneurs’ as a result of self-employment and/or tax evasion.

**small and medium sized enterprises are the most important employers, but their productivity is weaker than of large companies**

The larger part of international businesses can efficiently use modern organisational and management methods; however, small and medium sized businesses often suffer from the lack of these. Company leaders do not rely on state of the art IT and management support tools sufficiently yet. The majority of small and medium sized enterprises do not provide proper training to their employees, which is an impediment to improved productivity.

**SMEs do not apply modern management methods too often**

The ability and willingness of small and medium sized enterprises to co-operate is not sufficient to develop despite various incentives from the state: supply chains and (regional or industrial) clusters still play too small a role. This, in turn, is a limitation on technology transfer from larger businesses and on the exploitation of economies of scale because joint developments and investments are missing.

**The co-operation ability and willingness of SMEs are weak**

Access to financial means is widely dispersed: a part of larger businesses is present on international capital markets, however, the overwhelming majority of SMEs is still not “bankable”; many of them do not have access to market financing despite much improvement in this field over the past few years. Access to capital is difficult for SMEs: lending in this sector still seems to be rather risky for banks because the turnover of credits and accounts is low, and securities are insufficient. State solutions for this issue have not been very successful and operate at a low level of efficiency.

**Market financing of SMEs is weak**

The proportion of R&D spending to the GDP is very low in international terms (0.89% of the GDP in 2004 against 1.95% in the EU 15 countries) and similar spending by businesses was just 37% within this figure. Still there is a small number of companies undertaking independent research and development, and the relationship of research sites and the business sector is weak. Nevertheless, multinational businesses already show good examples of using the Hungarian research base. Educational and research partnerships have already started up in this area. R&D spending is typically present with businesses operating under insecure external technological circumstances and in intensive international competition. The number of companies using Hungarian and international research

**R&D spending lags behind EU average; businesses spend particularly little**

achievements (spin-off and start-up businesses) grows slowly but steadily – some of them are already among the most successful businesses of the country.

Some sites offer good conditions for working on complex problems requiring concentrated intellectual and technical resources. These sites comprise internationally recognised PH.D. schools and intellectual workshops that conduct research integrated into international partnerships (primarily in ICT, nanotechnology, biotechnology, space research, environmental and health industries and pharmaceutical research). However, certain partial processes of R&D and innovation are fragmented, and their relations are not on the proper level. This is the reason why existing research results do not reach the stage of practical application and cannot be turned into market products. There is a low level of co-operation among the stakeholders of the innovation chain: there are too few bridge and advisory institutions to facilitate these processes.

**Research capacities are substantial but largely unutilised**

Businesses generally follow an adaptive innovation strategy. Approximately 10% of them purchase international patents. Their primary objective is not to achieve a breakthrough expansion but rather to maintain and expand their markets, and to reduce their costs. Businesses perceive themselves to be fit for maintaining rather than changing their technologies.

**Businesses have an adaptive innovation strategy**

The information economy could grow substantially in Hungary, however, we have not yet been able to completely eliminate our backlog in this field. Computer assisted management systems are not widely known, and the higher level application possibilities of knowledge management and information technologies are not widespread. Still, the past few years have seen a substantial reduction in the backlog of small and medium sized enterprises in the field of IT. Having said that, there is a massive deficit in key contents and services for the information society in Hungary. Regional differences have increased at information and IT service providers (hardware and software): more than half of these businesses operate in the capital.

**Despite substantial growth, we have a sizeable shortfall at certain components of the information society**

#### **2.4.4. Our transport system requires development**

The density of the Hungarian transport network approaches the EU average. The density of the public road network (329 km/1000 km<sup>2</sup>) was 88% of the EU average, while the density of the railroad network (83 km/1000 km<sup>2</sup>) was 128% of the EU average in 2005. However, the capacity, operation, load bearing and safety of the transport network make access of the country rather difficult. Also, the isolation of transport networks makes it difficult to change between transport modalities or to prefer transport means with less environmental pollution. The traffic of the international airport in Budapest (Ferihegy) has grown very substantially over the past period of time (primarily because of growing

**Despite a dense transport network, traffic needs exceed the capacities of the road and rail networks in many places**

traffic with low cost carriers), and the traffic of regional airports is also expected to increase.

Developed regions of the country have a rather good infrastructure, while the lack of the same hinders development in regions that are remote from Budapest or are peripheral. The fact that the entire transport network is concentrated in Budapest makes it time consuming and difficult to access certain regions, micro regions or even regionally important towns, sometimes even within the regions. For the reasons of access businesses consider Budapest and its neighbourhood and certain areas in Central and West-Transdanubia as attractive sites; while regions beyond the river Tisza, in South-Transdanubia and far from larger towns are less attractive. Looking at the daily transport needs of the population, micro regions along the eastern borders and certain micro regions in the south of Hungary are in the most disadvantaged situation. The long term forecast prepared for the development of traffic shows an even growth of 35-40% and 45-50% in case of the primary network, in the average of the entire network. Additionally, traffic will further be concentrating on the primary network especially in the region of the capital and major towns.

**The transport network is centred around Budapest, and there are large regional differences**

Hungary is crossed by four major Trans-European corridors that link East-, West- and South-Europe: the common sections of corridor IV (Vienna-Budapest-Sofia) and X/b<sup>5</sup> (Budapest-Belgrade), corridor V/b (Trieste-Budapest-Kiev), transport corridor V/c (Budapest–Eszék–Sarajevo) and the Danube (corridor VII). The expected substantial growth of cargo traffic between West- and East-Europe and South- and North-Europe offer very good opportunities for the development of international commercial, transport and logistics services.

**Hungary enjoys a very preferential economic geographical position**

Despite major investments over the past period of time, the density of motorways (6.1 km/100 km<sup>2</sup>) is only one quarter of the average of West-Europe. The importance of the development of the rapid way network is well illustrated by the fact that the proximity of motorways has been a fundamental factor for foreign businesses when they selected a destination for investment. The majority of greenfield investments is connected to existing elements of the rapid way network or to a 30-40 km wide band around these.

**The vicinity of motorways has been a key factor for foreign capital selecting a destination**

The capacity of tangential roads connecting the regional centres of the country is low relative to the volume of traffic. In addition to the shortcomings of the network, additional maintenance is required by the fact that these roads were constructed for a lower level of load bearing: 100 kN instead of the 115 kN that is customary in the EU. In order to meet the obligations undertaken in the accession treaty, an additional 1000-1200 kilometres of roads need their surfaces to be reinforced by 2008 beyond the surface reinforcement programmes already started.

**The quality of the road network is lower than traffic needs**

The 7600 km railroad network of Hungary is characterised by a focus on

**The length of rail network is good but**

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<sup>5</sup> Corridors diverge at Szeged to the direction of Belgrade and Arad.

Budapest and a radial structure. Almost 40% of all railroad tracks operate with speed limits due to their rapidly deteriorating technical status. 16% of all tracks are double tracks, 33% of them are electrified.

**it offers weak technical features**

Cargo traffic on public roads grows faster than railroad cargo. The reason for this is the need of the economy for flexible stocks management and reducing costs. However, due to the relatively high rate of rail and community transport, the rate of distribution of cargo traffic is still much better in Hungary than in the EU-15 in terms of sustainability.

**Rail cargo is losing ground also in Hungary, but the situation is still better than the European average**

Looking at passenger traffic, the rate of individual, car transport is increasing to the detriment of community transport. The growing rate of car use leads to more crowded roads, increased risks of accident and more environmental pollution. Passenger rail transport has lost some of its importance due to the low level of services, however, it has been able to regain some of its positions from 1995.

**Individual car use is rising**

Although our public transport network is developed in European terms, stronger urbanisation and desurbanisation processes present an important challenge for domestic public transport. The former unidirectional relations of towns and townships is changing continuously; multidirectional contacts become more important within micro regions and suburban areas. Despite the fact that the quality of the service is still not right in many areas (insufficient frequency of lines and customer service, low level of comfort on lines, problems with linking transport modalities and schedules to each other), community transport is used by a higher proportion of the population than in West-European countries. The level of development and quality of community transport is widely varied from one region to the other.

**Community transport is still unable to keep up with the growing number of commuters from suburbs**

#### **2.4.5. The change for market economy has required substantial social sacrifices**

In the last fifteen years, a new social group of intellectuals and entrepreneurs has been established and showing a tendency of broadening, their social positions have improved. However, social inequalities in terms of educational qualification, occupation, and living have intensified, and social problems appear in a cumulative manner in some groups. The majority of people in these groups have low educational qualifications, living in bad housing and health conditions, and their children are not expected, either, to rise above this level in their subsistence. The accumulation of social drawbacks is particularly characteristic for the Roma people, which is also enhanced by their regional concentration. Employees with lower qualifications marginalising from the labour market can also be classified into this group, whose situation did not improve even as economic growth began – a considerable part of them has not found employment ever since. The participation of people living with disabilities and people with altered working abilities in employment is especially low. The employment of

**Considerable numbers of people became marginalised on the labour market**

people near to the age of retirement is one of the lowest in Europe. During the political changes, homeless people appeared in major towns, representing an acute and severe problem. Social demands for safety have increased parallel with the appearance and aggravation of these problems.

The sector of human services (healthcare, social services) can dynamically expand parallel to the increasing length of expected life, resulting in a considerable demand on labour since special skills are necessary in these sectors. As the income level of the population will grow, the role of knowledge intensive servicing sector meeting niche market demands will also increase – training in the field of tourism and catering is already supporting this tendency.

**Social re-structuring may create opportunities for re-structuring employment**

#### **2.4.5.1. Unfavourable demographic trends**

In Hungary, the number of inhabitants began to decrease in the 1980s; the situation aggravated in the 1990s. 30 years ago, the number of children for a woman in the age of begetting children reached the average of 2.1 required for reproduction; this rate has decreased to an average of 1.32<sup>6</sup> by now. Reasons include a reduction in the number of marriages, a shift of begetting the first child in a later period of life, and a transformation of family relationships. This decrease in the number of inhabitants can be attributed to low levels of productivity besides highly inadequate mortality, particularly as regards working age people (below 65). This decline is slightly bridled by immigration from the neighbouring countries.

**An aging society with a decreasing number of inhabitants**

High levels of inactivity and demographic processes put welfare supply systems under considerable pressure. The numbers and proportions of elderly people are increasing, which renders it likely to vigorously increase the requirements for health and social care and attention. Supply systems financing poses serious problems even now, for reasons including low employment levels. The two processes together make it inevitable to transform supply systems.

**Supply systems are under increasing pressure**

#### **2.4.5.2. Unequal access to knowledge and cultural values**

Qualification standards of the population have increased since the political change. The most dynamic growth can be observed in the number and proportions of people with secondary and tertiary qualifications. Between 1990 and 2001, with a spectacular increase in qualification levels, there was a slight decrease in differences between the capital and the country although differences within country areas remained significant. The proportion of people speaking foreign languages, with IT skills, and participating in training abroad has increased. As regards foreign language skills, however, Hungary is still in a very bad position in an international comparison.

**Qualification levels of the population have increased considerably**

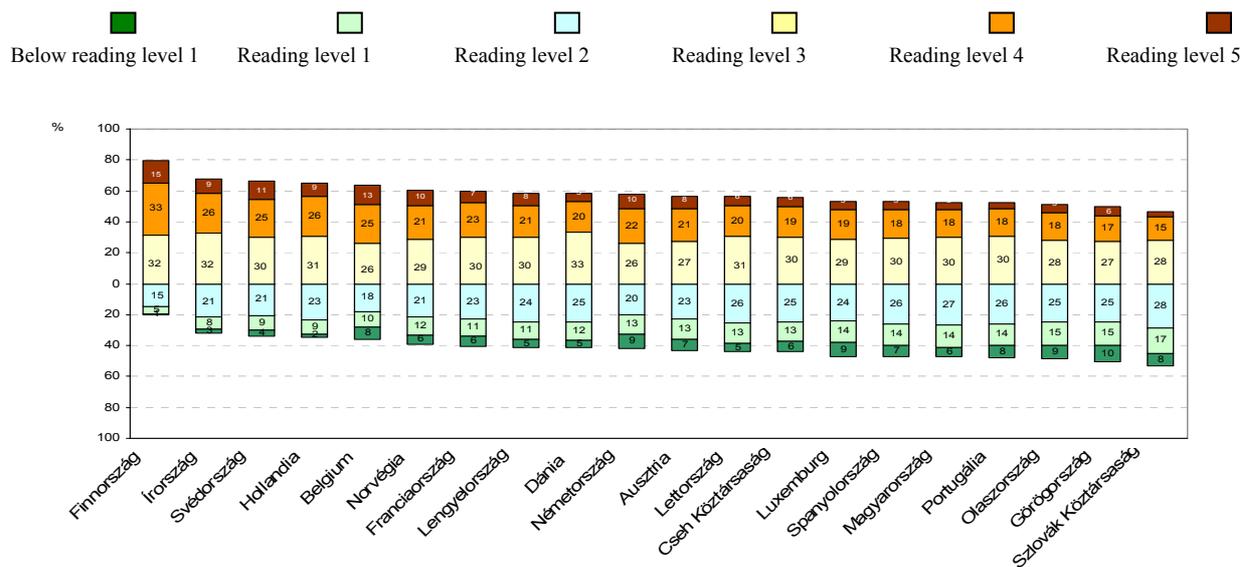
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<sup>6</sup> Data of 2005

Despite a considerable increase in the qualification levels of the population even in European terms, international comparative surveys related to the knowledge level and basic skills of the population provide evidence on the stagnation and deterioration of Hungarian capacities in some areas, as well as on substantial differences between the quality of education in various institutions. Education does not provide the basic skills required for success, being insufficiently practice-oriented, not devoted to students' lifelong learning, and not making proper use of non-formal and informal learning opportunities. All this intensifies labour market tensions and makes it difficult to change jobs in a flexible manner.

**The efficiency of education is not improving**

**Figure 1.** Proportions of 15 year-old pupils achieving various reading performance levels in the 2003 PISA survey, according to countries (%)



Finland – Ireland – Sweden – Holland – Belgium – Norway – France – Poland – Denmark – Germany – Austria – Latvia – Czech Republic – Luxemburg – Spain – Hungary – Portugal – Italy – Greece – Slovak Republic

Source: OECD PISA database, 2003

As a result of demographic processes, the number of primary school pupils has been decreasing continuously since 1990, while the capacities of the educational system have been extended. Maintaining these increasing capacities poses an ever heavier burden on the state as well as municipalities, while there are 812 settlements in Hungary with neither nursery schools nor primary schools in operation. Settlements with no primary education institutions are concentrated in the northern part of Borsod-Abaúj-Zemplén County, in Transdanubian countries with small villages (primarily Baranya, Vas and Zala). There is no comprehensive quality assessment and quality assurance system to assist the quality development of education.

**Public education heading towards a renewal in terms of quality and structure**

In the course of the past decade, the educational system has intensified already existing social differences and segregation processes. This is partly a natural consequence of the free selection of schools. There are

**The schooling system has intensified social differences**

considerable differences between schools in terms of facilities, teaching staff, and social prestige. Characteristically, children from lower status groups receive schooling at lower standards than average. Many of them even fall out of the educational system, and the lack of an adequate cultural background prevents them, even in the long run, from acquiring new information and knowledge. Since the late 1990s, drop-out rates from secondary schools have slightly increased, which plays a part in the reproduction of people with low educational qualifications. Programmes intended to reduce exclusion have brought about only limited results. Many young people leave the educational system with no educational or vocational qualification, therefore their labour market prospects are extremely bad. High drop-out rates are also driven by the fact that these students do not master basic skills and competencies in primary school.

The spectacular expansion of higher education in the 1990s was not accompanied by a comprehensive renewal of content and organization. Partial organizational reforms did not substantially contribute to the strengthening of relations between higher education institutions and economic players and of the role of higher education in innovation, neither to the wide-ranging introduction of the modern forms of lifelong learning. All this did not favour elite training, nor to the gaining ground of practice-oriented ‘mass training’ driven by the economy. Area and regional relations of higher education institutions are missing; the knowledge accumulated does not evolve into local initiatives. Areas lagging behind do not attract qualified labour. A considerable part of graduate students tend to migrate, with many finding employment in Budapest as there are no job opportunities in line with their qualifications or there are considerable income differences.

**The number of students in higher education has increased dynamically, but the effectiveness and cost-effectiveness of education has deteriorated**

Vocational training has not been able to flexibly adapt to market economy demands. The number of pupils in school-based vocational training has steadily decreased since the early 1990s. Despite the repeated modernization of training programmes, vocational training has not been able to adapt to local labour demands continuously and flexibly over the past 15 years. This is partly due to the content and quality deficiencies of vocational training and the weaknesses of the career orientation and consultancy system.

**Vocational training is not aligned with labour market demands**

Extremely low numbers are involved in adult training and considerable inequalities can be revealed behind such low participation rates. In this respect, elderly people and people with low educational qualifications are at a particular disadvantage: in 2004, the rate of involvement in training of people with up to primary school qualifications was 0.4% whereas that of graduate degree holders was 3.4%; the participation rate of people between the age of 55 and 64 years was 0.8%, while the same rate was 4.4% for those between 25 and 64 years.

**Low participation in adult training with considerable inequalities**

In most cases, it can be traced back to a lack of knowledge that there are substantial social differences also in the opportunities for the enforcement of people's rights, primarily in function of income status and educational qualification. Opportunities for legal protection and the assertion of rights is assisted by a legal aid and anti-discrimination service to support those who are socially in need as well as by the institutional systems of mediation, social crime prevention, and victim protection.

**People with low skills cannot easily enforce their rights**

Hungary has a rich intellectual and cultural heritage in various fields of art. Our music, fine arts, and theatre culture are known and recognized. Our folk art values and traditions are significant. However, new methods and solutions for cultural activities and innovation are weak. Cultural institutions partly reproduce passivity, and new initiatives remain to be isolated.

**Our rich intellectual and cultural heritage should be better utilized**

Although there are considerable inequalities between villages and towns in terms of access to cultural events and general education services, cultural institutions provide an appropriate area coverage. Nevertheless, institutions cannot make sufficient use of the opportunities of culture to motivate social inclusion, to provide a basis for creativity, and to activate the social medium.

**We should attempt to improve access to culture**

#### **2.4.5.3. We should be much more healthy in view of our development status**

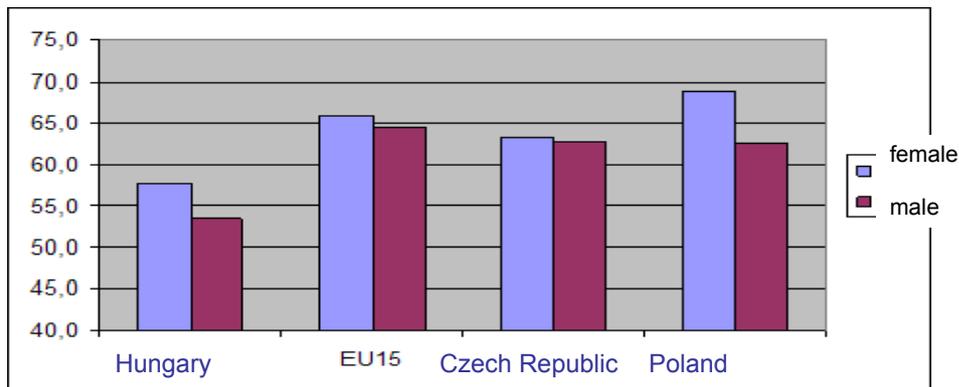
The health conditions of the Hungarian population is much worse than would be justified by the level of economic and social development of the country. The number of years at birth to be expected to be spent healthily is 57.8 and 53.5 years for women and men, respectively, as opposed to 66 and 64.5 years in the EU. In Hungary, people spend an average 13% of their lifetime being ill, and every fifth person is permanently ill or disabled. 6.8% of the population of working age, that is 466 thousand people receive disability pension.

**Our health status is bad compared to our level of development**

The health awareness of the population is weak, with widespread lifestyle patterns detrimental to health and low willingness for pre-financing. At the same time, groups with higher incomes and higher qualifications pay more and more attention to their health, therefore the society is broken down into groups of continuously improving and deteriorating health, respectively, based on qualifications and income.

**Health awareness is weak in Hungary**

**Figure 2.** Number of healthy years expected at birth, 2003



Source: Eurostat

There are slight regional differences in health data; at the same time, healthcare system performance is highly dispersed. The structure of the Hungarian healthcare system is, to a great extent, the heritage of the former centrally managed system. Regional differences in terms of capacity and size are very high. The healthcare system cannot – or can only very slowly – adapt to changes in needs and people’s expectations and opportunities provided by modern therapeutical treatment. Scientific achievements are integrated in practical cure only with great delays and regional disparities. System operation is markedly undermined by the institution of gratitude payments. All these factors lead to an inefficient use of otherwise limited resources.

**Outdated healthcare system**

Healthcare system activities are focussed primarily on curing illnesses and providing follow-up treatment; healthcare to give advice on healthy ways of living – already operating abroad – practically does not exist in Hungary as yet. As regards the structure of the healthcare system, hospital care is still dominant, with the highest rate of costs incurred. As there are 4 hospital beds for a thousand inhabitants in OECD countries (and attempts are made to reach a level of 2 hospital beds/thousand inhabitants), in Hungary there are 6 beds of a thousand inhabitants.

**Hungarian healthcare is still illness-centred**

A part of healthcare infrastructure is outdated while the other part does not meet the structure of diseases. Tools and instruments have got worn out in the course of the past ten years, with decreasing proportions of new instruments. There is a highly uneven distribution of implements by region, institution, and even within the same institution. The use of outdated equipment endangers not only the safety of healthcare services but sometimes even the staff as well. Possible diagnostic errors and complications of interventions produce extra costs.

**Healthcare infrastructure is also outdated**

The wasteful structure of the healthcare system has a negative effect on the degree of public spending (and the budget deficit). Inadequate health status and an insufficient healthcare system negatively affect both compliance with convergence criteria and the competitiveness of the country.

**Healthcare deficiencies are a serious burden also for the economy**

There are significant potentials available in Hungarian healthcare. Developments can be based on Hungarians' internationally recognized special knowledge of healthcare and on the existing regional medical officer and district nurse networks in terms of health improvements. Hungary has outstanding medicinal spa capacities in an international comparison, which have not yet been properly integrated in curative treatments and the preservation of health. Improvements in the structure of the healthcare system are demonstrated by the fact that the required background activities have been established besides hospital care as a result of the first NFT and domestic support programmes (National Health Programme, one-day surgery competition, medical advisor's prevention competition). These include modern basic and emergency care systems capable to provide ultimate care (not requiring hospital treatment), as well as cost-saving interventions such as outpatient diagnostics, forms of one-day healthcare, and nursing and rehabilitation activities.

**Significant potentials available in Hungarian healthcare**

#### **2.4.5.4. Social enclosures**

There are enclosures among endangered social groups of low-level economic activity in the most disadvantaged areas, characterized by the low educational qualifications and bad health status of the population. These groups perpetuate low educational qualifications and bad life conditions, and as a consequence, frequent loss of jobs, unemployment, and inactivity as well. As a result of that, social exclusion and falling-behind are transmitted to next generations as well.

**Inactivity leads to the reproduction of poverty**

The increased inactivity of these groups was also increased by the fact that people who had lost their jobs or felt that their jobs were endangered had wide-ranging possibilities of early retirement, and they took the opportunity in masses. And the various forms of social care and services did not duly motivate and assist integration in the labour market. The 2005 modification of social welfare payments focussed on return to work, also supported by one of the priorities of NFT I, namely the training of social workers and the intensification of co-operation with employment offices.

**Ill-conceived incentivisation system of social policy has strengthened exclusion**

The regional concentration of inactive people squeezed to the peripheries of society continues to increase. As regards the proportions of people receiving regular social welfare payments, there is a fifty-fold difference between some micro regions around the capital and in northeast Hungary, respectively. There are more people receiving welfare payments in Borsod-Abaúj-Zemplén County than in the whole of Transdanubia in the aggregate.

**The regional concentration of inactive people is rising**

The regional concentration of social problems is coupled with lower access to welfare and public services. This raises dramatic problems, particularly in regions with small villages and borderline areas with no town centres, difficult to access even by public transport. People and their children living in such areas are offered meagre chances by public services to improve

**Lower access to public services aggravates social exclusion**

their quality of life. However, there is a village and farmstead caretaker service operating already in nearly half of the settlements affected, which may effectively and successfully mitigate these differences.

The rate of employment, the average educational qualifications, the life standard, dwelling, and health status of the Roma population in Hungary are much worse than those of the society as a whole. The level of employment of the Roma population is less than half than that of the non-Roma population. As regards the rate of unemployment, the difference is three- to five-fold; and there is a three-fold difference in the rate of dependents per wage earner. According to the 2003 national representative Roma survey, 29% of Roma males of working age and only 16% of Roma females were employed. Ethnic discrimination can be detected more properly at the point of recruitment and layoff than in wages. An ethnic-based poverty is taking shape where people are permanently excluded from society in all respects and they most probably leave this situation to their children as well.

**Lagging behind is of particularly large dimensions in the Roma population**

The presence on the labour market of people with incapacities and disabilities is low: almost three fourths of them are actually absent from the labour market. Based on 2001 surveys, those employed among them is somewhere between 9 and 12%; their rate of unemployment was 18.4%. Their situation is also characterized by the accumulation of disadvantages: low educational qualifications are coupled with higher proportions of residence in disadvantaged regions, smaller settlements and villages. Their independent lifestyle and employment are frequently hampered by discrimination as well as by low levels of the elimination of physical and communications obstacles.

**People living with disabilities are not well represented on the labour market**

Mothers with small children are also difficult to return to the labour market. During several years of absence, their knowledge and skills required for work show signs of wear, and employers are also reticent towards them. Services assisting the harmonization of family and work are not accessible to everyone. Following the relief of regulatory anomalies, the number of people engaging themselves to work increased while on childcare benefit. Services assisting in the harmonisation of family life and work are lacking; the access to existing services is weak.

**Women can find a job after child-birth only with difficulties**

More and more children are born into poor families. One fifth of all families with children can be considered as poor; 36% of families with three or more children live below the poverty threshold. There is a remarkable risk of poverty among mothers having children outside marriage and those raising their children alone. This is intensified by the difficulties of mothers intending to return to the labour market after having children, which endanger the securing of income required for sustaining a family. The socio-cultural background provided by the family is of utmost importance in terms of the proficiency of children and their labour market status (chances for employment and positions) later on. Income-based poverty is frequently coupled with cultural poverty as well; and the disadvantages arising from that are further deepened by the public

**Child poverty is an increasing problem**

education system, reducing the chances for social mobility.

#### **2.4.5.5. Little but growing social capital**

In Hungary, the level of social capital is low. In Hungarian society, confidence towards each other and the public sector was shattered by an obligatory equalization characterizing socialism and by the shock caused by the ensuing rapid changeover. Today, the majority of people turn a cold shoulder to changes, hindering the adoption of innovative solutions and mobility. There are considerable unexploited resources for social renewal, individual and community commitments, and joint action. The rate of people regularly or formally performing voluntary activities is very low in an international comparison, reaching only app. 5%.

**Social links are weak**

Civil activity is increasing in a number of areas: the role of non-governmental organisations is significant and increasing particularly in the social sector and environmental protection. The self-organization of minorities invigorated after the political change. All these processes indicate that there is a demand for non-formal social institutions. Development programmes for young communities may provide considerable opportunities in this area even in the medium term.

**Civil activity is increasing in certain areas**

#### **2.4.6. Environmental values, with serious deficits**

##### **2.4.6.1. Our problems reach over the borders**

The Carpathian Basin, including Hungary with its natural treasures and flora and fauna constitute a special ecological system, representing an outstanding value even in an international comparison. Almost all of the water reserves of Hungarian rivers (96%) come from abroad. As regards waters, Hungary is characteristically a transit country: water reserves predominantly depend on interventions in neighbouring countries, in terms of both quantity and quality. During the past decade, processes endangering environmental safety have multiplied, with more frequent occurrences of extreme floods and contamination affecting our rivers abroad. Therefore, environmental safety has become a strategic issue to be managed in co-operation with neighbouring countries both in the short and the long term.

**Hungary's environmental status is affected by the quality of the ecological system of the Carpathian Basin**

As a result of human activities, the greenhouse gases escaping into the atmosphere of the Earth may change the climate of our planet. Research shows that this will create increasingly extreme weather conditions in Hungary as well, possibly leading to more frequent floods and inland waters affecting large areas, as well as local shortages of water and droughts.

**We must prepare for increasingly extreme weather conditions**

Hungary complies with the stipulations of the Kyoto Convention; however, emissions have increased in recent years. Due to the fact that there was a recession in Hungary's heavy industry, emissions of greenhouse gases considerably reduced in the early 1990s, which greatly contributed to

**We comply with the Kyoto criteria**

Hungary's compliance with the Kyoto criteria. However, from the second half of the 1990s, emissions started to rise again slowly, therefore care must be taken in the future to complete our commitment. The means and institutions of preparing for the risks of global climate change have not been developed properly.

#### **2.4.6.2. Favourable environmental characteristics, deteriorating processes**

Hungary has highly favourable natural and ecological properties and values. If we manage our environmental endowments well, our resource needs can be satisfied even in the long run and the population retention force of the country can also be ensured. 63% of the territory of the country is qualified as agricultural areas. There is a large proportion of national parks, landscape protection areas, nature conservation areas and protected areas, as well as Natura 2000 areas (comprising 20.6% of the territory of the country), and caves. The proportion of protected areas of national importance (9.3%) is somewhat below the average of former EU member states (11.2%). Our underground water reserves and geological treasures are significant.

**Hungary's natural endowments are highly favourable**

Hungary has extensive thermal water resources even in a European comparison (there are thermal waters in app. 80% of the territory of the country) coupled with favourable geothermic properties. For the sake of the protection of underground waters important from the aspect of potable water supply, thermal water reserves can only be used to a limited degree. In the case of thermal water use, the hazard of secondary environmental pollution (disposal of used water with high saliferous content) should not be left out of consideration. On the other hand, there are great opportunities in the utilization of geothermic energy not coupled with water extraction by way of heat pumps.

**We have significant reserves of thermal water and geothermic energy**

As a consequence of economic restructuring and environmental policy measures, the state of the environment in Hungary tends to improve on the whole (e.g. air pollutant emissions are decreasing, and the water quality of Lake Balaton is improving). Considerable progress has been made towards the establishment of waste water treatment and waste management complying with EU requirements. At the same time, a number of problems must still be faced in the field of surface water quality, waterbase protection, and environmental health (e.g. the treatment of chemicals). Public utility developments are deficient to a greater extent in the eastern part of the country (in a number of areas of the Great Plain to the south and between the Rivers Danube and Tisza, in the Nyírség area, in the south of Hajdú-Bihar County and in the Zemplén Hills).

**The state of the environment is still good, but we have much to do to preserve it**

In urbanized areas, problems are caused by environmental losses arising from former industrialization and urbanization. In urban areas and along main transport roads, air pollution from transport as well as noise and vibration loads are rising. It was a considerable task, even in the long

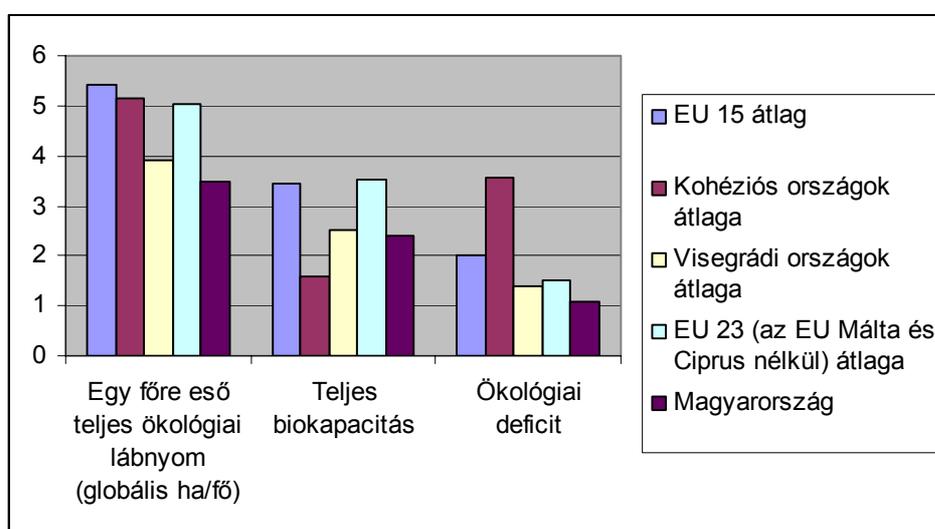
**Urban areas struggle with special environmental problems**

run, to eliminate losses in areas of heavy industry, exploitation industries and energy (the central Transdanubian industrial axis, the areas of Transdanubia along the river Danube, and industrial regions in Borsod-Abaúj-Zemplén county).

Hungary's environmental performance is better than the EU-15 average based on the per capita ecological footprint index, but it exceeds the rate estimated on the basis of sustainability. Sustainability aspects should be enforced more strongly. However, as regards preparations for major investments with considerable environmental impact, institutions based on a dialogue between regulatory authorities, investors, and NGOs are not sufficiently strengthened.

**Hungary's use of the environment is unsustainable, although better than the EU-15 average**

**Figure 3.** Comparisons of natural endowments, 2002



Per capita full ecological footprint (global ha/pers)  
 Total bio-capacity  
 Ecological deficit  
 EU 15 average  
 Average of cohesion countries  
 Average of Visegrád countries  
 Average of the EU 23 (EU without Malta and Cyprus)

Source: WWF

Environmental awareness falls behind the practices in pioneering countries, both in terms of production practice (water, material and energy efficiency and economy, ecology-type business administration), and the population (material and energy economy, re-use and recycling, conscious consumption and buying habits). Illegal disposal of solid and liquid waste is quite frequent.

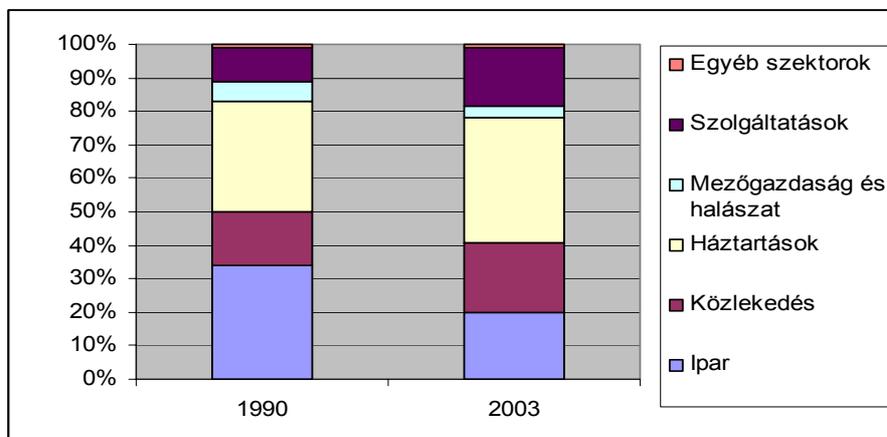
**The level of environmental awareness is low**

Our per capita energy consumption is low in a European comparison; at the same time, GDP-proportionate energy consumption is app. triple of the EU-15 average. The energy efficiency indices of residents and public administration are particularly unfavourable, therefore a breakthrough in this area can only be achieved by improving the energy efficiency of

**Energy consumption does not change but energy efficiency is improving**

these two sectors. Renewable energy resources account for only 3.6% of Hungary's total energy demands.

**Figure 4.** Structure of energy consumption in Hungary



Other sectors – Services – Agriculture and fisheries – Households – Transport – Industry

Source: Eurostat

### 2.4.6.3. Our built environment: considerable values, onerous tasks

The condition of the living environment is very beneficial. Major towns have good infrastructure whereas rural areas provide cheap places of living, in the proximity of nature. International companies settling down can easily find places for their headquarters with good infrastructure. This process is also facilitated by clustering already started in certain fields (e.g. mechanical engineering).

**Conditions of living are beneficial in Hungary**

Our architectural heritage is highly endangered. In World War II and afterwards, the majority of valuable buildings in terms of history, arts, and culture suffered severe losses; owners have not been able to completely reinstate a considerable part of them ever since. Historical buildings – or even complete urban centres – representing cultural values are only a burden for the maintainer in many cases, while it is frequently not or only partially possible to utilize them (e.g. office functions relating to public services or for purposes of tourism).

**Our architectural heritage is endangered**

The revival of some urban centres and rural areas and the appearance of new urban functions favoured the quality of life of the people and the expansion of business opportunities. There are further considerable reserves in the revival of some run-down urban centres and rural areas. With their unique natural and cultural values, world heritage sites can contribute both to the conservation of natural and cultural heritage. Therefore, the 8 sites accepted by the UNESCO as world heritage and the 10 Hungarian sites on the waiting list, as well as settlements and regions near to these sites can provide enormous potentials in the field of tourism development.

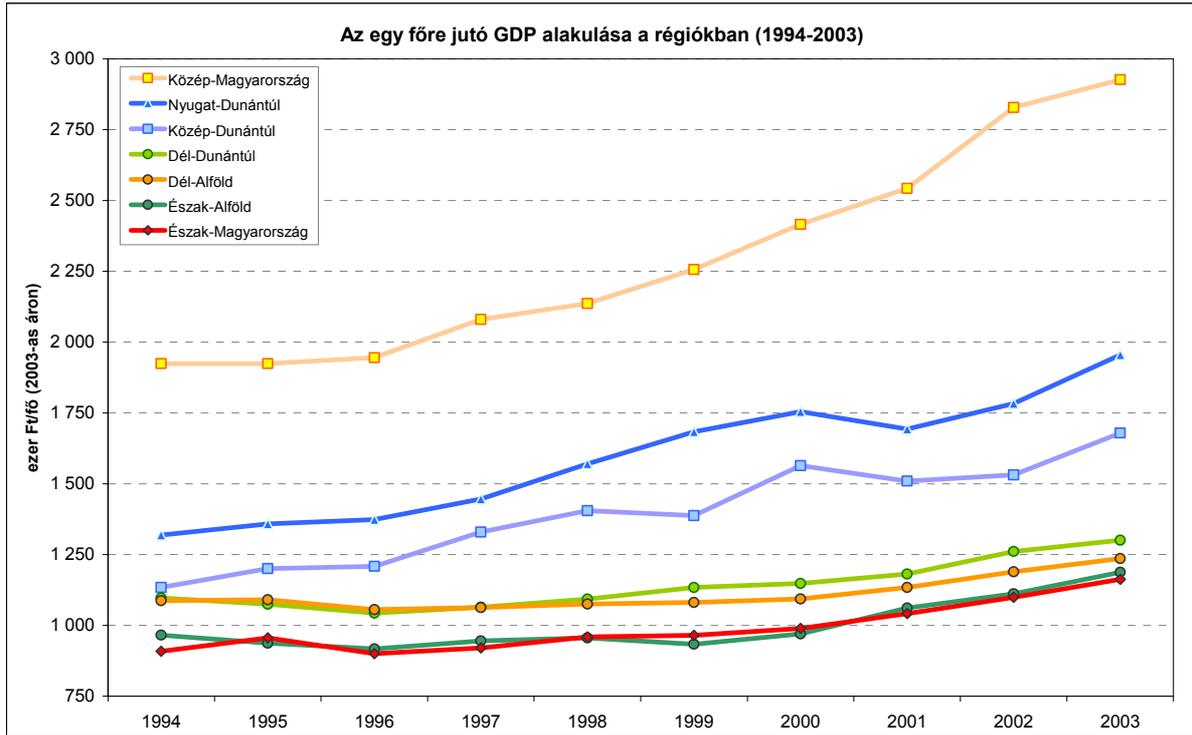
**There are considerable opportunities in reviving urban centres and rural areas**

### 2.4.7. Increasing regional differences

Hungary's regional differences in development status have not decreased in the past 15 years. There are significant regional differences not only between regions but within each region in many cases (as regards large towns and small settlements and between micro regions).

**Regional differences in development status have not decreased in the past 15 years**

**Figure 5.** Per capita GDP in the regions (1994–2003)



Per capita GDP in the regions (1994-2003)  
 HUF thou/pers. (at 2003 prices)  
 Central Hungary  
 West-Transdanubia  
 Central Transdanubia  
 South-Transdanubia  
 South-Great Plain  
 North-Great Plain  
 North-Hungary

Source: Based on KSH data.

Investments establishing a basis for technological development as well as research and development expenditures are concentrated to the most dynamically developing region, i.e. in Budapest and its agglomeration. Due to the good accessibility of the markets of Western-Europe, advanced infrastructure and skilled labour, the northern and western part of Transdanubia and county seats – especially Pécs, Szeged, Debrecen and Miskolc – functioning as regional and economic knowledge centres are also important sites of economic growth. If the current tendencies remain, these regional differences can increase and result in significant social

**Development is concentrated in the centres**

tensions. The growth rate of the majority of the most disadvantaged micro regions is far below the average and often shows negative tendency. Regions falling behind economically can be found primarily in the north-eastern part of the country and in South-Transdanubia.

Regional centres are also important centres of higher education and research institutions. They have a developed business and service background facilitating development. At the same time, the most advanced, knowledge intensive businesses still operate in Budapest and its agglomeration. Despite the incentive of the state, co-operation among companies and knowledge centres is weak. Knowledge accrued at institutions of higher education does not manifest itself in local initiatives. Training structure is not adjusted to local needs. The majority of people with diploma graduating from institutions in rural areas moves – most of these people go to Budapest to work because they cannot find an appropriate job in line with their qualification or they would earn less otherwise.

**Regional knowledge centres cannot play an important role in the development of regions**

The rate of unemployment and the structure of the group of unemployed or inactive people show great disparities especially on the level of micro regions functioning as local labour markets. Regions with high unemployment can be characterised by the multiplicity of problems: the rate of low-skilled people is higher than the average that can be spotted even in the high proportion of long term unemployed people, inactive population marginalised from labour market and those receiving social assistance.

**Regional differences in terms of employment are significant**

The distribution of disparities in terms of quality existing in public education is influenced not by regions but by the size of settlements. High operating costs represent considerable burdens for municipalities, therefore, the number of settlements without primary school has been increasing (there are 815 settlements like that at the moment). It also happens that almost none of the children go to secondary schools from the primary school.

**Regional differences are mirrored by the school system**

Regional differences of health indices are small. At the same time, the performance of the social system is strongly different. The structure of national social systems is uneven and focussed on hospitals; regional disparities in terms of capacity and size are extremely high. New knowledge integrates into healthcare activities with considerable local/regional delays and differences-

**Regional differences are salient in the healthcare system as well**

The regional concentration of inactive and marginalised people has further been increasing. There are severe problems especially in North-Hungary and South-Transdanubia. The regional concentration of these problems goes hand in hand with poor accessibility of welfare and public services. This sets dramatic problems especially in regions with small villages, cross-border regions and regions without urban centres that cannot be easily accessed by public transport. Services provided by the state do not really help the people and their children living in these regions to improve

**The regional concentration of poverty is increasing**

their quality of living.

Roma people could not easily adapt themselves to economic re-structuring (the employment rate of Roma people fall back from the 75% of 1980 to 30% of today), therefore, they became marginalised both socially and regionally. As a result of that, regions of deep poverty have been evolving in regions with large Roma population. At the same time, the cultural resources, the social capital and the international contacts available in regions with large minorities have great potentials in terms of economic and social development. The cultural life of Swabian, Slovakian or Serbian people is a good example for that.

**The adaptiveness of ethnic minorities is different**

Well-developed regions of the country have a good infrastructure whereas lacking infrastructure in peripheral regions far away from Budapest hinders development to a large extent. A special problem of these regions is that available jobs (in county centres or major towns) cannot easily be accessed by public transport.

**Transport capacities do not help the development of micro regions**

The overwhelming part of Hungary (except for Budapest, the county seats and some former industrial towns) are traditionally rural<sup>7</sup>. These regions are lagging behind both economically and socially. At the same time, special local characteristic in terms of nature and culture (Hegyalja, Matyóföld, Szatmár, Őrség, Cserhát etc.) can facilitate the establishment of a multifunctional economic structure.

**Rural regions of Hungary need re-structuring**

Due to the basin-type location of Hungary, water systems located separately from administrative borders have a substantial impact on the surroundings, society and economy of each region. Such water systems include the areas of Lake Balaton, the Rivers Tisza and Danube. Large-scale human interventions during the past century, leaving environmental properties out of consideration (narrowing the flood plains of rivers, expansion of intensive agriculture, development of areas of high landscape value or deeply lying ones unsuitable for building construction), as well as the climatic extremities during past decades endangered the landscape balance of these environmentally very sensitive areas. All this led to a crisis in the local society and economy based on landscape properties. These large areas affect several regions, intervention efficiency is low as their problems need to be treated in a uniform manner.

**Some of our cross-border regions require coherent management**

#### **2.4.8. Re-thinking the role of the state**

The system of legal and other institutions to support the operation of a market economy has been completely established – our legal system has approximated Community Law –, but public administrative authority procedures and services are too slow in general, are not sufficiently effective, and it occurs frequently that service standards do not comply

**The legal and institutional system of a market economy has been established but needs to be developed**

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<sup>7</sup> Rural regions are defined by the Resolution of the Parliament 96/2005. (XII. 25.) OGY on the National Development Concept (NDC).

with economic and social expectations. This is also proven by the fact that the population and enterprises think administration is expensive and complicated.

Hungarian public administration operates with identical staff proportions but at higher costs than the EU average.

**Hungarian public administration is not efficient enough**

The staffing composition of public administration is unfavourable; incentive systems are outdated. The proportion of middle-aged people is too low in the civil service, compared to younger and elder generations. Therefore, performance evaluation systems are deficient, consequently there is no feedback both in the course of shaping policies and operating organizations. The implementation of decisions does not receive sufficient attention in either of the areas.

**Neither the age composition nor the incentive system are adequate in public administration**

In Hungary, the degree of obedience to laws lags behind the European average. This is primarily due to the low levels of legal awareness and legal knowledge, the imperfections of the system of sanctions, as well as cultural specificities. The conditions of equality in front of bodies of jurisdiction are given but technical conditions must be improved to accelerate legal procedures and extend the range of services. The enforcement of laws is also hindered by the frequent changes of legal regulations, together with the fact that regulation is not transparent and clear enough. The situation is properly characterized by the fact that since 1991, 48% of centrally produced legal regulations have only amended or supplemented an already existing legal regulation.

**The level of law observance is low in a European comparison**

We have severe shortfall in quality legislation. A strategic approach has not been dispersed in public administration: departmental strategies are missing or only formally exist in many cases. Dialogue between departments and harmony between partial areas are missing; legislation is overhasty and not weighed carefully in many cases. In Hungarian legislation, there are only isolated impact studies and ex-post evaluations systematically processing the results of public activities. Chances for civil remedies are generally weak, requests for opinion by public administrative authorities are often formal. Proposals today are integrated in regulation only sporadically as yet.

**We have a serious shortfall in quality legislation**

The decentralisation of Hungarian public administration system needs rethinking. As regards the distribution of public assignments, excessive decentralization and wanton centralization are characteristic at the same time. The obligation to complete assignments was only slightly differentiated according to the size and capacity of municipalities, resulting in serious problems of efficiency and inequality. Due to the excessive obligation of small settlements to complete assignments, 40% of municipalities require supplementary subsidies from the state, which makes the business administration autonomy of these municipalities disputable. It has been a problem ever since the political change that the municipality system does not have a real strong medium level.

**The decentralisation of the system of public administration needs rethinking**

The use of information and communication technology in services of public administration is not sufficient. There is a scanty offer of proper content and services. Services are static, slightly interactive, and not user-friendly. As regards electronic public administration services and public services, it is a particularly grave problem that there is a modest offer of bilateral services at interaction and transaction levels. Related background processes and back office systems are lagging behind; interoperability is missing. The user skills required, professional knowledge and information are often deficient both in terms of the population and the institutions. In backward areas, it is difficult for residents to access ICT services.

**Public services are hardly supported by info-communications technologies**

#### 2.4.9. Disparities, weaknesses and potentials determinant from the aspect of growth and employment

Disparities, weaknesses and potentials determinant from the aspect of growth and employment are summarised in the following table.

**Table 6.** Disparities, weaknesses and potentials determinant from the aspect of growth and employment

Disparities	Weaknesses	Potentials
<b>The development of the country is strongly determined by international processes</b>		
		The development of Hungary is strongly promoted by the dynamic development of world economy expected, nevertheless, there are considerable risks as well.
		The enlargement of the European Union puts Hungary to a new competitive environment.
		Opportunities provided by the Carpathian Basin create strong economic, social and environmental background for the development of Hungary.
<b>Economic growth with structural risks</b>		
	Problems of balance have been increasing in the past years	Since 1996, our economic growth has been fast and steady
	Dependence on energy import represents high macro-economic risks.	The increase in the performance of Hungarian labour has been higher than that of well-developed countries since the political change.
		The Hungarian economy is extremely open.
<b>Low level of activity, stagnating employment</b>		
Regional differences are particularly high in employment situation on the level of micro regions	There is a low level of participation on the labour market in Hungary	Potentials arising from increased efficiency of labour can be significant
	Unskilled workers have the lowest rate of employment.	As far as labour demands of international companies are concerned, the innovation-oriented

Disparities	Weaknesses	Potentials
		approach of Hungarian labour is of special importance.
	Many people do not work due to ill health	
	Migration of workforce and possibilities of mobility are rather low	
	There is a significant rate of unreported employment	
	Very few individuals actually learn 'life long'	
<b>The dual nature of economic structure</b>		
Regional disparities in the economy are significant and growing	SMEs do not apply modern management methods too often	Hungary could successfully integrate into the world economy
Small and medium sized enterprises are the most important employers, but their productivity is weaker than of large companies	The co-operation ability and willingness of SMEs are weak	The structure of the economy has been modernised
	Market financing of SMEs is weak	International businesses play determinant role
	R&D spending lags behind EU average; businesses spend particularly little	Our large businesses are competitive on the international scale
	Despite substantial growth, we have a sizeable shortfall at certain components of the information society	Research capacities are substantial but largely unutilised
<b>Our transport system requires development</b>		
The transport network is centred around Budapest, and there are large regional differences	Despite a dense transport network, traffic needs exceed the capacities of the road and rail networks in many places	Hungary enjoys a very preferential economic geographical position
	The quality of the road network is lower than traffic needs	The vicinity of motorways has been a key factor for foreign capital selecting a destination
	The length of rail network is good but it offers weak technical features	Rail cargo is losing ground also in Hungary, but the situation is still better than the European average
	Individual car use is rising.	
	Community transport is still unable to keep up with the growing number of commuters from suburbs	
<b>The change for market economy has required substantial social sacrifices</b>		
There are significant disparities in terms of access to culture	Considerable numbers of people became marginalised on the labour market	Social re-structuring may create opportunities for re-structuring employment
The regional concentration of inactive people is rising	An aging society with a decreasing number of inhabitants	Qualification levels of the population have increased considerably
Lower access to public services aggravates social exclusion	Supply systems are under increasing pressure	Public education heading towards a renewal in terms of quality and structure
	The efficiency of education is not improving	The number of students in higher education has increased dynamically
	The schooling system has intensified social differences	Our rich intellectual and cultural heritage should be better utilized

<b>Disparities</b>	<b>Weaknesses</b>	<b>Potentials</b>
	The effectiveness and cost-effectiveness of education has deteriorated	Significant potentials available in Hungarian healthcare
	Vocational training is not aligned with labour market demands	Civil activity is increasing in certain areas
	Low participation in adult training with considerable inequalities	
	People with low skills cannot easily enforce their rights	
	Our health status is bad compared to our level of development	
	Health awareness is weak in Hungary	
	Outdated healthcare system	
	Hungarian healthcare is still illness-centred	
	Healthcare infrastructure is also outdated	
	Healthcare deficiencies are a serious burden also for the economy	
	Inactivity leads to the reproduction of poverty	
	Ill-conceived incentivisation system of social policy has strengthened exclusion	
	Lagging behind is of particularly large dimensions in the Roma population	
	People living with disabilities are not well represented on the labour market	
	Women can find a job after child-birth only with difficulties	
	Child poverty is an increasing problem	
	Social links are weak	
<b>Environmental values with serious deficits</b>		
Urban areas struggle with special environmental problems.	We must prepare for increasingly extreme weather conditions	Hungary's environmental status is affected by the quality of the ecological system of the Carpathian Basin
	Hungary's use of the environment is unsustainable, although better than the EU-15 average	We comply with the Kyoto criteria
	The level of environmental awareness is low	Hungary's natural endowments are highly favourable
	Our architectural heritage is endangered	We have significant reserves of thermal water and geothermic energy.
		The state of the environment is still good, but we have much to do to preserve it
		Energy consumption does not change but energy efficiency is improving
		There are considerable

Disparities	Weaknesses	Potentials
		opportunities in reviving urban centres and rural areas
<b>Increasing regional differences</b>		
Regional differences in development status have not decreased in the past 15 years	Regional knowledge centres cannot play an important role in the development of regions.	
Development is concentrated in the centres	The adaptiveness of ethnic minorities is different in terms of changes	Rural regions of Hungary need restructuring.
Regional differences in terms of employment are significant	Transport capacities do not help the development of micro regions.	Some of our cross-border regions require coherent management
There are significant regional differences in the school system		
Regional differences are salient in the healthcare system as well		
The regional concentration of poverty is increasing		
<b>Re-thinking the role of the state</b>		
The decentralisation of the system of public administration needs rethinking	Hungarian public administration is not efficient enough	The legal and institutional system of a market economy has been established but needs to be developed
	Neither the age composition nor the incentive system are adequate in public administration	
	The level of law observance is low in a European comparison	
	We have a serious shortfall in quality legislation	
	Public services are hardly supported by info-communications technologies	

### ***2.5. Experiences of the First National Development Plan***

The **main objective of the First National Development Plan** is ‘to reduce the considerable shortfall of per capita GDP level compared to the EU average’. According to the results of evaluations and impact studies, this is still an important and feasible objective. The programmes have sensibly contributed to the reduction of income differences.

**The main objectives of NFT I continue to be valid**

The NFT specified four priorities for realignment, indicating the directions of intervention:

- Improving the competitiveness of the productive sector,
- Increasing employment and developing human resources,
- Better infrastructure and a cleaner environment,
- Strengthening regional and local potentials.

**Table 7.** Implementation of the Community Support Framework \*

	Financial progress	In proportion of the commitment for the 3-year framework
	(billion HUF)	%
<b>Supported by Management Authority</b>	670.48	100.92
<b>Contracted</b>	586.3	88.25
<b>Paid by invoice</b>	141.97	21.37
<b>Total payments</b>	220.60	33.20

\* As of 30<sup>th</sup> June, 2006

These priorities are implemented through **five operational programmes**. Improving the competitiveness of the productive sector is implemented through the Agricultural and Rural Development OP and the Economic Competitiveness OP; increasing employment and developing human resources in the framework of the Human Resources Development OP; better infrastructure and a cleaner environment by the interventions of the Environmental Protection and Infrastructure OP; and strengthening regional and local potentials through measures under the Regional Development OP.

**Priorities are implemented through five operational programmes**

The deficiencies experienced in the course of implementation serve as important lessons for the coming period. The most important problems include:

- communication between the various levels of the institutional system is deficient,
- implementation is uncertain,
- experiences of earlier programmes have not been processed,
- impact mechanisms are unknown.

**We have learnt much from the problems recognised during the implementation of the first NFT**

One of the most important lessons was that implementation and planning should co-operate more closely in the future in order to implement concepts according to plans, and to ensure that experiences are integrated into subsequent plans through adequate feedback.

**Implementation and planning need closer co-operation**

There were significant delays at the institutional system at the start of the programmes. Therefore, considerable transformations were completed in the system of implementation already after the first year. Modifications were aimed at enabling beneficiaries to receive grants more rapidly and through less administration. For this purpose:

**Procedures should be further simplified and accelerated ...**

- The number of certificates and authority statements to be enclosed to the proposals submitted and for concluding the contract for support have been reduced;
- The opportunity for providing deposits has been extended: beneficiaries may receive a deposit of up to 25% of the amount of support;
- The system of security deposits required from the parties implementing projects has become transparent, more standardized and simpler, also ensuring that the costs thereof can be accounted for in the framework of the respective project, to

- the debit of EU support;
- The circle of applicants obliged to provide security deposits has been narrowed down: publicly financed institutions and their background institutions, churches and their institutions, municipalities and municipality bodies, institutions maintained by municipalities, NGOs and hosts of projects below HUF 5 million are not required any longer to provide a security deposit.

As a result of the changes, implementation became faster and simpler, however, delays are still significant although we are in the forefront on European level.

Besides considerable relief and in order to protect public funds, the Government has adopted a decree on the reclaim of grants used irregularly and – if required – their collection as taxes. It has also been prescribed how and under what terms and conditions beneficiaries using grants irregularly or infringing their obligations can be sanctioned by exclusion from support systems.

**... we concentrated on the protection of public funds**

The interim evaluation of the first NFT pointed out several problems both in terms of implementation and programming.

One of the general problems hampering implementation was the lack of the specification of objectives. It is important to have clear objectives and to communicate them clearly and that implementing organisations and beneficiaries understand them, identify with them, and become interested in their successful implementation. The first NFT had not yet delineated interventions in such detail, so that implementing organisations receive adequate handholds to specify their own objectives.

**Objectives must be well-defined in implementation as well**

In the absence thereof, the objective of implementation remained to be compliance, as accurate as possible, to domestic and EU regulations. By today, however, those working in the system have gained sufficient experiences to work more efficiently, under more flexible rules.

**Overregulation should be relieved**

At both individual and institutional levels, efficiency could be improved considerably by introducing performance measurement systems to enable the detection of problems and bottlenecks in due time. Without these, efficiency reserves remain to be unexploited, and transformations are launched in the absence of the necessary information.

**Performance measurement procedures should be introduced**

Evaluations cast light to the fact that at the time of establishing the programmes, priority was given to traditional solutions familiar from earlier domestic support policy, which considerably facilitated the utilization of resources. The reason for programming to tie up a large amount of subsidies was the principle that ‘only those funds can have an impact which appear at business players. Non-spent funds will not have any impact.’

**The main objective of programming was to use grants at any price**

As stated by the evaluators, another reason for programming only to obtain resources was the lack of analyses and assessments to study the use of

**Earlier interventions should be**

support. Therefore it was difficult to select investments to enable the efficient and effective implementation of structural policy objectives. As a consequence, we generally succeeded in the absorption of amounts of support, but those new measures included in the programmes were not popular among applicants. All operational programmes included measures like that. For instance: HEFOP (HRDOP) – *promoting social inclusion through the training of experts working in social fields*; GVOP (ECOP) – measures targeted at the *development of the information society*; KIOP (EIOP) – measures targeted at the *management of animal waste*; ROP – measure *strengthening the co-operation among higher education institutions and local actors*. The start of these programmes was quite slow and although implementation could be accelerated later on, these programmes are still lagging behind. **evaluated**

According to the experiences, more attention must be devoted to exploring the impact mechanism of interventions when developing the next development plan, not only at the macro-economic level but also when establishing each of the criteria. And this requires the use of the information systems developed. **More attention should be devoted to exploring the impact mechanisms of interventions**

In addition to the above, the enforcement of horizontal principles was difficult when selecting and implementing the projects. This can be attributed mainly to lacking tools and human capacities. Therefore, higher attention must be paid to the integration of horizontal aspects and the creation of tools assisting that integration in the future. **Horizontal principles must be strengthened**

According to the experiences, the know-how of the applicants was rather different; complying with the requirements of the application system was especially difficult for organisations with weak capacities representing disadvantaged groups. Consequently, assistance mechanisms should be put in place helping most disadvantaged groups in applying for funds. **Most disadvantaged groups require extra attention during implementation**

The strategy of the **Cohesion Fund (CF)** is coherent with the National Development Plan. Professional criteria of separating Structural Funds and the Cohesion Fund – project objectives, project size, selection criteria – are also included in sectoral strategies and the strategies of the operational programmes under the National Development Plan. **Primary objectives of the Cohesion Fund**

**Table 8.** Implementation of the Cohesion Fund\*

	<b>Financial progress</b>	<b>In proportion to the support framework under CF</b>
	(billion HUF)	%
<b>Total support framework</b>	637,30	100
<b>Contracted</b>	357,77	56.1
<b>Paid by invoice</b>	126,13	19.79

\* As of 30<sup>th</sup> June, 2006.

This amount allows among others the reconstruction and/or construction of **Results to be**

500 kilometres of roads and 500 kilometres of railroads, the development of waste water management in 10 major towns (including Budapest, Debrecen, Szeged, Pécs, Győr) and the creation of a complex waste management system of more than 1000 settlements. All counties of the country are involved in at least one environmental protection project financed under the Cohesion Fund. These projects affect almost 6.5 million people but development actions in the field of roads, railroads and air-transport influence the life and the environment of practically the entire nation. **achieved**

According to experiences of the past three years, major problems of programme implementation are as follows:

- lacking sectoral strategies
- low preparation level of projects
- slow and complex authorisation procedures
- different composition of beneficiaries.

**Experiences collected during the management of CF projects**

To promote the fast and efficient implementation of investments, we have taken several steps. Measures having an impact on the next programming period as well are as follows:

1. For **municipalities jointly applying** for CF projects, it is obligatory to establish **associations with legal personality**.
2. Because of **outspending**, decision was made to divide these to limit burdens on the budget and to make the responsibility of the beneficiaries more concrete.
3. Now it is allowed that the investors start **public procurement procedures before receiving the final building permits**.
4. The Ministry of Natural Cultural Heritage has modified its decree concerning **archaeological excavations** allowing museums of neighbour counties to be involved in excavations in addition to the county museum in charge.
5. At the beginning of 2006, the Parliament passed the bill on the implementation of priority investments modifying the order of procedure concerning the court review of permissions.
6. Changes have been made in the field of **sectoral authorisation procedures** as well. The Ministry of Environmental Protection standardised and simplified procedures requiring environmental impact assessments (EIA) or integrated environmental permits (IPPC). Meanwhile the Ministry of Economy and Transport has approximated the law on railroads to the regulations of the law on national motorways.
7. The law on public procurement has been changed twice.

**Implementation circumstances of investments have significantly been improving**

- Projects have been submitted at a low level of preparedness. There were no detailed technical plans when the budget was planned. All these resulted in outspending of several ten billions of HUF in case of certain projects. So that similar cases can be avoided, it is necessary to increase the level of preparation of projects to be submitted (through supporting preparatory work, introducing provisional public procurement and contracting etc.). In addition to that, the level of interest of the beneficiaries and ministries supervising implementation (Ministry of

**Good preparation is a key-word**

Economy and Transport, Ministry of Environmental Protection and Water Management) in the cost-effective implementation and further operation of the projects.

- To comply with national and EU guidelines, sectoral strategies with appropriate professional foundations must be elaborated.

### 3. Defining the Strategy

#### *3.1. Strategic objectives of the New Hungary Development Plan*

Strategy is built on the elimination of the problems and deficiencies defined by situation analysis, and with the exploitation of existing opportunities, it serves the complex – environmental, intellectual, cultural, demographic and economic – development of the country thus strengthening its competitiveness. Comprehensive and specific development objectives have been defined in it, and thematic and regional priorities to implement them. The intervention areas of the priorities content-wise belonging together will be implemented in separate development programmes.

**The strategy is built on a thorough situation analysis**

##### **3.1.1. Overall objective: increased employment and promotion of long term growth**

The further development of Hungary and its increased international competitiveness require that the resources coming from the European Union – in line with the Lisbon objectives of the EU and the National Action Programme aiming at implementing them - are focused on two areas: **increased employment** and the **promotion of long term growth**. Without a considerable strengthening of these areas and the establishment of macro-economic stability, it is impossible for Hungary to catch up with the average development level of the European Union.

**Investments are to be focused on setting the foundations for increased employment and permanent growth.**

The New Hungary Development Plan as a whole serves **increased employment** and **long term growth**. The role of the **coordination of community support** with regard to the Operational Programmes is to call to account that individual interventions contribute to the implementation of the overall objective.

#### *Harmonising the strategy and the Lisbon objectives*

Hungary supports the European Commission's endeavours that, during the period between 2007 and 2013, the Member States use the highest possible ratio of the cohesion policy expenditure for the implementation of the Lisbon Objectives, focusing on the economic growth and employment as outstanding priorities.

**Indicators related to the overall objective:**

Promotion of increased employment	<ul style="list-style-type: none"> <li>• 2.5% increase the number of employees outside the public sphere by 2013, as a result of the interventions of the NHDP</li> </ul>
Context indicator	<ul style="list-style-type: none"> <li>• The national employment rate</li> </ul>
Support of economic growth	<ul style="list-style-type: none"> <li>• As a result of the NHDP interventions, increase in the added value produced by enterprises should be more than 13% by 2013</li> </ul>
Context indicators	<ul style="list-style-type: none"> <li>• Annual volume index of the GDP</li> <li>• Human Development Index (HDI)</li> </ul>

**3.1.2. Increased employment**

The overall objective is to ensure that more and more people have the opportunity to enter the labour market thus increasing the level of employment. This is the foundation for both economic growth and decreased social differences, and finally the creation of social cohesion.

**The objective is to have more and more people join the labour market**

So the strategy is **employment oriented** because:

- Employment is a defining factor in establishing the balance of the state budget: incoming taxes and allowances increase budgetary revenues, while the lower utilisation rate of social supports reduces state expenditure;
- Work and social esteem associated with it play an outstanding role in the life of both individuals and families, as well as larger communities, settlements and regions.

**The simultaneous achievement of objectives related to macro-economic stability, growth, and increased employment** means a particularly big challenge for Hungary on the short and medium term. That is why efforts have to be made in the adjustment period to ensure that the possibly unfavourable employment effects are managed with tools that serve to maintain activity rather than to increase inactivity. Increasing employment supposes a strategy which has an effect on both the demand and the supply sides of the labour market and also involves the development of the employment milieu:

- A labour force is required the quality of which is capable of satisfying the needs of the economy at any time. The objective is to make sure that the largest possible rate of the working population joins the labour market and stays there successfully adapting itself to the social and economic changes. Increased labour force supply is to be achieved through improving the employability of people. The objective is to make sure that people do have the opportunity to obtain and continuously improve their knowledge and skills indispensable in a knowledge-based society. The state of their health

**Increased labour supply is to be achieved through improved employability of people.**

or their handicaps should not hinder them in their employment either. Due to the effects of the reforms and processes aimed at structural changes, the role of active labour market policies has to be strengthened in order to maintain individual activity and to help transitions. It is vital that appropriate quality and coordinated employment and social services (healthcare - mental hygiene, vocational, employment, crime and drug prevention, life style and recreation counselling) are made available to those in need.

- For the sake of an increased labour force supply, the creation of more and better jobs is to be supported to make sure that everyone able and willing to work has a registered job. This requires the development of an environment, which enables and promotes enterprises to create new jobs. Increased employment opportunities for people with low education is of particular importance and so is the increase of labour force demand in wayward regions. **Everyone able and willing to work should have a job.**
- The coordination of labour force supply and demand is to be achieved through the development of the labour market environment. This necessitates that the structure and content of education and training follow the needs of society and the economic players flexibly. The objective is to improve the efficiency of the mediating systems so that everyone has access to information related to training, employment and job opportunities, and everyone is offered the benefit of a smooth transition. Equal employment conditions, better job environment and working conditions, as well as a healthy working environment devoid of physical obstacles are to be made available to all. By promoting work force mobility and by improving the transport conditions vital for the accessibility of working places, the appropriate labour force is to be made available for enterprises. When developing the conditions for employment, the aim is to reduce unregistered labour, to co-operated with the social partners and to ensure that the principles of labour market flexibility and security are carried out simultaneously. **Employability can primarily be increased through education and training**

### ***The specific objectives of increasing employment***

Increased **employment** is to be achieved therefore by

- improving the **employability** and activity of individuals on the labour market,
- **increased labour force demand**, that is promoting the creation of more and better jobs (especially in wayward regions) and
- the development of a **labour market environment** that ensures the balance between supply and demand.

**Increased labour demand is supported to increase employment**

### **Indicators of the specific objectives related to increasing employment:**

1. The indicators always measure the changes that happen *as a result of the NHDP interventions*. No further note will be made of this hereinafter.
2. The target values of the indicators have been developed in line with the OP target values.

3. Past values of the indicators – if available <sup>8</sup> – are presented in the situation analysis chapter.
4. In the majority of the cases, the KSH (Central Statistics Office) was the source of the data, however, some data gathered by various fields and in certain cases, the data of one-off surveys were also used.

Improved employability and increased labour market activity of individuals	<ul style="list-style-type: none"> <li>▪ Improving access to useful knowledge in the schooling system and in the system of life-long learning<sup>9</sup>.</li> <li>▪ Increased number of expected healthy years lived after birth (HALE index).</li> <li>▪ Increased activity rate of working population (15-64)</li> <li>▪ Average age of people leaving the labour market</li> </ul>
Increased labour demand	<ul style="list-style-type: none"> <li>▪ Positive change in the difference of created and ending work places<sup>10</sup></li> </ul>
Development of the employment environment	<ul style="list-style-type: none"> <li>▪ Decreasing the time elapsed between school ending and starting work.</li> <li>▪ Decrease in the employment differences between sexes in critical age groups.</li> <li>▪ Increase in the average number of work places accessible within 45 minutes via public roads and by public transport.<sup>11</sup></li> </ul>

### 3.1.3. Permanent growth

The New Hungary Development Plan is also **growth oriented** because:

- Both the basic social policy objectives and the European Union cohesion objectives can only be achieved if the economic growth of the country – and particularly of the wayward regions – is faster than the community average;
- As a member of the European Union and as being strongly embedded in the European economy, Hungary primarily wishes to contribute to the improvement of the world economic status of the region;
- Long term macro-economic stability can only be established on a long term growth course.

**To realign, an economic growth faster than EU average is required**

The objective is to realise **quick economic growth** by dynamically increasing **products and services** mainly **that represent new and greater added value**, and to realise long term growth through the support of sustainable economic initiatives that also strengthen social economy. This also creates the conditions for the long term growth of

**Quick economic growth establishes the conditions for the long term growth of welfare.**

<sup>8</sup> When developing the indicators, currently available data were used in line with the relevant guidelines. In addition, it is important to produce in the future priority indicators hitherto not collected or unavailable in the current domestic data system for development policy purposes.

<sup>9</sup> Specification of the indicator is currently negotiated with the OP.

<sup>10</sup> Specification of the indicator is currently negotiated with the OP.

<sup>11</sup> Specification of the indicator is currently negotiated with the OP.

welfare. For greater value creation the improvement of competitiveness is also necessary. The objective is to ensure increased competitiveness primarily with the utilisation of the results of **research-development and innovation** built on a developed knowledge base.

**Specific objectives of long term growth**

Long term **growth** therefore is planned to be achieved by:

- the **improvement of competitiveness**, including
  - strengthening knowledge economy and innovation,
  - increasing productivity;
- broadening the **foundations of the economy**, involving
  - regional development,
  - development of the capacities for capital involvement,
  - market extension,
  - connection to a higher level of market integration,
  - wider spread of modern technologies;
- **developing the business environment**, including
  - improvement of accessibility,
  - improvement of the regulatory environment and of the efficiency of the services and operation of the state.

**Indicators of the specific objectives related to long term growth:**

Strengthening competitiveness	<ul style="list-style-type: none"> <li>▪ Increase of the added value by employee</li> <li>▪ GERD/GDP and BERD/GDP (the proportion of expenditure on research/development in the GDP – in case of BERD only regarding the business sphere.)</li> </ul>
Broadening the foundations of economy	<ul style="list-style-type: none"> <li>▪ Increased company added value in wayward micro regions</li> <li>▪ Increased added value of small and medium-sized enterprises</li> </ul>
Improvement of the business environment	<ul style="list-style-type: none"> <li>▪ Decrease of administrative and transport costs by added value unit.</li> </ul>

**3.1.4. Horizontal policies**

During the realisation of the development objectives the enforcement of the following horizontal policies has to be a priority:

- Ensuring the conditions for **sustainability** (which, in line with EU requirements and the renewed Goteborg Strategy, equally covers the sustainability of environmental, macro-economic and social processes, also including the aspects of security);
- Strengthening **cohesion** (in economic, regional and social terms – this latter also involves the issue of equal opportunities and the social equality of sexes that are considered a priority by the EU in addition to sustainability).

**Sustainability in all respects**

**Economic, regional and social cohesion**

These **horizontal policies** have to be enforced in the **development of both the sectors and regions** in the New Hungary Development Plan. **Sustainability and equal opportunities, including the requirement of equal treatment of women and men** – as specified EU requirements – **have to be taken into consideration** while concentrating on the above two aspects in the planning, implementation, monitoring and evaluation of the Operational Programmes and interventions.

**The requirement of equal treatment of women and men and sustainability are to be concentrated regarding the Operational Programmes and interventions**

#### **3.1.4.1. Ensuring the conditions for sustainability**

In order to avoid that the resources for long term development are used up, developments have to fully meet the requirements of the principle of environmental, social and economic **sustainability**. A development is considered sustainable if it takes natural and social resources into consideration including natural values, regions, landscapes, biological diversity and human capital, too. The social elements of sustainability are human health, social cohesion, balanced demographic conditions, protection or sustainable utilisation of the built environment and cultural heritage. The key elements of the sustainable development of economy are the establishment and maintenance of a stable macro-economic course, and the decrease of the material and energy requirements of economy. The basis of sustainability therefore is a future oriented way of thinking, which makes systemic processes calculable and plannable. **Sustainability is based on an integrated view of security**, in which the protection of present values, the respect of written and non-written democratic principles and rights and the reduction of threatening risk factors are all articulated. During the planning and implementation of developments, external and internal risks threatening the sustainability of social, economic and environmental processes are evaluated and possibly reduced. Sustainability appears both as a formal and a content aspect in the New Hungary Development Plan and it will also form integral part of the monitoring of implementation.

**Developments should meet the requirements of sustainability**

#### **Sustainable use of the environment**

A basic condition for social development and improved quality of life is a liveable environment to which everyone has a right. Therefore a sustainable utilisation of the resources, natural and built environment has to be ensured while enabling the long term improvement of the quality of life.

**Everyone has the right to a liveable environment**

Sustainable utilisation of the environment includes

- protecting and if needed, rehabilitating environmental, landscape and cultural values,
- extending environment management,
- increasing environmental safety (also including e.g. the protection against natural and civilisation related risks such as floods and inland

- waters),
- increasing energy efficiency and a larger utilisation rate of renewable energy resources,
  - establishing sustainable regional structures
  - the widest possible enforcement of the “user/polluter pays” principle.

For the sake of sustainable development, the **carrying capacity of an ecological system** in a given area is also taken into consideration as a regulating factor. For this purpose a detailed environmental evaluation of the development plan is prepared as well as the strategic environmental survey of the Operational Programmes.

### **Sustainability of social processes**

**Social sustainability** means the consideration of factors related to stopping unfavourable demographic processes and the responsibility felt for future generations. While planning, implementing, monitoring and controlling the programmes, aspects slowing down the unfavourable demographic processes, such as decreasing population numbers and the permanently high number of years spent in illness have to be enforced. A particularly important element of social sustainability is the physically and intellectually healthy development and prosperity of the young generation. Beside the measures taken in the areas directly related to the above – education, cultural rearing, family related or other social services supporting the youth – the interests of children and young people have to be taken into consideration in all of the sectors. This is the only way the conditions for a continuous and healthy renewal of smaller and larger communities can be achieved, which contributes to social and economic cohesion on the long term, too.

**The interests of the future generations too, have to be kept in mind.**

The current level of **social security** fundamentally affects the implementation of medium term targets and horizontal objectives, and is a condition for the sustainability of results achieved. Security is a basic human and national value the protection of which necessitates the reduction of the risk levels (prevention) threatening social players and the elimination of damages. When realising the New Hungary Development Plan, the enforcement of democratic norms and basic rights need to be supported in all of the intervention areas, and measures taken to prevent the various forms of discrimination and the spread of violent social phenomena in order to reduce the social risks which hinder most the fulfilment of employment and competitiveness objectives.

**Security is a fundamental human and national value**

### **Sustainability of economic processes**

The New Hungary Development Plan is in close interaction with the macro-economic course in several ways:

- on the one hand, a basic condition for the implementation of the development policies is macro-economic stability, especially in the field of economy;

**The objectives of the plan are defined in an interaction with the macro-economic course**

- on the other hand, the EU may suspend its Cohesion Fund support if Hungary does not fulfil what it has undertaken in the convergence programme;
- also, by increasing the GDP and employment the development directly and indirectly contributes to ensure that the economy proceeds on the course of long term balance.

Cutting **material and energy needs** is the **token of the long term sustainable growth and competitiveness** of the economy. Currently we are using our resources globally to such an extent which leads to the degradation and reduced carrying capacity of the natural environment. High energy need that uses fossil fuel is one of the causes of global warming, moreover, it creates worldwide economic and political conflicts. With economic development, higher value added services and products with a lower material and energy demand create an opportunity for Hungary to avoid building its long term welfare on the ever decreasing physical resources.

**Decreased material and energy demand improves long term competitiveness**

**Indictors:**

Sustainability	Environmental	<ul style="list-style-type: none"> <li>▪ Increasing the number of population provided with modern waste water treatment systems in line with European Union requirements (Objective by 2016: 91%)</li> <li>▪ Change in the quantity of communal waste per capita by waste treatment method (Objective by 2016: 119/42/375 kg / capita / year utilised / incinerated / placed</li> <li>▪ Increased number of population provided with appropriate quality drinking water</li> <li>▪ Energy intensity of the economy</li> <li>▪ Increased ratio of the use of renewable energy within the entire primary energy utilisation. Objective by 2013: 14%)</li> </ul>
	Social	<ul style="list-style-type: none"> <li>▪ Change in the support and reproduction rate</li> <li>▪ Reduction of child poverty, that is the reduction of the proportion of children living in households with an income below the 60% of the medium income. (Objective by 2013: 12%)</li> <li>▪ Increasing the number of participants in training and education programmes providing higher qualification than that of the parents.</li> </ul>
	Macro-economic (state budgetary)	<ul style="list-style-type: none"> <li>▪ Contribution of the plan to the state budgetary balance of revenues and expenditure</li> </ul>

**3.1.4.2. Strengthening cohesion**

**Strengthening regional cohesion**

A fundamental condition for the renewal of the country is to ensure that all developments serve the elimination of inequalities, regional and social

**Developments should also be regionally**

alike. This may be achieved through a multi-level cohesion:

- Differences in the level of development need to be reduced between the Central Hungary Region and other parts of the country; between the three developed regions and the four regions falling behind, as well as between the micro regions within the large ones.
- The development of the country has to contribute to the cohesion of the European region as a whole. To achieve this, the currently competitive development of some regions has to be maintained, their stimulating effect extended and their contacts with other European regions deepened.
- Co-operation between the regions has to be promoted the measures of neighbouring regions should be harmonised.

**balanced and effective**

The two most important spatial categories of the enforcement of regional cohesion are urban and rural areas. For the sake of the spatial cohesion of the country, other spatial categories have to be introduced, too: the category of most disadvantageous areas and priority regions extending beyond the borders of regional administration and requiring complex interventions. The development of the individual spatial categories are carried out in order to achieve particular objectives, using particular tools in a coordinated way.

In order to enforce regional cohesion, the implementation of regional thinking and attitude is indispensable in all areas of the development policy, as well as planning, implementation, monitoring and control. This can only be achieved by taking into consideration the differences in the conditions of the various regions and by defining the regional priorities of individual sectors.

**Regional aspects have to be considered in all areas of development policy**

The most important players to validate regional cohesion are the regions themselves. Regional level decentralisation can ensure that integrated developments are carried out with the optimal exploitation of local conditions based on a specific strategy. Local opportunities are further strengthened by an increasingly local sustainable management of the natural and cultural heritage and resources.

**The most important players of validating regional cohesion are the regions**

In order to make sure that regionally balanced developments are also sustainable and ensure equal opportunities in the access to various services, the following horizontal spatial utilisation principles have to be endorsed in the development policy:

**Regionally balanced developments should also be sustainable**

- The spatial organising power of small and medium sized towns should be increased. This involves the strengthening of the service function for inhabitants and the role they play in business infrastructure.
- Urban and rural regions need to be developed in accordance with their particular functions. In cities spatial utilisation prioritising brown field over green field investments has to be established.
- Supported measures should not increase regional differences, investments promoting development and alignment should be realised

**Investments promoting**

even in the most disadvantaged regions.

- Natural and cultural values embodying common public property, as well as the conditions for accessibility, availability of public services devoid of physical obstacles have to be created.
- Development locations have to be selected with regard to sustainability, the protection of values and safety. The same applies to the organisation of regional administration and public services.
- Developments should fit the local conditions, deepen local environment awareness and strengthen the responsibility for the values of the region..
- Developments should promote the formation of material and energy management cycles within the region and support the exploration and efficient utilisation of internal resources. Material, energy, information and knowledge flow should be as long as possible, while incomes should remain in the region to the largest possible extent.
- Developments should not increase daily travel time and should contribute to establishing safe and sustainable travel methods.
- Environmental, technical and public safety risks related to transport and shipment are to be reduced and so are the burdens and damages arising thereof.

**development and realignment should be realised even in the most disadvantaged regions**

### **Strengthening social cohesion, ensuring equal opportunities**

The central part of social renewal includes the reduction of differences in life prospects, and the alleviation of discrimination starting from childhood. In order to make sure that the benefits of the developments are felt in the widest circle possible and that none of the social groups is disadvantaged, and in line with EU requirements, the process of development policy planning, implementation, monitoring and evaluation should take account of the aspects of equal opportunities. Social cohesion means nothing else than the creation of a country, where falling behind is less and less possible, where prosperity is increasingly easier to achieve, because society shows solidarity, and the state provides opportunities. The realisation of social cohesion supposes a community made up of free individuals mutually respectful and supportive of each other, and which achieves these common objectives using democratic tools. This then does not only mean a struggle against poverty and social discrimination, but involves the creation of social solidarity.

**Creating the conditions for equal opportunities is the token of social cohesion.**

The enforcement of **the principle of equal opportunities** is more than merely ensuring equal treatment and the prohibition of discrimination, as it includes targeted developments aiming at abolishing inequalities and their reasons. With regard to equal opportunities, in Hungary the issue of people living with disabilities has to be considered and their social disadvantages reduced, and the complex disadvantages of Romas and Roma communities alleviated. The social equality between women and men is a broader issue than the issue of equal opportunities and also appears as a requirement by the EU.

The achievement of **equal opportunities of women and men** is important not only from the point of view of social cohesion, but it is an indispensable condition for economic growth and improved competitiveness. The aspects of gender equality have to be built in the development of state public policies and development programming in all EU member states (the so-called ‘gender mainstreaming’). This means that the effect on the equality of genders and the life of women and men has to be weighed in the case of every branch policy measure. On the other hand, measures that help eliminate the inequalities between men and women have to be supported by targeted programmes in all fields of social life, including employment, training, economic life, access to resources and services (e.g. healthcare, transport).

**Equality of women and men is an important factor of economic growth, too.**

During the complete process of the development and implementation of the NHDP, appropriate expertise has to be ensured in order to secure the implementation of gender mainstreaming. This includes data collection and the development of indicators necessary for the measurement, implementation and accountability of this aspect in developing, judging and following-up specific programmes, and the representation of the issue of the social equality of women and men in the executive institutions and in all responsible programme management bodies

Developments are supported which reduce the discrimination of disadvantaged layers of society, primarily the **Roma population** and which ensure that these groups have equal access to resources. In order to make sure that the Roma population does have access to these developments target programmes, procedures and networks supporting such access need to be operated. Support forms that are implemented without the general bidding processes are to be prioritised. The developments have to be implemented in a way that they do not increase segregation, the concentration of problems, and the prejudice against the Romas. An effective coordination and monitoring system is required which harmonises these developments, defines indicators and separately examines Roma participation in them.

**In order for the developments to reach the Roma population, programmes, procedures and networks supporting access have to be operated**

During the developments the special needs of people living with a disability have to be taken into consideration, too. Their active social participation has to be supported and equal access ensured (with the removal of physical, environmental and communicational obstacles and the modernisation of the conditions for rehabilitation.)

**For the sake of equal treatment the interests of disabled people have to be taken into consideration, too.**

**Indicators:**

Cohesion	Regional	<ul style="list-style-type: none"> <li>▪ Changes in the differences of GDP per capita measured on the regional level.</li> <li>▪ Growing added value in wayward regions.</li> <li>▪ Increase of the employment rate in wayward regions</li> <li>▪ Improvement in the population retaining capacity in the wayward and beneficiary micro regions.</li> </ul>
	Social	<ul style="list-style-type: none"> <li>▪ Reduction of the households without an active income producer.</li> <li>▪ Decreased prejudice against the Romas and people living with a handicap.</li> <li>▪ Increase in the general level of trust in the society.</li> </ul>

**3.1.5. The strategy also serves Hungary’s international integration**

The developments aiming at increasing employment and long term economic growth present an unprecedented opportunity to strengthen the economic competitiveness and social cohesion of Hungary. With these developments the country’s international economic competitiveness is strengthened on the foundations of a knowledge-based economy and as a member of the EU, Hungary actively contributes to achieving the Lisbon objectives.

**As an EU member state, Hungary actively contributes to the achievement of the Lisbon objectives.**

The direct objectives include Hungary’s more active participation in the joint programmes serving the competitiveness and knowledge society of the EU as a whole, such as joint education programmes and programmes serving co-operations in the field of research/development and innovation, especially in Research Framework Programme 7, and the Competitiveness and Innovation Programme.

The developments extending over the borders of Hungary are aimed at supporting the realignment and modernisation of Hungarian communities living in the neighbouring countries in a European framework. The objective is the implementation of - joint regional, infrastructure and institution development as well as economic boosting - programmes in the frame of a development policy negotiated with the neighbouring countries to set the region on a modernisation course.

**The aim is to support the realignment and modernisation of Hungarian communities living in the neighbouring countries**

In line with EU international endeavours Hungary continues to strengthen its international relations with the South-East European countries and the former Soviet republics, primarily with Russia. As for Asia, Hungary wishes to improve its economic co-operation primarily with China, and the scientific/technological centres of the far East, Japan, and South Korea, as well as the newly emerging South-East Asian countries. Hungary continues to strengthen its relations with the United States of America.

**Hungary continues to strengthen its international relations.**

### 3.2. *Thematic and regional priorities related to the objectives*

To implement the comprehensive and specific objectives, interventions embodied in comprehensive Operational Programmes are planned based on the following **thematic and regional priorities**:

1. **economic development,**
2. **transport development,**
3. **social renewal,**
4. **environment and energy development,**
5. **regional development,**
6. **state reform.**

Thematic priorities related to the objectives have been defined in accordance with the Council's community strategic guidelines on cohesion, to support the implementation of objectives formulated in the **National Action Programme and the revised National Lisbon Action Programme** serving the implementation of the Lisbon objectives in Hungary. Particular attention has been paid to the priorities formulated at the European Council meeting of 23-24 March, 2006, which set the target of realising investments serving knowledge and innovation, the development of small and medium-sized enterprises, increased employment and the creation of a new European energy policy.

**Thematic priorities serve the implementation of the National Action Programme**

The content-wise related priority axes that develop the thematic and regional priorities define the individual development (operative) programmes which are described in Chapter 4.

For the purposes of regional cohesion aspects, **sectoral programmes also serve the elimination of regional differences.**

#### *Integrated, complex approach, flag-ship projects*

**Several elements of the priorities are essentially connected and have an effect on each other.** These connections have to be worked out during implementation and have to be particularly followed up in execution. The professional and political decision points have to be marked off, too.

When defining the contents of the priorities the focus has to be on **the solution of broad social issues and tasks emerging from the comprehensive reform of public administration.** Such broad social issues require an integrated approach, therefore they can only be resolved with the **coordinated co-operation of several Operational Programmes**

**The integrated planning of programmes are done in the form of flag-ship projects**

For the above tasks requiring complex solutions flag-ship projects are planned in the fields listed in Annex 6., the elements of which are built in the Operational Programmes and the action plans prepared from them.

### **3.2.1. Priority 1 : Economic development**

The strategy to be fulfilled in the economic development priority equally serves all three specific objectives of long term growth, that is the improvement of competitiveness, the broadening of the basis of economy and the development of the business environment and at the same time, it contributes to the objective of increasing employment.

The following intervention groups serve the implementation of the economic development strategy:

- Establishment of an innovative, knowledge based economy including:
  - support of applied R&D activities,
  - promotion of the innovation activities of enterprises,
  - promotion of the innovation activities and co-operations of enterprises and higher education,
  - encouragement of the establishment of technology intensive (spin-off) small businesses,
  - promotion of technology transfer,
  - strengthening of bridge building and incubation activities;
- Improvement of the income productive capacity enterprises (especially SMEs), including:
  - Improvement of capital provision for enterprises,
  - spread of entrepreneurial culture,
  - organisational development,
  - technological modernisation,
  - support of employment creating investments in wayward regions;
- development of business infrastructure and services the planned tools of which include:
  - the development of industrial parks,
  - spreading modern info-communication technologies (ICT) and improvement of physical infrastructure,
  - establishment of the network of logistics parks,
  - establishment of broad band IT networks.

In order to achieve the development of the entrepreneurial sector, the following are considered indispensable as a horizontal measure related to all priority axes:

- the spread of modern info-communication technologies,
- development of corporate human resources and organisations.

The abolition of regional inequalities and increased regional competitiveness are also priority aspects in improving economic competitiveness.

### 3.2.1.1. Creation of an innovative, knowledge-based economy

**Increasing added value** plays a key role in strengthening competitiveness. Added value can be increased best by the development of the human capital and organisational culture, by strengthening **research-development and innovation** activities building on an advanced knowledge base, material and energy economical production and innovation services, and the improvement of the conditions for knowledge transfer. A precondition for the productive sector's high added value producing activities is to ensure a European standard R+D and innovation infrastructure, including the development of the ICT network infrastructure. The transfer of knowledge produced with the utilisation of state budget resources, which is quick and at the same time financially lucrative for enterprises, can considerably increase economic competitiveness. With these the foundations for a knowledge-based economy are laid. In addition to the above, the preference of cleaner and environment friendly technologies in developments is a priority.

**Added value can be increased best by the results of research – development and innovation**

In line with the guidelines (6., 7. and 8.) set in the National Action Programme the development of an **innovative, knowledge-base economy** is made possible – primarily along the regionally concentrated development poles (Budapest, Győr, Pécs, Szeged, Debrecen, Miskolc, and Székesfehérvár-Veszprém axis) defined by the Parliament Resolution 97/2005. (XII.25.) on the Hungarian Regional Development Concept (OTK) - with the support of the business oriented technology developments of enterprises with a higher risk of return as well as with the promotion of the research co-operation between universities, research institutes and enterprises for innovation purposes. This – together with the provision of a suitable research infrastructure, and by promoting entering the domestic and international markets - is an important tool to individually develop and adapt competitive technologies and to utilise results. This requires that the development of innovation and financial services, the provision of seed capital for start-up, innovative (spin-off) enterprises, and the establishment and operation of technological incubator services are supported. The following need to be promoted:

- sector and regional (development poles) concentration and specialisation of research capacities in areas that have a large potential and perspective for the country (e.g.: info-communication, bio-technology, life-sciences, nano-technology, material sciences, environmental sciences and renewable energy sources);
- development of research and ICT infrastructure needed for the above;
- establishment and efficient operation of research infrastructures of international standard;
- joining existing international R+D networks and their infrastructure.

Connected to the priorities set in the Research Framework Programme 7. and the Competitiveness and Innovation Programme, innovation is to be

supported especially in sectors where Hungary's comparative advantages can be built on, so mainly in the fields of nanotechnology, life sciences, and ICT based innovations.

**Economic development priority interventions aimed at R+D and innovation:**

- Applied R+D activities, applied researches and experimental developments conducted in co-operation with enterprises are to be supported. In certain cases particularly important R+D projects with a higher risk of return will also be supported;
- Innovation activities of enterprises are promoted both in the field of production and services, increased individual research—development potential is supported by:
  - the promotion of technological developments,
  - further training of company researchers,
  - supporting the establishment of R+D units,
  - the support of purchasing and adapting competitive technologies and the establishment of innovation supplier clusters, technology platforms and joint research capacities;
- The establishment and introduction of special capital structures improve the conditions for the establishment of technology intensive start-up enterprises; related partner search and consulting services are supported;
- R+D and innovation co-operations between universities, research institutes and enterprises are promoted, as well as the establishment of joint research locations and the carrying out of joint research projects for those working in the innovation chain, expert training and exchange and comprehensive multi-step processes leading from an innovative idea to a marketable product, primarily in the development poles;
- The following are supported: establishment and strengthening of research and innovation institutes, integrated bridge forming, competence, knowledge, incubation, innovation and technological research centres, the establishment and effective operation of international level research infrastructures, innovation services, especially offering technological break-through solutions for the Hungarian economy in areas expected to have a high growth potential;
- International co-operations of Hungarian enterprises are supported, as well as the R+D and innovation-oriented, international technology transfers generating high domestic added value and the adaptation of the most developed technologies.

**Applied R+D activities are supported**

### **3.2.1.2. Improvement of the income producing capacities of enterprises (especially SMEs)**

The **development of enterprises and especially SMEs** is particularly a priority due to their role played in the balanced growth of economy and employment. A particular objective is to establish the economic environment required for the growth, strengthening, co-operation and stability of small and medium-sized enterprises.

**The support of SME is a priority**

**Improvement of the income producing capacity of enterprises, especially SMEs**, can primarily happen with the help of market conform financial tools and the development of human resources and company culture. In addition, support provided directly to SMEs continue to be important. These latter are primarily defined by the need for technical modernisation (e.g. procedures enabling the use of renewable energy sources, introduction of brands on international markets, introduction of quality control and insurance systems and marketing of new technologies.)

**Separate support channels are operated for SMEs**

It is still disproportionately more difficult for enterprises, especially for micro, small and medium-sized enterprises to obtain credit and capital compared to large companies, access to financing opportunities is far more expensive for them. The objective therefore is to improve the efficiency of the credit and capital market:

- with the supported development of the capital market supply, and
- by helping the spread of processes that reduce the risk of capital placement with the help of market tools.

The credit opportunities offered by the so-called “JEREMIE initiative” of the European Investment Bank (EIB) and EIF for the support of SMEs is also planned to be used.

Economic development priority **interventions aimed at SMEs development:**

- Improve capital supply of enterprises and their access to financial resources by creating better conditions for micro-credits and supported guarantees, which are more accessible resources than market loans;
- Promote the development of enterprise culture and management skills and knowledge as well as the spread of business studies among the population as a whole, in the school year already; Develop various business services and make them widely available;
- Support of organisational developments improving the efficiency of enterprises with the help of complex ICT developments, and by promoting the introduction of systems supporting quality and environment assurance, company leadership and management decision-making processes;
- Supporting the modernisation of the technologies used by SMEs,

**Improvement of the capital supply of SMEs**

increased production and service capacities (also bearing in mind the market demand), which strengthens them, promotes their balanced growth and helps them become suppliers;

- Contribute to increasing the level of employment (primarily focusing on labour force with low qualifications) by supporting large infrastructural investments in wayward regions;
- Strengthen the co-operation between SMEs, especially regional sector clusters and the development of supplier chains by providing information and counselling services.

### **3.2.1.3. Development of business infrastructure and services**

In Hungary the productivity in several sectors considerably lags behind the European Union average, so in order to improve competitiveness, the ratio of **high added value activities need to be increased** on the one hand, and **enterprises need to be supported so that they can increase their productivity** on the other hand.

**To improve competitiveness, the ratio of high added value activities need to be increased**

For this purpose the **offer of business services** is to be extended through the development of the services provided by logistics and industrial parks, too. Improving the institutional system of investment promotion makes stronger regional presence and external market penetration easier.

**The offer of business services is extended**

The interventions of the economic development priority that affect **business services** rely on – among others –the guidelines defined in the National Action Programme and the Hungarian Information Society Strategy (MITS). The aim of the latter is to ensure the conditions needed for the economic players to make use of the achievements of the information society. The interventions are the following:

- The institutional systems of industrial parks, of innovation enterprise development and of enterprise centres are developed with direct support and by improving the conditions for their operation and their service function;
- Regional business infrastructure and premises are developed supporting the development of ICT and physical infrastructure mainly in the case of industrial parks, enterprise parks and brown field investments;
- Promoting the establishment of a logistics park network offering complex services by supporting the development of inside-the-fence infrastructure and of increased quality of services;
- Providing and developing basic infrastructural conditions for information technology, including the establishment of broad band networks in the regions inadequately provided for by the market; increased IT safety is a fundamental requirement in developments strengthening IT society;

#### 3.2.1.4. Horizontal development areas

The quantity and quality of human resources have a decisive effect on the competitiveness of the country. Therefore it is particularly important that the health condition of the Hungarian population improves and in a parallel way, the public expenditure related to poor health conditions is reduced, and labour force economic activity increased. Education and training has to respond to the needs of the economy as far as structure, content and methodology are concerned. The entrepreneurial skills of employees, potential and starter entrepreneurs. Growing competitiveness has to go hand in hand with increased employment.

**Growing competitiveness has to go hand in hand with increasing employment**

##### *Human resources development in enterprises*

In developing the human resources of enterprises the following interventions are aimed at helping a more dynamic economy:

- In enterprise training, the development of basic skills and competences required for expertise is supported (IT and foreign language skills, communication skills, practical management skills) as well as the so-called on-the-job training courses, and apprentice programmes;
- The objective is to develop enterprise culture by supporting counselling and mentoring programmes in the fields of bidding procedures, business administration, marketing, finance, company management and HR, as well as the promotion of project management services aimed at helping the development and operation of co-operations and clusters.

**The human factors of competitiveness are strengthened**

##### *Spreading modern info-communication technologies*

In order to achieve the long term improvement of the productive sector, support is provided to integrate the elements of knowledge-based economy and info-communication technologies in the operation of enterprises. Accordingly, ICT developments are supported as part of complex enterprise development projects, independent of the areas of intervention.

**The use of info-communication technologies are promoted**

#### 3.2.1.5. Priority regional dimensions of economic competitiveness

While promoting state investments, developing business environment and supporting the networking of SMEs, **areas socially and economically disadvantaged and the four less developed regions have to be prioritised.** A region-specific development policy building on local conditions has to be implemented **on the external and internal peripheries.** In cross-border regions, cross-border initiatives are highly

welcomed.

In case of **rural areas with special conditions** (agricultural areas, areas with a considerable number of Roma population, homestead areas) supporting enterprises that ensure local employment is the most likely to help them to catch up. That is why the establishment of institutions mediating innovation to SMEs has to be a priority of support in wayward regions. Also, increasing the capacity of these regions to keep and attract human resources has to be a priority.

In the more developed north west regions of the country and around the capital city, the promotion of economic activities employing qualified labour force and producing high added value is desirable. The objective in these regions is the development of supplier networks, the establishment of co-operations and clusters among SMEs, SME culture and strengthened adaptive capacity towards innovation. Basic developments related to the improvement of the service economy are supported, including among others the development of tourism infrastructure.

In regions that have the appropriate conditions, **tourism related developments** are an important competitive factor and through their multiplier effect, they have an influence on economy as a whole. Due to the cross-sector nature of tourism, the objective is to ensure that the most important developments take place in the priority fields of the industry. Projects of domestic and international importance (e.g. congress centres, health resorts, world heritage, priority developments) are driving projects that strengthen competitiveness.

**Priority fields of tourism are supported**

The **focal points of innovation** are mainly **the cities** which have universities and research institutes. Strengthening innovation, developing innovative clusters, knowledge-based economy and enterprises are placed in the centre and built on the basis of development pole programmes. The development of **regional clusters** is supported in the frame of the pole programme, where the objective is to strengthen the international competitiveness of a well defined industry or business. The condition for this is a suitably developed business environment.

**Development poles are the focal points of innovation**

*(The development poles comprehensively embracing several priorities and OPs, as well as the interventions implementing the pole programme are detailed under the regional development priority)*

In the four regions falling behind (South Great Plain, South Transdanubia, North Great Plain and North Hungary), the ratio and income producing capacity of the competitive sphere has to be increased in economy. The settlement of large companies has to be promoted, as well as innovation, knowledge transfer, and the networking of SMEs have to be promoted. To ensure the inflow of foreign working capital, the capital attracting capacity of East Hungary and South Transdanubia has to be increased. The structural changes required in the critical industries are to be supported mostly in these regions.

**Capital attractiveness of East Hungary and South Transdanubia has to be improved**

The dominance of Budapest in the field of research-development has to be cut back. The regional innovation institutional system is strengthened to develop **regional innovative capacities** by:

- developing network co-operations,
- operating decentralised innovation programmes,
- improving infrastructural and IT conditions for regional innovation, and
- developing human resources.

**The objective is to develop the regional innovation capacities**

The promotion of regional entrepreneurial innovation activities and building service networks that can adapt flexibly to their requirements are the conditions for implementing the **regional innovation strategies**.

The innovation policy has to handle **Budapest and its agglomeration** with priority due to their international role, outstanding research-development and innovation potential.

### ***Implementation of the strategy included in Priority 1.***

The implementation of the strategy included in priority 1. is carried out primarily in the frame of the **Economic Development Operational Programme** and with the financing of the European Regional Development Fund (ERDF). At the same time, several other Operational Programmes contribute to the implementation of the strategy, including the **Human Resources Development Operational Programme** and the **regional Operational Programmes** serving regional development.

The strategy included in Priority 1. supports the following CSG guidelines:

- Improving knowledge and innovation for growth
  - Increasing and better target investments in research and technology development
  - Promotion of IT society for all
  - Improving access to finance

### **3.2.2. Priority 2 : Transport development**

The strategy of transport development serves both the specific objective of improving the business environment contributing to long term growth, and the specific objective of improving the employment environment contributing to increased employment by improving accessibility. The results of social and economic studies prove that it is easier to find a job in regions with good transport conditions than in regions with a poor transport infrastructure.

The following intervention groups serve transport development, which

**The quality of accessibility has**

have been formulated based on medium-term sub-sector strategies:

- Improvement of the international accessibility of Hungary the elements of which include:
  - extension of the clearway network,
  - modernisation of main railways,
  - increased river infrastructure;
- Improvement of regional accessibility the planned tools of which include:
  - development of main road networks, improved weight-bearing capacity,
  - establishment of regional transport associations;
- development of urban and agglomeration community transport the planned tools of which include:
  - development of suburban railways and their connection to local public transport,
  - construction of bicycle roads,
  - reduction of traffic in city centres
  - other fixed rail community transport development;
- connection of transport means, development of the inter-modality and transport infrastructure of economic centres:
  - connecting various transport means
  - connecting logistics centres and industrial parks into main transport networks

**a decisive effect on the competitiveness of the country and regional cohesion**

The most important objective of transport developments is to improve **accessibility** that serves both competitiveness and cohesion. All of the transport sub-branches have to contribute to this, therefore the provision of a choice between the various methods of transport (inter-modality) is a primary factor in formulating the developments. Transport opportunities indirectly affect the geographic mobility of work force, too. That is why the quality of community transport networks is so important from the point of view of mobility.

Transport development has to meet the **requirements of sustainability** and has also to take into consideration the **economy geographical conditions** of the country.

The protection of natural resources and environmental values have to be taken into consideration to the highest extent in transport developments. Therefore the preference of environment friendly transport means is a central issue in the developments. Modernisation of the vehicle stock, too greatly reduces the burden on environment and cuts accident risks.

**Sustainability is an objective in transport development, too**

### **3.2.2.1. Improvement of Hungary's international accessibility**

The objective is to achieve that thanks to the interventions, the intensive development of the TEN-T network elements in Hungary contribute to improving the international accessibility of the country.

**The international accessibility of the country and the regions is**

improved

Environmentally and economically sustainable transport developments are highly important, so railway modernisation is a priority. However, public road network development is also indispensable for Hungary.

In the case of **public roads** the clearway network is to be further developed, so that the magistrale corridors are further extended towards the country borders. Also, the currently still radial transport structure of the country has to be further loosened up. Accessibility is improved with additional clearway developments on the TEN-corridors critical with regard to transport burdening.

**The clearway network is further developed**

One of the areas of **railway development** is the modernisation of main international railway lines up to the country borders. Track reconstructions make the elimination of current speed limits slowing down the traffic possible, and help to improve accessibility considerably. Large scale developments are planned in IT, safety and technical control tools, as well as to modernize railway trains. Suburban railways are particularly important regarding agglomeration accessibility.

**Railways and related infrastructure are modernised**

The development of **transport by water** in Hungary primarily covers better exploitation of opportunities offered by the Danube-Main-Rhine water way system, in other words, it aims to increase the shipping of goods in addition to tourism related transport. The main tool for this is the sustainable development of inter-modal water transport infrastructure.

**Water transport, shipment of goods and the transport of tourists are developed alike**

### **3.2.2.2. Improvement of regional accessibility**

The objective is that - parallel to the continued construction of radial motorways towards the country borders - regional centres are also connected to the trans-European corridors traffic and that their inter-accessibility also improves. In order to achieve a more balanced regional development and to alleviate the monocentricity of the network, it is necessary to develop the system of transversal main roads in addition to the radial one. Moreover, on the transport ways for heavy vehicles, roads need to be strengthened to bear 11.5 tone vehicles, including the strengthening of roads leading to industrial parks and logistics centres. In order to achieve this, road surface strengthening and capacity increases are planned on the main roads of international importance and on those leading to the regional centres. The construction of connecting by-pass roads will have a favourable effect on transport safety and settlement environment alike.

**The objective is to improve inter-accessibility among regional centres**

In order to improve accessibility within the regions, **the development of community transport and alternative transport solutions** – coordinated with railway developments - is also important. This is particularly so with regard to the mobilization of the population of wayward regions and settlements. The establishment of micro regional and **regional transport associations** is recommended in order to

**The focus is on community transport**

coordinate the operation and development of community transport on various sector levels.

Due to the increased air traffic of the capital city and in order to reduce the crowdedness of the airspace there will probably be a need for the development of regional airports serving international passenger traffic and the improvement of the accessibility by land of some other local airports, too.

**The accessibility of regional airports is to be developed**

### **3.2.2.3. Connection of transport means, development of the inter-modality and transport infrastructure of economic centres**

The objective is to improve the alternative accessibility of regions and economic and entrepreneurial centres by enhancing the connection of various transport means, by increasing the inter-modality of national and regional transport and by establishing the infrastructure for intelligent transport organisation. In the frame of the above, accessibility by land of Hungarian airports is improved (with the development of the public roads leading to them), and the infrastructure of and transport connections to ports developed.

A further task is to construct or modernise the transport infrastructure leading to logistics centres and other economic infrastructure (industrial tracks, access roads).

### **3.2.2.4. Development of urban and agglomeration community transport**

The objective is to alleviate the crowdedness of urban traffic. In order to achieve this community transport is developed in an environment friendly way.

The improvement of the conditions of community transport is to be achieved primarily with the modernisation of fixed rail traffic methods ensuring the environment friendly transport of large masses in a way devoid of physical obstacles, as well as the development of inter-modal services. In addition to inter-modality, connecting certain fixed rail community traffic methods is also a priority. Therefore, the objective is to achieve travelling on the same transport means via the urban and big railways without having to change (this is called inter-operability).

**Fixed rail traffic is in the focus of community transport development**

An important element of urban traffic development is the establishment of the appropriate lines and running density, and the coordination both in space and time of the switches between various transport means with the help of, among others, the establishment of modern inter-modal junctions, harmonised schedules, the introduction of a unified tariff system and improved passenger information and comfort.

**Improved transport coordination**

In the frame of the above, the suburban railway lines leading into Budapest and the metro network have to be modernised. The establishment of inter-modal junctions should preferably be connected to railway stations and to the meeting points of metro-railway stations mainly. Important elements of the developments are the coordination of schedules and services transporting passengers to the suburban railway lines and to the metro lines from outside the cities by bus, and from within the cities by tram. Establishing agglomeration transport associations is advisable in order to achieve the harmonised and optimal operation of agglomeration transport.

In addition to the above, the modernisation of urban traffic can be achieved by improving the conditions for bicycle and pedestrian traffic, by creating inner zones that have a reduced traffic, and by constructing uninterrupted cycle roads. These developments are included in the regional Operational Programmes.

### **3.2.2.5. Developing the infrastructure for the transport of goods and logistics**

In an increasingly globalised economy the economic geographical location of Hungary has a particular importance, as large international commercial routes cross the country.

The transport network established with the development of the TEN-corridors enables and promotes that – attached to these corridors or by establishing appropriate traffic connections to them - an entrepreneurial infrastructure is created offering logistics services related to the export and import traffic. With regard to specific developments, attention should also be paid to the utilisation of the former military airports that have excellent conditions (e.g. the creation of cargo bases suitable for intercontinental air traffic).

**Developments are concentrated on the TEN-corridors**

The transport of goods transiting Hungary, on the one hand, to North, South and South-East Europe, and on the other hand, to East Asia has to be switched to environment friendly transport means (railway and water). Consequently, in the near future the development of an inter-modal harbour network will be a priority with regard to the sustainable development of shipping lines aimed at improving the international accessibility of the country.

A further task is the construction and modernisation of the connecting elements (industrial tracks, slip-roads) of transport infrastructure leading to the logistics centres and other economic infrastructure. Improvement of the conditions to switch between the transport means will also be important within the logistics service centres.

### ***Implementation of the strategy defined in Priority 2.***

The implementation of the strategy defined in Priority 2. will mainly take place in the frame of the **Transport Development Operational Programme** and financed from the Cohesion Fund (hereinafter CF) supplemented by the ERDF. At the same time, **the Operational Programmes of the regions** also contribute to the implementation of the strategy.

The strategy included in Priority 2. supports the following CSG guidelines:

- Europe and its regions need to be made more attractive with regard to investments and jobs
  - Expand and improve transport infrastructure

### **3.2.3. Priority 3. : Social Renewal**

The basis for the renewal of society is the improvement of the quality of human resources. The social renewal strategy plays a decisive role in the competitiveness and sustainable development of the country, increased employment and long term growth.

**The key to long term growth is the development of human resources**

The following interventions serve the renewal of the society:

- **Improvement of employability**, planned tools of which include: development of services that help to join the labour market and promote taking up a job, development of skills and knowledge to obtain a job or to become self-employment, prevention of long term unemployment, measures supporting transitions within the labour market, support and allowances aimed at helping the employment of disadvantaged people, development of employment rehabilitation and healthcare at the working place;
- **Improvement of adaptability**, planned tools of which include: restructuring the institutional system of professional training, establishment of a cooperative regional system for professional training and accredited adult training, development of the capacities of social partners, reduction of the effects restructuring processes have on the labour market, flexibility and security on the labour market, promoting preparation of civil and church organisations to their role as service providers;
- **Ensuring access to quality education for all**, planned tools of which include: Development of problem solving skills, digital literacy, universal planning, language skills, natural sciences and life style skills, harmonising training and the needs of society and economy, development of economic and entrepreneurial skills, increasing cultural capital;

Support of the introduction and application of complex pedagogic development programmes, development of a measurement and evaluation system, renewal of teacher training and further training, introduction of cost-efficient organisational forms, promotion of regional co-operations, and the support of the integrated teaching of disadvantaged pupils;

- **Development of human resources required for research/development and innovation**, the planned tools of which include:

Continuation of the reform of higher education and the Bologna process, quality development of higher education, establishment of regional knowledge centres, support of research universities, development of the institutional system for talent management, practice-oriented higher educational programmes, extension of technical and scientific training;

- **Maintenance of health, social participation and inclusion**, the planned tools of which include:

Development of the institutional system and programmes for health development and maintenance, promotion of healthy life styles, development of social services, decreasing child poverty, social and regional integration of disadvantaged people – including the Roma population and people living with a handicap -, measures against school fall-outs and deviances, struggle against discrimination, development of social, child, youth and equal opportunities services, strengthening the social capital, local communities, and the social participation of young people, extending the capacities of civil organisations, supporting the activities of churches in these fields, protection of consumers and those provided for, and the realignment of wayward regions;

- **Development of human infrastructure**, the planned tools of which include:

Eliminating the physical, environmental and communication obstacles, modernisation of the conditions for rehabilitation, development of the day-care system for children, establishment of multi-functional human service centres in micro regions and settlements, modernisation of large-size social and childcare institutions; improvement of the infrastructural conditions for vocational training, establishment of regional training networks, IT developments in education and healthcare, strengthening the basic infrastructure of universities, of service and innovation centres, development of regionally harmonised care forms supporting the structural change of healthcare services systems (emergency centres modern diagnostics and surgery technologies), improvement of the infrastructural conditions for healthcare, development of priority healthcare institutions for prevention, healing and rehabilitation, creating the infrastructural conditions for an integrated employment and social service system, developments related to cultural services and creative economy, the cultural capital of Europe project.

Increased economic activity, the promotion of entrepreneurial will, **Better trained and**

improvement of employability and health conditions, and the alleviation of regional differences existing in the above fields are indispensable for the improvement of competitiveness, increased employment and stronger cohesion.

**healthier people are needed more in the world of labour**

A condition for the renewal of society is to make sure that the inappropriate functioning of welfare systems does not re-create the existing problems. Therefore the measures of the New Hungary Development Plan can only achieve considerable and long term effects in the pension, education, healthcare system and the social sphere if they are paired with comprehensive reforms, moreover, the resources are to be utilised in a way that they contribute to the implementation of the reforms.

### **3.2.3.1. Improvement of employability, promotion and support of joining the labour market**

A basic condition for **long term and growing employment and increased activity** is people's ability to join the labour market.

The improved employability of unemployed and inactive people is indispensable for increasing the economic activity of the population. This primarily means that the knowledge and skills needed for taking up a job and self-employment are to be developed, **the will to obtain a job strengthened, the chances of integration improved** and health condition improved. The labour market position and social conditions of those who are capable of working are to be primarily improved by helping and promoting their employment. Thus the employment services are gradually extended to cover, in addition to the registered unemployed, everyone who is in the working age, capable of work but lacks income from work and is obtaining some sort of social allowance because he/she is in need. This – in line with the contents of the National Action Programme - can be achieved by the **harmonised operation of the employment and social services systems**. The development of the services has to make sure that those searching for a job obtain as much information and help tailored to individual needs as possible in the earliest possible phase of unemployment, and that services are appropriately flexible and accessible to all. In addition, the employment chances of those disadvantaged from a labour market point of view have to be improved by targeted support and allowances. Attention has to be paid to the needs of social groups struggling with difficulties and wayward regions need to be developed, too. The tool kit for active labour market policies has to be adjusted to the services offered by the social support system, the local labour market conditions and the needs of social groups struggling with particular employment difficulties (young people starting out on a career, elder people, women, Romas, people living with a disability and people whose ability to work has changed). The **development of skills** needed for employment acquired within and outside schooling is placed in the centre of training services.

**Promotion of employment search and the development of skills needed to obtain a job are focused on**

An important element of employability is improving the state of health and the capacity to work, too. **Employment rehabilitation** has to be strengthened as part of the disability allowances reforms. Rehabilitation development and tailor-made services have to enhance the re-establishment of working abilities and the development of remaining skills, and that more and more people with changed working abilities enter or return to the labour market.

### **3.2.3.2. Improvement of adaptability**

In order to strengthen competitiveness, and to participate in the labour market, it is necessary to make sure that employees and enterprises can **meet the challenges of a changing economic and social environment**. An important condition for the above is the increased **flexibility** of employment, which has to be achieved together with the maintenance of employee **security**.

**The adaptability of employees is strengthened**

Adaptability widely interpreted means that the intervention involves all the activities, which serve the adjustment of various institutions (including civil organisations and churches) and institutional systems to changes and economic-social challenges.

Adjustment to changes necessitates that the conditions for **life-long learning** are established and made available. Training opportunities have to be accessible to all, including poorly educated and elder employees (in line with the integrated guidelines and recommendations) and migrant employees. Particular attention needs to be paid to employees affected by the **processes of structural changes** (including those affected by the employment effects of public services reforms). Interest in the development of training offers adjusted to the needs of the economy has to be strengthened through the system of career orientation, career monitoring and quality assurance, and training should be made available to all. The vocational and adult training centre system built on each other and operating in a coordinated way should be established with the development of the regional institutional system and network, and further extension of regional integrated vocational training centres. Enterprises should play a larger role in practical training. The professional and technical conditions for establishing the linkage between the formal (school system), non-formal and informal education and training systems.

**Life-long learning is particularly important**

**Social partners** play an outstanding role in helping the preparation for changes, so measures should be taken to strengthen the social dialogue institutions and to promote joint initiatives, to strengthen trilateral institutions for the reconciliation of interests. In the spirit of partnership, stronger role is to be given to civil (and other non-governmental) organisations in providing certain services financed by the state. The professional capacities of such organisations should be strengthened to prepare them for the above – including adjustment to the service provider role.

An important condition for adjustment is that the flexibility of employment is increased, which has to be achieved by also maintaining the security of employees. In order to maintain activity, health and safety conditions at work should be improved.

### **3.2.3.3. Ensuring quality education and access to it for all**

The most important elements of employability are **suitable qualifications and skills** the foundations of which have to be laid during the formal school system. In order to make sure that the quality and efficiency of the educational system improves, and that the employment chances of people coming out of the educational system increase, it is indispensable that the **content and structure of education and training flexibly meet the social and economic requirements**. The educational-training content and structure, the compatibility of various training institutions, the opportunities for mobility and a unified vocational system all have to support the coordination of labour force demand and offer as well as the adaptability to labour market needs. A particular attention is paid to the development of basic skills, labour market competencies (primarily foreign language skills, digital literacy, knowledge in mathematics and natural sciences and skills required for leading a successful life style). Cultural tools have to be built on too, when developing skills and competencies. Alternative and innovative training are supported, e.g. “forest” schools (studying out in nature), green schools in the natural environment, “on location” empirical learning.

**Education and training are adjusted to the needs of the economy**

With the consistent continuation of the content reforms started in the frame of the National Development Plan I., specific measures have to be taken on all the levels and in all the forms of education and training to improve quality and efficiency. This is served by the continued spreading of competency-based education, new learning forms, and digital literacy, the introduction of unified norms for the **measurement, evaluation and quality management** systems for student and teacher performance, the **connection of formal, non-formal and informal systems** and **modernisation of teacher training and further training**, also considering the expected developments in the employment requirements related to the teaching profession..

**The efficiency of education is increased with the development of teacher training and the introduction of quality management**

In order for the improvement of the **cost-efficiency** of primary and secondary education and to cut regional differences, the **structural and administrative reform** of the educational system is indispensable, also with regard to the demographic, social and economic changes. Therefore special attention is paid to the introduction of **new organisational solutions** supporting the rationalisation and integration of the institutional system, and also to meeting the special needs arising from the decreasing number of school-age population.

**Rationalisation is indispensable for improving cost-efficiency**

Complex pedagogic development programmes are to be developed and introduced for the entire educational system – also building on past

**Particular attention is paid to talent**

experiences - from pre-school to secondary education, to improve the success in educating **students struggling with multi-disabilities, including Roma youth**, abolishment of educational segregation and discrimination, with particular attention to alleviating the segregation of regions with a large Roma population. At the same time, particular attention is paid to **talent management**. Conditions for the integrated education of people living with a handicap will be created.

#### **3.2.3.4. Development of human resources required for research/development and innovation**

The **higher education reform** is continued to support Hungary's organic integration into the European Higher Education Region by focusing on realising the principle of performance, practice-oriented training and mobility. As regional knowledge centres, higher educational institutions have to play a leading role in **creating the human resources base** for research-development, innovation and local economy, in strengthening knowledge-based economy and in the support of technology and knowledge transfer. It is important that the regional knowledge centres become suitable for maintaining and developing the human resources base, to alleviate the far too much dominance of Budapest, and to increase regional development. The development and introduction of practice-oriented training and further training programmes flexibly adhering to the requirements of local enterprises are especially supported. It is important to increase the number and ratio of students conducting studies in natural sciences and technology, the development of the institutional system for talent management in order for the universities to become the driving forces of knowledge and innovation supporting development.

**Universities will be the driving forces of innovation**

#### **3.2.3.5. Maintenance of health and strengthening social inclusion and participation**

Building on the experiences of earlier programmes and developments serving the strengthening of social cohesion, the life prospects of **social groups which are particularly in need of social support** are improved by eliminating the obstacles hindering the participation in the life of society, by developing co-operation between certain social groups, and by improving the quality of the programmes and services offered to them. Special attention is paid to the Roma population, handicapped people, and those living in peripheral regions that barely offer employment opportunities. Complex social and economic policy interventions are to support the rise of most wayward regions and especially the social integration of the Roma population. Integration of the homeless, the addicts, psychiatric patients and those freed from penal institutions. In order to prevent poverty, the inheritance of social and labour market disadvantages and to realign the wayward regions, in addition to increasing employment opportunities, the development of childcare and primary education, improvement of the availability of healthcare, cultural

**Life conditions and prospects of people in need of the special social support are to be improved**

and other public services (including the development of services, public transport and considerable cuts in the selective mechanisms in schools) are supported. The above necessitates the launch of programmes to spread prevention, to reduce discrimination and to strengthen tolerance.

The disadvantages of people who are in an unfavourable social and economic situation are also shown in the state of their health and the average life expectancy at birth. Therefore particular attention is paid to ensuring that specific services aimed at prevention and health development are made available to the most disadvantaged people too, thus contributing to the reduction of social differences.

Active and preventive programmes to increase the chances of those living in poverty will be developed to **decrease poverty**. The most important step towards the above is **the reduction of inactivity, more employment opportunities and the development of public services increasing opportunities** in the small village regions with no cities, North Hungary, South Hungary and North Great Plain. This problem needs particular attention in the wayward areas (inclusions) of relatively better situated regions (e.g. the south, south-east areas of Central Hungary), too. Specific problems characteristic to (big) cities – for example the case of the homeless) are to be resolved by targeted programmes. This in turn will increase the number of potential employees of future generations.

**Programmes are developed to decrease poverty**

The **reduction of child poverty and inactivity** are particularly important in the small village areas and where there are no cities, because it helps to prevent the reproduction of poverty and discrimination. This should be started at a very early age with programmes increasing opportunities especially in wayward regions lacking service provision and should be continued with programmes aimed at improving the chances of integration at school, preventing drop-outs and reducing the risk of deviances.

**Accessible child and social welfare services responding to local needs are extended**

Of the social and child welfare services, the aim is to support primarily innovative social and child welfare services responding to local needs, which support the compatibility of family life and work especially for women, and contribute to integrating unemployed, inactive people on the labour market, as well as the creation and strengthening of network-like social services connected to the integrated social and employment system. Another important issue is the development of services offered at home for the care of disabled, elderly people, or people depending otherwise on the care of family members.

Interventions in this field have to focus on the improvement of the accessibility of services, to increase their flexibility, the **development of expert competences**, and to enhance that they remain in their jobs, particularly with regard to micro regions. In addition to purely sector (social) type developments, spreading integrated inter-sector solutions built on cooperation is especially important, as this results in the establishment of services which are better quality, better tuned to the

needs of the users and at the same time they can be operated more rationally in a cost-efficient and sustainable way.

In order to improve the employability of the labour force, to integrate the layers of society falling behind, and to increase the number of **years spent in health**, the inequalities in the accessibility of quality healthcare services are planned to be reduced. Establishment and improvement of the institutional system for health development is supported. Programmes are launched to enhance safeguarding health and early risk exposure (screening programmes to detect heart and vascular system diseases, malignant tumours). Prevention programmes are developed against addictions (smoking, alcohol, drug prevention programmes).

**The aim is to increase the years spent in health**

An important condition for the establishment of a society capable of renewal is the existence of a stronger institutional system for social dialogue. An indispensable element of this is a strong civil sector established by **active and self-confident citizens**, meaning the local communities, various interest groups and formalised civil organisations. The various civil initiatives and organisations play a key role in sustainability, in representing, protecting the various interests of society, in pressurising and enforcing lawful rights and entitlements. Civil and community endeavours to such effect are to be promoted and there is a need for supportive structures too, (information and training systems, supportive services). This is particularly important for peripheral regions barely providing work and revenue, the Roma communities, for young people and for people living with a disability. It is the task of the entire society to support these groups.

**The renewal of communities and their self-organising capacity is to be supported**

Strengthening the cultural capital is indispensable for a stronger social participation. That is why the tools for the achievement of these objectives include the development of socio-cultural services, cultural regional development, and the improvement of the accessibility of basic cultural services.

**The cultural capital is strengthened**

### **3.2.3.6. Development of the human infrastructure**

The success of interventions directed to the development of human resources necessitates the support of connecting infrastructural developments. During the development of human public services focus has to be on accessibility, quality and sustainability alike, all along bearing in mind the aspects of efficiency. The development of public services has to fit the reform process, which focuses on increasing the efficiency of great social systems while keeping in mind the bearing capacity and long term sustainability of local authorities, too.

**Human infrastructure is to be developed in line with reforms**

The objective of physical investments realised in the field of education is to lay the foundations for the success of the reforms related to content, and to make quality education accessible all over the country. The modernisation of the **public education infrastructure** requires new IT equipment procurements and infrastructural developments due to organisational reforms enabling cost-efficient operation. In order to satisfy the educational, cultural and social needs of local communities, the development of multi-functional institutional networks suitable for providing complex human services is supported in co-operation with the regions primarily in rural, small village areas. The special needs of regions will be considered where the institutional capacity needs reduction due to decreasing school-age population,.

**Educational infrastructure is developed in line with public education reforms**

The development of the conditions for intelligent learning in **higher education** is also of priority importance. The reconstruction of buildings, establishment of intelligent learning space, the provision of modern IT tools and networks and the establishment of ICT supported university administration are all priorities. University innovation centres, industrial-technology parks, conference centres and areas serving community objectives – such as intelligent libraries, sport and recreation centres - are developed in line with the interventions aimed at establishing an innovative, knowledge-based society.

**Development of intelligent learning environment in higher education is supported**

An indispensable condition for the strengthening of economic activity and thus economic competitiveness is the population's improved health. The conditions for **maintaining the state of good health** necessary for working and a full life are to be established as well as the conditions for leading a healthy life. The complex restructuring of the healthcare system is a necessity in order to improve the health condition of the population, and requires complex tools. In restructuring the healthcare system, the current frittered hospital-centred structure has to give way to a micro regional level yet higher quality basic care. In-patient care should be provided in centres while the role of ambulant and home care should be increased. In addition to healing, there is a need for the development of the institutional systems of **prevention** and physical/spiritual **rehabilitation**. While developing the health culture and knowledge of the population, the tools for prevention should also be integrated in the system of education and social services. When making investment decisions, a decisive factor is **sustainability**, that is the establishment of a more modern, more efficient and financeable structure. Better exploitation of the potentials existing in the healthcare sector has to be helped, which thus can contribute to the provision of additional funds for the sustainability of the system.

**Good state of health is the most important condition for employability**

The institutional system of **social and child welfare services** strengthening social inclusion has to be restructured in such a way that the small and micro-regions having larger resources, and the larger settlements are enabled to provide the infrastructural background also for the people living in small villages. Due to the dividedness of the social administrative and service, IT developments and electronic service and

**The basic social services should be accessible to all.**

administrative processes are particularly justified. In areas where no services are available innovative and integrated services are developed and for the inhabitants of small settlements conditions will be created to enable access to the higher level services of the modern centres. The compatibility of family life and the working place is enhanced by the development of child day-care and services helping the home care of those depending on the care of a family member. By developing and modernising community spaces, the conditions for local community and youth activities are established. The development of services related to disadvantaged people will also result in the reduction of residential institutional placement. At the same time, existing residential institutions will be modernised and the large institutions will continue to be replaced, especially those operating in manor buildings entirely unfit for providing institutional services. A basic condition for the social participation of people living with a handicap is the elimination of the physical and info-communicational obstacles. The establishment of **the conditions for complex rehabilitation** supporting the various rehabilitation tasks in a systemic way is an important development direction.

In order to **increase labour market participation**, services effectively supporting the coordination of labour market supply and demand and a training system fit to the requirements of the economy are needed. Therefore, developments have to cover the improvement of the infrastructural conditions for vocational training, adult training and employment services. In order to establish a vocational and adult training system flexibly adhering to the requirements of the labour market, and to improve the accessibility of training, the infrastructural conditions for training have to be improved. Structural changes in the vocational training system have to be promoted. Parallel to the establishment and improvement of the infrastructural conditions for institutions, regional networks of vocational and adult training have to be established. Regarding the employment service, investments will be focused on the physical and IT development of the integrated employment and social service system, spreading the new service model to the micro regional labour offices all over Hungary.

**The system of vocational and adult training is developed, integrated employment and social services and supply systems are being built out**

The **development of cultural infrastructure** also aims to contribute to improving the quality of human resources. Developments focusing on the cultural infrastructure serve primarily education and training, and life-long learning and secondly social cohesion while their indirect effect serves increased economic competitiveness. The developments are aimed at a cultural mediating system accessible to all, the institutions of public culture, the objectives of which are community development, equal access to socio-cultural services and values and wider access to information. is primarily focused on laying the foundations of the socio-cultural services, ensuring the conditions for social participation, the development of skills, increased knowledge, and the development of physical environment ensuring access to values. In line with the above, the developments focus on the establishment of multi-functional centres which serve as community locations offering a broad array of modern services, the

**The infrastructural development of an institutional network providing basic cultural services locally is important**

realisation of development pole elements supporting creativity, integrated, efficient institutional developments promoting partnership co-operations, and ICT developments enabling access to values and information, all this preferably with co-operations between institutions.

### **3.2.3.7. Regional dimensions of the development of human resources**

Certain elements of the strategy focused on increasing participation on the labour market require a unified approach, the implementation and realisation of sector policy reforms with regard to the country as a whole. At the same time, due to considerable regional differences notable in the condition of the labour market and employment opportunities, it is important that the employment policy tools are adjusted to the local economic and labour market conditions. A good basis for this is the development of an institutional system of regional level employment centres, and the related micro regional offices. In order to implement the regional aspects, a part of the resources for active labour market policies will be utilised in a decentralised way, based on the labour centres, ensuring the synergy with the regional Operational Programmes. In addition to the above, the complex (including economic, transport, employment, educational, social and healthcare developments) regional development programmes aimed at wayward micro regions will also play an important role in decreasing the regional differences in activity.

**Employment  
policy tools are  
adjusted to local  
requirements**

In the **field of education**, the structural, institutional and content-related reform steps (e.g. the unified introduction of a competence-based education, of unified measurement, evaluation and quality control systems, etc.) affecting the entire educational system, due to their character, can naturally be successful only if they affect **the whole of the country**. At the same time, the prerequisite for the success of a series of other operations affecting education is the **consistent consideration and implementation of regional aspects and characteristics**. This applies to both ESF and ERDF based infrastructural developments. Such operations are the support of developments serving the establishment of professional policies, pedagogic and physical conditions for the access to quality education, or the working out and introduction of local solutions that promote better and fuller solutions meeting the local community's cultural and learning needs.

For the success of another part of the programmes there will be a need for the simultaneous and combined application of central regulations and measures adjusted to the local conditions and needs. This is made necessary by for example, the need to improve the successfulness at school of **students suffering from multiple disadvantages, including the Roma youth**, important conditions for which are, on the one hand, the complex pedagogic development programmes covering the entire public education system, on the other hand, the working out and implementation of programmes building on local conditions and needs and supporting the actual elimination of educational segregation and discrimination.

The aim is to **always ensure the most complete attention paid to local needs and requirements** in developing the programmes and projects needed for the implementation of operations supporting the improvement of the learning chances of disadvantaged social groups and the creation of the conditions for the accessibility of quality education. For this purpose, when developing the terms for bidding, the experiences of the consultation conducted with the region and the pedagogical professional representative organisations will be built on. Developments directly responding to local needs and requirements will be preferred with the frame of the bidding system.

In addition to the above, the regional development programmes include the operations related to the modernisation of educational infrastructure, which are expressly directed to meeting local requirements and needs. The methods for defining the professional and regional frames of the activities have been negotiated between the departments of the government direction and the regions.

Building on the public cultural institutions, the culture-based ESF interventions primarily use the tools of regional development of culture and aim at improving access to services and values, and consequently, social realignment and equal opportunities. The ESF operations are closely connected to the quality development of education, so regional coverage achieved there is equivalent to the regional dimension of the cultural components.

The ERDF-based measures are implemented along central principles, on national, regional (rural, small and micro-regional) and local levels, always emphatically considering the development level of the region and the local conditions. A compulsory element of the developments is the assurance the technical and content-related accessibility of medium-sized and small settlements affected by the programme, with particular attention paid to the aspects of equal opportunity.

The components related to development poles serve dynamic regional development. The developments of cultural infrastructure aimed at enhancing community culture are built on the spatial organising effect of county towns and medium-sized cities, while the integrated institutional development based on partnership co-operations are built on small and micro regions and serve local needs and requirements. The intent is to involve the regional cultural expert organizations in defining the above and in the decision making process, too. During the developments the aim is to try and implement the regional levelling effect: wayward regions and those falling behind have a priority.

From the aspect of social inclusion and participation and human infrastructure as well, the following have been defined as guidelines to be implemented universally in regional development programmes:

- There should be a service provided for the care of babies and small

children in all settlements or settlement groups, and there should be a way to develop integrated day-care, especially in areas with a large birth rate and in areas with a large gipsy population and where such types of services have been unavailable in the settlements of rural areas;

- There should be services provided for the elderly and for groups of disadvantaged people close to home and close to families, in areas of small villages and homesteads suffering from accessibility problems;
- Information-IT and transport accessibility should improve in areas of small villages and homesteads suffering from accessibility problems and in peripheries far from main railway lines, speedways and in the most wayward regions;
- Elimination of obstacles should be continued in local authorities and public services;
- The multi-functional public spaces should be renewed and developed;
- Rehabilitation of colonies and colony-type residence areas should be continued (especially in areas and settlements with a large Roma population);
- Complex social-economic developments should serve the realignment of the most wayward areas – and those lived by a large number of Roma population.

### ***Implementation of the strategy defined in Priority 3.***

The implementation of the strategy defined in Priority 3. will take place in the frame of the **Social Renewal Operational Programme** financed from the European Social Fund (hereinafter ESF) and with the financing of the ERDF in the **Social Infrastructure Operational Programme**. The operational programmes of the regions also contribute to the implementation of the strategy.

The Social Renewal Operational Programme defines priorities and operations for both the regions with Convergence objectives and the Central Hungary region with Regional competitiveness and employment objectives. The operational programme supports the national structural reforms: reforms in the field of education, vocational training and employment but at the same time, it plays an important role in the implementation of the reform of the pension system. In addition, it is important that the measures aimed at increased activity and employment cover the Central Hungary Region, too, since 25% of the inactive population and 22.2% of the unemployed live here. The relatively favourable indicators at the same time cover up the differences between the capital city and the agglomeration, and the wayward areas of Pest county. At the same time it is a fact that the majority of the measures are geographically concentrated on the capital city, yet they have a relevance to other parts of the country, too.

The strategy included in priority 3. underlines the following guidelines of the CSG:

- More and better jobs
  - Attract and retain more people in employment and modernise social protective system
  - Improve adaptability of workers and enterprises and the flexibility of the labour market
  - Increase investment in human capital through better education and skills
  - Help maintain a healthy labour force

#### **3.2.4. Priority 4 : Environment and energy development**

The priority of environmental and energy developments is aimed at the achievement of objectives defined in the horizontal policy of sustainability. The priority contributes to the achievement of the long term growth objective by reducing influences damaging the environment, by preserving the natural environment that forms the basis of growth, and with prevention, efficiency as well as an integrated approach to complex problems. The environmental and energy development helps competitiveness by improving materials and energy efficiency. Elements of the priority also contribute considerably to achieving larger employment levels. In the case of environmental developments the fulfilment of obligations undertaken in the EU Accession Agreement.

The following intervention groups serve the environmental and energy developments:

- **Developments improving the environment**, the elements of which include:

- Achieving healthy and clean settlements including:
  - waste management,
  - waste water treatment,
  - protection of the waters, improvement of drinking water quality,
  - management of inland and surface water,
  - elimination of environmental damages;
- Good management of Hungary's waters, involving:
  - protection against floods and inland waters
  - water-collection management and integrated water utilisation measures serving the achievement of the good ecological condition of waters;
- Appropriate management of Hungarian natural values;
- Promotion of sustainable production and consumption habits.

- **Environment friendly energy** developments, the planned tools of which are:

- the promotion of developments aimed at energy efficiency and saving and at
- the production and utilisation of renewable energy;

The objectives of the sustainable use of the environment are to be realised in line with the priorities of the Community Strategic Guidelines and the

6th Environment Protection Action Programme of the European Union, in the following way:

### **3.2.4.1. Healthy and clean settlements**

Healthy and clean settlements contribute mainly to the establishment of a liveable environment, taking into consideration the development requirements of the residential areas. The environmental developments to be realised in the settlements include:

- waste management (development of complex waste treatment systems, the spread of selective waste treatment, treatment of priority waste flows, the closing down and re-cultivation of certain waste treatment institutions that do not adhere to regulations);
- waste water management of settlements;
- protection of waters, improvement of the quality of drinking water;
- inland and surface water management;
- certain settlement rehabilitation tasks also including the elimination of environment damages.

**All should have the chance to live in a healthy and safe environment**

The developments involve or may involve the entire population of the country. Their main objective is the fulfilment of the **norms prescribed by the EU**, the development of **clean and safe settlements**.

**The rehabilitation of constructed environment, harmonic relation of settlement and environment** are important for both urban and agricultural areas. This includes the re-vitalisation of brown field areas just as well as the protection of historic sights, the protection of constructed environment, the renewal of **historic settlement centres** by protecting existing values, or the protection of landscapes or cityscapes.

### **3.2.4.2. Good management of waters**

To maintain natural, economic and cultural values in Hungary, the prevention of inland waters, floods as well as other damages related to water is a priority. Therefore the construction of the flood preventive system of the Danube will be completed and the implementation of the Vásárhelyi plan expansion continued in the Tisza region. Other flood preventive investments related to water flows will also be realised, including the local authority owned developments of flood and inland water prevention systems.

**The expansion of the Vásárhelyi plan in the Tisza region is to be continued**

The improvement of environmental safety requires target-oriented, well functioning institutions. Reliable measurement, observer, forecasting and info-communicative systems and efficient infrastructural background are also needed. A necessary and sufficient condition for the above is an appropriate protective coverage in all parts of the country, and an approximately equal and proportionate safety and protection service.

In addition to defence against water inflicted damages an important task is to achieve that the waters in Hungary are in a good ecological state. The drainage management and integrated water utilisation measures serving this objective cover the measures defined by the Water Framework Directive (monitoring, protection of the quality and quantity of the waters). The objective is that the waters of Hungary reach a good ecological state by 2015. For this purpose water protective, regional water retention, water replacement and water-system rehabilitation investments (complex water protective investments, flat land water control) will be realised, water flows, lakes, branches, blind channels will be developed and the pollution of underground water prevented.

**The objective is that the waters of Hungary reach a good ecological state by 2015**

### **3.2.4.3. Good management of natural values**

Interventions implemented in the field of nature protection involve the environmental protection developments of protected areas featured in the frame of the NATURA 2000 programme and other protected areas, in the fields of, among others, the protection of species and habitat, outdoor training for children, reduction of the landscape damaging effects of lined establishments, agriculture and forestry preserving the natural habitat, and the preservation of bio-diversity. The development will or may have an environment protective effect on 20% of the country.

**Developments in the field of nature preservation will protect the rich bio-diversity of the country**

Developments realised on a sustainable course, and the long term harmonic relationship between man and environment are promoted. In line with the above, nature-friendly economic methods with ecologically favourable effects are promoted, traditional **land utilisation and farming methods** maintained and popularised.

Important tasks are the fulfilment of Hungary's obligations arising from international initiatives and agreements related to nature protection, the preservation of natural values, their introduction to the widest possible public, and appropriate provision of information.

### **3.2.4.4. Increased utilisation of renewable energy sources**

Strategic considerations related to energy supply require the reduction of fossil fuel utilisation, with regard to safe supply (cut import dependence), cost-effectiveness (replace increasingly expensive energy sources), as well as environment and climate protection. The main tool to achieve the above is **improving energy efficiency, better energy saving, and increasing the renewable energy proportion.**

**Improving energy efficiency, energy saving, increased ratio of renewable energy**

In order to achieve the energy related objectives, **energy production based on (local) renewable energy sources** is to be increased. There is a need to support the spread of more energy-efficient technologies and a more rational energy utilisation by the population – by changing the

**The proportion of renewable energy sources is increased**

regulations in addition to supporting investments.

**When using renewable energy sources, prevention of harmful environmental effects also have to be considered, and attention paid to efficient and economical utilisation,** and the establishment of community utilisation organised into regional systems. This requires the creation of an appropriate environmental and industrial background, and modern and competitive technologies have to be widely applied. **Increasing the utilisation ratio of renewable energy sources – in addition to preserving bio-diversity – in line with the principle of sustainability, can be achieved locally and gradually using small steps, primarily building on bio-mass.**

**Environment is in focus in case of renewable energy sources, too**

Reduced energy dependence and harmful emissions resulting from the use of fossil energy sources are objectives on the national level. This is to be achieved in the following way:

**The main objective is to promote energy saving**

- Development of renewable energy production: small-scale investments in energy production on the local level using renewable energy (utilisation of biomass, geothermic, wind, sun energies), spreading fuels of plant origin, modernisation of plant-based, small-scale local fuel production technologies in the frame of integrated regional energy systems;
- Increasing energy safety, including the reduction of risks for example by an energy supply which is primarily based on local resources, and the extension of sustainable energy utilisation capacities;
- Promoting research and development in the field of energetics and renewable energy – connected to the priorities of economic development;

### **3.2.4.5. Efficient energy utilisation**

In addition to influencing the structure of energy sources, an important task is to develop the tools enabling energy saving and efficient energy utilisation in both the production and the consumer spheres

**The focus is on improved energy efficiency energy saving and increased ration of renewable energy sources**

To achieve the energetics objectives, the spread of more efficient energetics technologies has to be promoted as well as the rationalisation of community energy utilisation by supporting investments and changing regulations.

Energy saving, implementation of developments aimed at energy efficiency are objectives on the national level, thus decreasing the country's energy dependence, which is achieved as follows:

- Promoting energy efficiency and saving, which involves the modernisation of the service side of district-heating, gas and electricity supply, energy efficiency developments of service parks

and local authority owned companies, public and residential buildings modernisations aimed at energy saving, as well as the introduction of modern and energy saving production technologies, and the development of systems using local, primary energy to replace the large networks the reconstruction of which entails considerable losses.

#### 3.2.4.6. Promotion of sustainable production and consumption habits

Measures reflecting the principle of preventive environment protection involve among others, the following:

- promoting the organisation of private and community production and services on an industrial ecologic base;
- spreading the best possible eco-efficient and environment friendly technologies and techniques;
- supporting and spreading sustainable consumption habits, action patterns, model projects;
- developing environment friendly attitudes.

**Eco-efficient production methods and sustainable consumption habits should be widely popularised**

With the fulfilment of environmental democracy, the general spread the sustainability attitude, improved social values and by assuring free flow of environmental information and data, inhabitants can get more actively involved in environment-related decision-making. Consequently attention will be paid to creating conditions for environment friendly life styles and sustainable consumption, environmental education and upbringing and to spread environment management systems. As a result of the developments - which involve or may involve practically any of the local authorities and their institutions, as well as the majority of small and medium-sized enterprises -, material and energy saving enterprises with a low burdening on the environment are created that use alternative energy sources. They contribute to minimizing the emission of gases with a greenhouse effect and to the protection of the climate.

**The population should be more actively involved in environment – related decision-making**

#### 3.2.4.7. Priority regional dimensions of environment-related developments

For the sake of complex landscape and environment rehabilitation, water and landscape management, flood and inland water prevention in **environmentally endangered regions**, integrated inter-sectoral developments and rehabilitation programmes need to be worked out and implemented. A priority in the **regions lacking environment infrastructure** is the development of modern waste management and waste water treatment systems that take water protection aspects in consideration and related infrastructural supply systems, as well as the spread of new, innovative environment protective technologies related to such systems. Drinking water quality improvement programmes are to be implemented mainly in the settlements of the **Great Plain and South**

**In environmentally endangered regions integrated programmes are initiated**

**Transdanubia.** In the regions with homesteads and micro settlements the creation of specific infrastructural solution based on renewable energy sources, as well as the spread of environment-friendly economic methods adjusted to the conditions of the landscape are particularly important.

The **strengthening of landscape-oriented and landscape-ecologic thinking** and the extension of the nature resort network is indispensable for nature protection. The development of environment-friendly, quality tourism based on the values of natural and landscapes, the development of welcoming, visitor, educational and exhibition centres, educational paths and outdoor training locations for children, as well as the **development of nature parks and recreation parks** are important. **In the areas included in the Natura 2000 programme**, economy and infrastructure have to be restructured on the basis of environment protective aspects, ecological nucleus areas and corridors have to be especially protected during area utilisation, and nature-friendly production systems need to be developed.

**Strengthening landscape-ecologic thinking**

Important objectives are the protection and maintenance of the cultural heritage, freeing inner city roads from dust, revitalisation of community green areas in settlements and the establishment of new green areas, planting trees in inner city areas, and the management of inland and rain water.

#### ***Implementation of the strategy defined in Priority 4.***

The implementation of the strategy defined in Priority 4. will happen mainly in the frame of the **Environment and Energy Operational Programme**, financed from the Cohesion Fund supplemented by the ERDF, but the **Economic Development Operational Programme and the regional operational programmes** also contribute to its implementation.

The strategy included in Priority 4. supports the following CSG guidelines:

- Making Europe and its regions more attractive places to invest and work
  - Strengthen the synergies between environment protection and growth
  - Address Europe's intensive use of traditional energy sources

#### **3.2.5. Priority 5 : Regional development**

The following serve the balanced development of regions:

- Strengthening of regional centres, priority development of development poles also serving the priority of innovation economic development, establishment of cooperative and competitive city networks;

**The objectives of regional development are realignment and competitiveness**

- Revived countryside: sustainable development of regionally integrated rural areas;
- Complex realignment of wayward regions;
- Sustainable development of the region of Lake Balaton, the Danube and the Tisza rivers.
- Tourism development

Strengthening regional cohesion means both **the improvement of regional competitiveness and regional realignment.**

For the sake of regional cohesion, **regional competitiveness** is improved by strengthening the centre areas (poles and axes) capable of stimulating their wider region (poles and axes), improving international accessibility and wider availability of public services systems, developing main tourism regions, and implementing integrated developments based on regional conditions. In order to ensure **regional realignment**, there is a need to abolish regional disadvantages, which hinder the effective operation of economy and reduce equal opportunities in society, alleviating regional disadvantages, reducing economic mono-centricity and the integrated development of the countryside. Another main issue is the protection and development of regionally important constructed heritage. As many of the tasks related to the above should appear in a coordinated way, in integrated programmes built in the operational programmes of the regions involved.

**Regions have to exploit their existing conditions for a sustainable regional development**

The following intervention-groups with a regional approach to be realised in the frame of several Operational Programmes serve regional cohesion – that is realignment, and the improvement of competitiveness.

### **3.2.5.1. Elements of balanced regional development**

#### ***Integrated City Development Strategy: Establishment of the network of cooperative and competitive liveable cities***

The main objective of Hungarian city policy is the establishment of a **balanced polycentric city network that is more cooperating** than the current one. Elements of this are the strengthening of the international competitiveness of the **capital city**, the designation of **regional centres** and the **support of development poles**, thus enhancing the reduction of the capital's dominance and alleviating the monocentric spatial structure of the country. The implementation of the main objective is supported by strengthening the spatial organising power of small and medium-sized towns, and the enhancement of **harmonic relations between towns and their regions** and a **more intensive relationship between the towns**. This way, the towns do not appear in isolation but in a network the elements of which are connected by relations of various intensity.

**The main objective of Hungarian town policy is a more cooperating, balanced polycentric town network**

**The outstanding role of towns in development policy is justified by the key part they play in the competitiveness of their region.** At the same

time, the principle of social, economic and environmental sustainability should appear as a decisive factor in town development, which requires an integrated approach in town policy.

It is important to establish a dynamic system which operates as the liveable network of liveable towns. The towns have a dynamising effect on their small and larger areas, their region and the country. Towns can only become driving centres of economy and long term competitiveness if they can offer liveable and attractive residential areas and become the centres to meet specific demands of tourism, too. Thus, they can obtain resources producing the largest added value in the competition for employment, tourism and investments.

**Establishing  
the liveable  
network of  
liveable towns**

Appearance of the town dimension should include on the one hand, the network of towns, which covers the objectives related to individual elements and the role these play within the town network, on the other hand, statements related to the bindings connecting the various elements. At the same time, the objectives related to internal spatial, economic and social structural problems characterising the towns and which define the how liveable a town network is, are also of primary importance.

**Budapest** and its agglomeration as the centre of the Central Hungary Region covered by Regional competitiveness and employment Objective of the European Union cohesion policy, is the most competitive region of Hungary, **and a priority development pole.** In the future, the development of the capital city should be focused on functions ensuring the competitiveness of the country, and on accessibility, while other roles of the city should be shared with the other Hungarian large cities. Therefore, in order to create the long term international competitiveness of the Budapest metropolis region interventions are launched to:

**Increased  
international  
competitiveness  
of Budapest**

- strengthen its international economic leader, tourism and cultural role and the establishment of the conditions and tools to achieve this,
- develop a competitive labour force capable of meeting the requirements of a competitive economy (which is realised in a complex way building on tools aimed at employment policy, education and training, social services and services to maintain and re-establish health),
- develop international, agglomeration and intra-city transport connections,
- implement the tasks related to services in the region (tourism - including cultural economic, logistics and commercial), and the development of information technology,
- establish a liveable region (comprehensive environment management, revitalisation of regions that have lost their function, protection of green areas, rational spatial management),
- exploit the benefits arising from the knowledge industry, high-tech industries, activities producing high added value, and highly qualified labour force, and
- interventions targeted at the regions and layers of society dropping behind, and social groups affected by various disadvantages (related to

the labour market, society and health).

The main development direction of the priority development pole of Budapest are info-communication industry, environment industry, biotechnology and medicine.

Thanks to the developments, in addition to **Budapest**, the role as development poles of the regional centres of **Debrecen, Miskolc, Szeged, Pécs** and **Győr** are extended on the medium term. As for the Central Transdanubian Region, the **city axis of Székesfehérvár-Veszprém** fulfils the role of a development pole as partner centres. Development poles contribute to the alleviation of a Budapest-centred spatial structure.

**Development poles contribute to the alleviation of a Budapest-centred spatial structure**

The individual poles should become centres dynamising their regions, mediating innovation and investments and concentrating the R&D sector, higher education institutions, and sectors with the highest added value, requiring qualified labour force. Their development therefore is built on the support of various priority scientific and industrial branches. These are the following:

- In Debrecen, the „industrialisation of knowledge” (pharmaceutical industry, agricultural innovation),
- In Miskolc, „Technopolis” (nano-technology, chemical industry, mechatronics, renewable, alternative energies),
- In Szeged, „Biopolis” (health industrial, environmental industrial and agricultural economic bio-technology),
- In Pécs, „the quality life pole” (cultural and environmental industry),
- In Győr, „Autopolis” (car industry, engineering industry, renewable energies),
- In Székesfehérvár and Veszprém ICT, mechatronics, logistics, environment industry.

In addition, the poles can be seen as the centres, “target settlements” for regionalisation, since an important step of the necessary public administration reforms should be the strengthening of the regional local authorities and the role regional centres play in development policy.

Interventions related to the development poles are implemented in the frame of the Economic Development, Social Renewal, and Social Infrastructure Operational Programmes, as well as the regional operational programmes.

In addition to large cities, medium-sized towns can be seen as centres of economic development within the town network. They play a decisive role between the regional centres and small towns. Many of the medium-sized towns undertake marked county-level functions, in cases developing considerable catchment areas. The role of some other medium-sized towns may regain importance with the extension of the European Union.

**The objective is to increase the spatial organising capacity of medium-sized towns**

To develop a balanced, polycentric town network it is indispensable to

develop the medium-sized towns in a balanced way. In Hungary currently the conditions for this are lacking primarily in the Great Plain region.

**Establishing the spatial balance of medium-sized towns and increasing their spatial organising** capacity are the main town development objectives.

The role of small towns is outstanding in dynamising rural, often peripheral wayward regions. Connecting the settlements of these regions to the town network and the creation of a new integrated town-rural area system support realignment. In regions where no town (with true town functions) is accessibly nearby, the creation or strengthening of such centres should be promoted.

**Functional renewal of rural regional centres is important**

The two main directions of realignment in rural areas are, on the one hand, developing their regional supplying and organising central functions, on the other hand, improving accessibility.

From a thematic point of view, town development interventions contribute, on the one hand, to increasing attractiveness, on the other hand to alleviating increasing social and economic problems in towns.

In line with the role they fulfil in town hierarchy, the towns play a decisive role in the implementation of the Lisbon objectives, in economic growth, employment creation, they provide space for business activities, public administration and operate as the centres for educational and cultural life. Developments aimed at increasing town and economic attractiveness are also realised in integrated areas.

Interventions increasing competitiveness (e.g. development of the business environment, brown field investment with commercial, economic function, developments increasing town attractiveness, etc.) appear in the Economic Development Operational programme and in regional operational programmes, as well as in the Central Hungary Operational Programme.

Towns are the focal points of social and economic activities, therefore the problems appear concentrated in them. It is necessary to have integrated and sustainable developments in the controversial problem areas of towns, which appear mainly in medium-sized towns and large cities. Town rehabilitation should cover programmes increasing attractiveness, social oriented town rehabilitation programmes, and brown field investments, too. Social, economic and environmental issues have to be considered in developments targeted to resolve the internal problems of towns.

**Integrated and sustainable management of internal problems of towns**

Integrated management of internal town problems should definitely cover the following aspects:

- Revitalisation (housing estates, slums, brown-field)
- Prevention of over-construction, stop expansion
- Reduction of environmental damages
- Development of environment-friendly transport means

- Value-preserving renewal of city centres
- Youth protection, enhancing social integration
- Community development
- Preserving local identity
- Improvement of public safety
- Ensuring equal access to public services

The mobilisation of private capital plays an important role in town development interventions, and the use of reimbursable support in case of fast returning investments. The New Hungary Development Plan provides and opportunity to involve town development funds implemented with the EIB and CEB (Council of Europe Development Bank) credit structure (Jessica).

***Renewed countryside: regionally integrated and sustainable development of rural area***

In the rural (countryside) areas with a poorly populated central settlement and low population density, the integrated development of products and services building on local and regional conditions is supported building on reviving local initiatives –also bearing in mind the aspects of sustainability. The stronger relations between cities and their rural environment contribute to the regionally integrated and sustainable development of rural areas.

**Development of rural areas is primarily built on local conditions**

The development of rural areas requires integrated interventions that span over individual sectoral and regional, as well as agro-regional developments. Accordingly, a part of the interventions is implemented from the European Agricultural Fund for Regional Development. The renewal chances of rural areas are different between regions with diverse local conditions. Therefore the following are necessary:

- Economic diversification, economic development not directly related to agriculture,
- Sustainable local, regional exploitation of local values and resources in areas rich in natural, landscape and cultural values through the close co-operation between regional development, nature and heritage protection and tourism;
- Revitalisation of homestead areas through developments ensuring functional changes and the protection of heritage;
- Ensuring the protection of values, functional changes and equal opportunities in areas with micro-settlements;
- Strengthening and exploitation of the unique values represented by ethnic minorities in the developments of rural areas populated by ethnic minorities;
- Social and economic integration of regions with a large Roma population by mobilising labour force, concentrating social developments and the acceptance of the traditions and values of the

Roma population.

### ***Realignment of wayward regions***

In addition to the realignment of the four wayward regions, it is important that the **micro regions** (NUTS 4) and **peripheries difficult to access** also have the chance to join in the economic and social flow of the country. In these areas the interventions focus on keeping the population and especially the qualified groups, the extension of employment, the improvement of infrastructural conditions for an appropriate way of life and on the better accessibility of public services. In addition the spatial organising effect of small and medium-sized towns needs strengthening to dynamise wayward regions.

**The chances for realignment should be provided for every region**

The development of wayward regions requires the central coordination of complex interventions spanning over regional and sector developments.

### ***Sustainable development of the regions of Lake Balaton, the Danube and the Tisza rivers***

In Hungary there are national priority regions and landscapes forming integral unities the strategic development and problem management of which should be resolved as a complex programme with a national level coordination and with the co-operation of the statistical regions, in other words with the coordination of the various Operational Programmes. Such **national priority regions** are that of Lake Balaton, the Danube and the Tisza rivers.

**The development of regions of national importance is realised with the co-operation of several regions**

Sustainable environmental development of all three regions of national importance should be implemented in a coordinated way, with economic and tourism developments and the protection of the cultural heritage.

### ***Tourism development***

Due to its priority regional development effect, tourism also serves regional realignment. Through its employment retaining and creating effects, local resources utilisation may start favourable processes on the regional level. Economic and social interests can be harmonised with the developments (developments based on thermal and health spas, cultural developments, world heritages, revitalisation of national parks, organisational and human resources development, development of IT infrastructure).

**The development of tourism has favourable economic and social effects**

Tourism related developments are basically realised region-specifically but economic development programmes, and indirectly other operational programmes also have a favourable effect on them (e.g. transport developments).

### 3.2.5.2. European territorial cooperation

The organic integration of Hungary into its broader environment and into the European space is realised through cross-border and cross-regional developments. These developments considerably contribute to the development and competitiveness of individual regions and the country as a whole. In order to ensure the viability of developments encompassing two or more countries or regions, Hungary is preparing an independent document which at the same time forms the integral part of the New Hungary Development Plan.

**Macro-regional and cross-border developments**

Through developments extending over the borders of Hungary, the Government intends to enhance the realignment and modernisation of Hungarians living in the neighbouring countries in a European framework. The development policy negotiated with the neighbouring countries and aimed at setting the region on a modernisation course defines joint regional, infrastructural, institutional and economic development programmes as its objectives.

### 3.2.5.3. Development directions of individual regions in Hungary

Due to their differing conditions, individual regions and areas have considerably different development possibilities. Of the seven Hungarian regions, six fall under the objectives of "Convergence", and one has "Regional competitiveness and employment" as objective.

Building on regional conditions and strategies, strengthening the viable functions of the regions, improvement of their resource attractiveness, (that is strengthening their relative competitiveness), and at the same time, the extension of employment should be aimed at. Development-wise disadvantaged regions receive greater government and regional support for this, so increasing competitiveness may also become a tool for realignment.

**Wayward regions should obtain relatively more support**

Co-operation between regions is to be strengthened in developing and implementing cross-border programmes. Resources need to be allocated for the regions involved to resolve joint development tasks.

**Developments involving several regions are implemented**

Building on the intervention areas described above, the individual regions have designated the following development directions for themselves.

#### **Regions falling under the objective of "Convergence"**

**In the South Great Plain Region** the main objective is to strengthen the knowledge industry and agriculture and related food industry, engineering industry, glass, ceramics and chemical industries as part of economic development built on local conditions, and also to launch economic structural change focusing on the above. Thermal, health and active

**South Great Plain: knowledge industry, agriculture,**

tourism are in the centre of the development of tourism attractiveness. As for renewable energy sources, the utilisation of geothermic, wind, sun and bio-mass energies are to be developed. The region located in the south east gate of the European Union strives to build out an international and logistics role.

**tourism**

Szeged as a development pole, stands in the regional and settlement development focus of the region, as well as the other elements of the city network and the polycentric development of the agricultural city network. Particular attention has to be paid to the currently peripheral Romanian and Serbian border areas, the Homokhátság area with a homestead centred settlement structure and the valley of the Körös rivers. The region plays a role in developments of national importance which are to be realised with regional and sectoral coordination, too.

**The South Transdanubia Region** wishes to become a model region with a high quality environment by maintaining and sustainably utilising its natural values and cultural heritage. In the developments the following play a considerable role:

**South  
Transdanubia:  
model region  
with a high  
quality  
environment**

- Innovative environment industrial and energy sources,
- Market-oriented creative industrial and cultural sectors, and
- Development of the health industry building on the life-science research base and the healing centres of the regions.

In order to increase employment, the modernisation of the remaining traditional sectors (textile, leather and wood industries) is necessary. The establishment of the favourable living conditions necessitates developments concentrating on healthcare and social services, the educational system, the cultural and recreational infrastructure of regional and micro-regional centres, and the improvement of accessibility. This requires the development of regional transport (public roads and railways) network. An important element of creating an integrated regional community transport system is the re-establishment of the fixed rail transport system of Pécs and the establishment of related suburban transport. In the centre of developing an attractive tourism offer is the creation of a product portfolio uniting the local conditions of the five important tourism areas of the region.

The region also plays a role in the developments implemented in the nationally important regions of Lake Balaton and the Danube. In addition to the development pole Pécs and its area under the Cultural Capital of Europe 2010 programme, the regional growth zones (the Kaposvár-Dombóvár, the Paks-Szekszárd-Mohács and the South Balaton development axes), and rural areas that have considerable landscape values, which have many micro-settlements and which are hard to access as well as being densely populated with national minorities and Romas (the Dráva banks, Hegyhát) are in the focus of the developments in the region.

Using its specific conditions, the comprehensive objective of the **North**

**North Great  
Plain: centre of**

**Great Plain Region** is to become the centre of quality life, health and recreation in East Central Europe.

**quality life,  
health and  
recreation in  
the region**

The objectives defined in line with local conditions focus on the priority development of competitive, knowledge-based and innovation-oriented economy, as well as on improving the conditions of and sustainably using natural and environmental systems, providing opportunities for a healthy life, developing an innovation-oriented and market-lead agriculture based on the competitive advantages of the region, on reducing regional differences and strengthening an employment-centred social cohesion in the region.

In order to achieve the above objectives, the region pays particular attention to developments improving its accessibility ((M3, main road no.4. and railway 100), as well as making use of the logistics opportunities arising from its geo-strategic advantages. The foundations for regional competitiveness necessitate the use of educational, R&D and innovation potential related to competitive large cities (especially Debrecen as a development pole), mainly in the fields of agro-innovation, biotechnology, pharmaceutical industry, ICT. Tourism-related developments concentrate primarily on the natural values of the Tisza river and its tributaries, the Hortobágy National Park, and thermal water, as well as the cultural values characterising the entire region. The agricultural potential not only provides opportunities for agricultural production and food processing, but for the production of renewable energy sources, too. Social and labour market re-integration of disadvantaged groups – especially the large number of Roma population – is very much characteristic of the region.

Due to the regional differences appearing in the North Great Plain Region there is a need to **increase competitiveness** and at the same time to **support** growth-oriented **realignment**. In addition, improving **employment** is important for both increased competitiveness and realignment, as employment rate here is the lowest in the country.

Debrecen and its agglomeration (as a regional development pole), Nyíregyháza, Szolnok and their agglomerations (as regional development sub-centres), the dynamic and easily stimulated regional centres (agricultural towns with a considerable agglomeration or without an agglomeration), and the regions awaiting realignment (settlements that act as micro regional centres for those living in the area and that are potential spaces for regional resources utilisation) are in the focus of regional development.

The region undertakes a role in the Tisza region development endeavours of national importance, which are to be implemented with the coordination of regions and sectors.

Priority objectives *of the North Hungary Region* in the field of industry and services include:

**North  
Hungary:**

- Increasing economic performance capacity with the development of the leading sectors in the region – mechatronics, chemical industry, environmental industry, energy industry built on renewable energy sources;
- Development of a regional knowledge centre and an integrated supplier and logistics network system, and
- The development of business services helping enterprises.

**industrial  
development,  
services and  
tourism**

To develop a competitive tourism region also noted internationally, it is indispensable to develop national and international tourist attractions built on the special conditions of the region (mountainous landscape with forests, historic wine-growing areas, world heritage locations and nature resorts), and the establishment of a regional tourist network.

Competitive big cities (especially Miskolc, the development pole) are the focus of regional settlement development, in which the most important tasks include the strengthening of the economic innovation and knowledge centre role, as well as the development of regional administrative and cultural services.

In cities and related catchment areas capable of transferring knowledge and innovation, it is a fundamental objective to develop micro regional economic functions and to ensure the conditions for accessible quality public services.

In the most wayward micro regions usually with tiny settlements and a large number of Roma population, strengthening micro regional public services functions, an increased decision-making and administrative role, establishing virtual accessibility, a considerable increase of employment, and the social and economic integration of the discriminated layers are all priorities.

In order to realise the comprehensive objectives (to support growth and increased employment) the region pays particular attention to infrastructural developments.

The region undertakes a role in the Tisza region development endeavours of national importance to be implemented with the coordination of regions and sectors.

In order to improve the competitiveness of the *Central Transdanubia Region* the innovation-oriented development of an economy based on local small and medium-sized enterprises is indispensable. The structural change in the tourism sector is also needed, with the introduction of innovative tourism products building on existing attractions, historic and natural values – Lake Balaton, the Balaton highlands, the natural resources of medium-sized mountains (Bakony, Vértes, Gerecse), historic towns (especially the royal towns), the rich cultural heritage, castles and museums and the historic wine-growing regions - and the modernisation of tourism infrastructure and marketing. In addition to modernising the

**Central  
Transdanubia:  
region of  
innovative  
solutions**

educational system, laying the foundations for and maintaining competitiveness also require the establishment of the infrastructural background for the conscious development of human resources and employment, and a compatible innovative social and healthcare service system. This also results in stronger cohesion within the region and so does the support of lower level public road networks and community transport means. The region wishes to improve the quality of life of its inhabitants by supporting environment conscious local developments..

Growth partner centres (Székesfehérvár, Veszprém), county towns (Tatabánya, Dunaújváros) functioning as regional de-centres and medium-sized towns most suitable for innovation are in the regional and settlement focus of the Central Transdanubia Region. The regional level priority task is the development of areas that

- struggle with the economic, social and environmental heritage of socialist industrialisation,
- are falling behind or are stagnating, (in certain cases these have tiny villages with agricultural traditions), and
- have considerable tourism related or large economic growth potential on a regional level (the highlands of Balaton, Lake Velence, the Danube Bend area, the area of main road no.8).

The region undertakes a role in the Balaton Region and Danube Region development endeavours to be implemented with the coordination of regions and sectors.

In order to renew the economy of the **West Transdanubia Region**, and for the development of the north-south Pannonian economic axis there is a need to extend the network of regional innovation and technology centres, and the establishment of cluster-management organisations promoting the co-operation between existing and foundation of new enterprises. A priority objective is to increase the research-development capacity, because the region considerably lags behind in this respect. Developments realised in cluster-type co-operations aimed at unique, quality health and recreation tourism built on thermal waters and developments connected to active tourism, the development of regional and thematic tourism programmes and networks all form the basis for renewing the so-called “Pannonian” heritage (e.g. development of the network of manors and castles). The transport development objective of West Transdanubia connecting five countries is the coordinated model implementation of transport, logistics, community transport developments related to the construction of the north-south bound transport axis. A priority objective is increasing the utilisation of renewable energy sources and the development of energy saving, self-supportive micro regional systems.

**West-  
Transdanubia:  
development of  
the north-south  
Pannonian  
economic axis**

The settlement development focus of the regional developments are priority developments in Győr (development pole) and its city network (Szombathely, Sopron, Zalaegerszeg, Nagykanizsa). The region strengthens the cities without considerable special features by developing

their spatial organising and public service functions, by increasing local employment opportunities, and improving accessibility. In addition to maintaining local values in areas with small settlements, it is important to develop the settlement environment, the unique and special organisation of public services functions, to improve the accessibility of micro regional centres, and to enhance employment. The region particularly strives to develop and implement integrated micro regional programmes and project packages based on local initiatives.

***The region falling under the “Regional competitiveness and employment” objective***

In the **Central Hungary Region** falling under the Regional competitiveness and employment objective of the European Union, the main aim is to increase the competitiveness and attractiveness of the region in addition to implementing the aspects of sustainability. This **region is of priority importance with regard to the implementation of the Lisbon objectives**, since Budapest and this region provide the two-thirds of Hungary’s innovation performance.

**Central Hungary is of priority importance with regard to the implementation of the Lisbon objectives**

In addition to increasing the competitiveness of Budapest, the development of the region requires the continued strengthening of integral connections with its agglomeration, the strengthening of the city network elements of the region, and the priority development of the wayward regions in Pest county.

The developments of the region build on the synergy of sectoral and regional developments. The main intervention areas are:

- the innovation-oriented development of specific economic elements in the region,
- improved accessibility in the region through the infrastructural developments of the public services,
- revitalisation of the natural environment and the development of settlement factors needed for quality life,
- development of the regional transport system, with special regard to community and environment-friendly transport.

The region also undertakes a role in the sectoral and regional co-ordination related to the developments of the Danube region that have a national importance.

***Implementation of the strategy defined in Priority 5***

The implementation of the strategy defined in Priority 5 happens **mainly realised from the ERDF financed convergence-regional operational programmes**, namely:

- West Transdanubia Regional Operational Programme,
- Central Transdanubia Regional Operational Programme,
- South Transdanubia Regional Operational Programme,

- North Hungary Regional Operational Programme,
- North Great Plain Regional Operational Programme,
- South Great Plain Regional Operational Programme;

And the **Operational Programmes of the region with the objective “Regional competitiveness and employment” also financed by the ERDF**, that is

- the Central Hungary Regional Operational Programme;

In addition to the above, the following serve the implementation of the strategy:

- the Economic Development Operational Programme,
- the Environment and Energy Development Operational Programme,
- the New Hungary Regional Development Strategic Plan and
- the operational programmes related to European territorial co-operation.

The programmes related to the “European territorial co-operation” objective of Priority 5 are developed independently, separate from this document, their integral connection with the other parts of the New Hungary Development Plan is merely referred to herewith.

The principles of defining the sectoral and regional Operational Programmes are included in Annex 2.

The strategy included in priority 5. supports the following guidelines of the CSG:

- Territorial dimension of cohesion policy
  - Contribution of cities to growth and jobs
  - Support the economic diversification of rural areas, fisheries areas and areas with natural handicaps
  - Cooperation between regions

### **3.2.6. Priority 6: State reform**

To implement the comprehensive objective of increasing employment and long term growth, a strategy is defined to support the implementation of the state reform.

**State reform also means a change in attitude**

Interventions defined in the frame of the state reform process – in the Convergence Programme and in the National Action Programme, too – cover the entire spectrum of public financed activities. The objective of the interventions is to enable the state to provide sustainably financed, better quality and more easily accessible services for the citizens and enterprises. Thus, a considerable part of the developments covered by the state reform appear in the group of other interventions mainly aimed at social renewal.

Interventions to support state reforms are planned in two areas here. These

are the following:

- **Renewal of the public administration**, the main elements of which include:
  - renewal of governing
  - strengthening the influence of civil society,
  - changing public administration into a service,
  - strengthening integrated micro regional and regional decision levels;
- **Modernisation of public services** the main elements of which include:
  - renewal of the internal processes and structure of public administration and public services,
  - developments supporting the accessibility of public services

Through the attitudinal change related to state reform, the state is made capable of contributing to increasing the performance capacity of the country. To achieve this, the **efficiency of public administration functioning should be improved and higher level administrative services** offered to the clients.

**The objective is to improve government work and to provide higher level public services**

With **more efficient organisation of its work processes, administrative and services structures** and by providing accessible public goods independent of time and space through **electronic government tools**, and also by strengthening the **social capital**, the state contributes to achieving long term growth and the creation of better quality jobs. The developments aimed at realising the state reform at the same time contribute to the reform of the large distribution systems, too.

### 3.2.6.1. Renewal of public administration

The use of electronic applications does not automatically mean the spread of a new attitude in the public sphere. It is merely a tool for attitudinal change. In addition to this, the following tools are important in the field of public administration capacity development:

- improvement of the social success of policy making – especially legislation - and implementation;
- strengthening civil society participation in public affairs;
- the achievement of higher organisational performance and improved service quality;
- improvement of the human resources skills;
- implementation of the principle of subsidiarity.

**The modernisation of the public administrative system is a manifold task**

A complex process control should be implemented for all the elements of the **policy making** cycle. Improving legislation and strategic management should be primarily in the focus when preparing decision-making. A clearer and simpler regulative environment decreases the number of legislative modifications and reduces law enforcement difficulties. In

**A clearer regulative environment is needed**

addition to the above, attention should also be paid to the improved efficiency in implementing the decisions already made, as well as the monitoring and control of implementation. Due to the reverberating effects, the greatest achievements can be reached in these fields.

The regulative environment based on **quality legislation** reduces the number of urgent legislative modifications, and makes task implementation more efficient, quicker and simpler with reduced legislative difficulties. A high priority task is the reduction of administrative burdens arising from laws.

**Quality legislation reduces administrative burdens**

**Actively involving the social partners** in the preparation of decision-making and implementation means more than the classical partnership: it revitalises local democracy, enables consensus based decisions, and makes implementation easier. In addition to the spread of electronic tools, this requires a more active public participation, that is:

**The objective is to involve social partners**

- the operation of civil, state and local authority fora and round table discussions;
- the improvement of the interest representing and reconciliation systems of the civil sphere;
- establishment, development and support of local publicity in the processes of governing and policy making.

In line with the expectations of the economic players and citizens **organisation performance needs improving** to reduce the time and money spent on public administrative services. Procedures can be simplified through organisational development and rationalisation measures, which reduces the burdens of the clients and increases the performance of the administrative organisations involved. The time required to pass judgements should be reduced by increasing the capacities of jurisdiction authorities. The quality of the services provided by the state has to be improved based on client satisfaction studies, with particular attention paid to the unified handling of administrative forms in various access channels. Social organisations should be involved in public tasks which may also result in improved standards.

**The objective is to improve organisational performance in the public administration**

**The improvement of human resources within the unified government personnel policy** focuses on the restructuring of recruitment – e.g. introduction of an open competition system for becoming a public servant -, the development of management skills, and the improvement of professional quality, emphasises performance-orientedness and aims at public administrative cultural change. All of these partly support the spread of knowledge and skills needed to tackle new problems, and to handle the strong retirement wave expected after 2008. Personal responsibility is an indispensable factor in improving the performance of public administration.

**The training of public administration workers is also in the focus**

There is a need to strengthen the role of local authorities **in terms of subsidiarity**. On the regional level, a stronger development policy role is the primary objective. On the micro regional level however, the primary

**The role of local authorities of the regions has**

task is to prepare and implement integrated developments, and support and coordinate the legislative work in the settlements..

**to be strengthened**

Interventions are to be realised which stay sustainable on the long term and have an effect on all the fields of public administration. At the same time, naturally different tools are to be used on the various levels in line with their specific character.

For the sake of coherence, public administration developments implemented through other programmes too, have to adhere to the public administration programme of the Government.

While preparing the measures directed to public administration developments having also an effect on the number of employees working in public administration, employment effects have to be considered in advance – and asking the opinion of the trade unions involved. The labour-force restructuring - related to reconsidered state tasks and rationalised procedures - has to be plannable and based on a schedule, and measures have to be worked out to help maintain the labour market activity of involved employees.

**Employment effects are considered while restructuring public administration**

**Development policy has to be integrated** in the institutional and procedural order of public administration. The regional harmony of various development interventions is guaranteed by the national level **regional coordination** of programmes. An important element of decentralisation is the implementation of regional programmes and the involvement of the regions in the planning and implementation of sectoral programmes, as well as a stronger regional planning and regional role.

### **3.2.6.2. Modernisation of public administrative service, electronic public administration**

The main objective of the Hungarian Information Society Strategy (MITS) is the realignment of Hungarian information society to the EU average level. In addition to it is the extension of information and communication technology applications, primarily through the modernisation of processes and services. The development of public administration appears under the intervention area of content and services, which is developed in detail by the E-Government 2005 strategy.

**The intent behind the strategies mentioned is to ensure that the development of public administrative services support the improvement of social competitiveness.** The development of electronic public services also serving the business sphere establishes an attractive business environment for enterprises and investments, increasing the competitiveness of the country. The administrative expenses and administrative time of enterprises can be reduced by restructuring the services and establishing the full range of electronic administrative forms.

The introduction and extension of IT applications at the same time mean a

quality improvement compared to earlier reform-type initiatives in public administration. The aim is to establish a **flexible institutional** system supporting the objectives of state reform. Therefore particular attention is paid to renewing the institutions of the state institutional system and their internal operation.

This priority supports the implementation of IT society through the development of public administrative services and the construction of a common electronic identification system – also covering other public services. This also means the difference compared to info-communication developments implemented in the frame of other priorities. .

The public administration and public services processes should be placed in a new logical system in line with the requirements of information technology, simplicity and transparency.

A new electronically operating system should be established in administration by developing institutional, organisational and process models. The institutions and systems need to be connected in order to utilise the service portfolio and knowledge base to the fullest possible extent.

**Internal institutional bases for e-administration are created**

In order to improve judiciary authority services, the service character of **jurisdiction** work has to be strengthened, electronic access to courts established, and there is a need to **develop the info-communicational basis** for the internal processes and **services** of judiciary organisations.

**Certain processes of jurisdiction will be electronic**

The basis for offering and using state services is identifiability. Consolidation of large database systems enabling identification and the connection of databases should be ensured.

**Ensuring the consolidation of database systems**

The condition for the establishment of quality services – in addition to restructuring the internal institutional operation of public administration - offered to clients by the state is the existence of a connection between the state offering the service and the client using it.

In order to provide and utilize electronic public services and other state services, it is necessary to review and to simplify the processes and regulatory background of these services provided by specific organizations, meanwhile to introduce electronic base for these processes.

Special centres – supported by IT infrastructure and e-government know-how - offering complex services need to be established to ensure wide access to public administrative services. The current institutional centred approach will gradually be replaced by a **service and client-oriented approach** – which can respond better to increasing demands of citizens and enterprises.

**Service and client-oriented approach in public services, real and virtual centres**

The aim is to ensure access to **community information and management of affairs electronically**, too. **In addition to the personal one, multi-channel access and management of affairs** (by phone,

mobile phone, through the internet) should be made available.

Public utilities (identification card) for client identification should be established and the central network ensuring information flow developed. **The use of a central infrastructure** will reduce parallel expenditures resulting from island-like IT developments. With the IT tools supported rationalisation of administrative system procedures the bureaucratic elements of public administrative functioning can be reduced.

**The bureaucratic elements of public administration can be reduced with IT tools**

While rationalizing administrative systems, an effective institutional system for development policy can be achieved. In the framework of this it is necessary to create a system providing user-friendly development policy services. This makes the integration of same functions at the level of the Government, and it makes standardized solutions possible. Through expanding the unified system of utilization and linkages to the field of development policy, we want to catalyze the diffusion of the utilisation of the system for the whole public sphere.

**We create a customer friendly electronic service providing system for the development policy**

When implementing the developments, the involvement of working capital is initiated in all cases where possible to support economic growth. Resources present in human capital will be used as catalysts to modernise the administrative systems thus enhancing the implementation of a service provider state. The established conditions of the civil sphere, the strengthening of a democratic society and the resulting structural changes provide an opportunity for the civil society to take over some of the tasks of the public sphere.

In addition to the good functioning of representational democracy, more and more opportunities are to be provided for citizens to directly mould the future of their wider and narrower communities. Modern institutions of social dialogue will be operated and **special attention paid to the new forms offered by e-democracy**. Using the opportunities offered by IT, civil society, churches and interest representing bodies - including the Roma organisations deserving particular attention due to the implementation of horizontal principles -, are to be involved in decision-making.

**Modern institutions of social dialogue will be operated**

Soft tools (training, counselling) are also used to extend e-government knowledge and to speed up the attitudinal changes required for the spread of IT tools.

The spread of electronic public services requires the training and information of the user side. The operational programmes connected to the e-priority include training elements directly related to special applications, while info-communication training of a general type (digital literacy) is included in other priorities.

### ***Implementation of the strategy defined in Priority 6***

The implementation of the strategy defined in Priority 6 is carried out

- modernisation of the administrative system in the frame of the **State Reform Operational Programme**, with ESF financing ,
- improvement of infrastructural conditions, in the frame of **Electronic Public Administration Operational Programme**, with ERDF financing.

Both the State Reform Operational Programme and the Electronic Public Administration Operational Programme cover the regions with the “Convergence” objective and the Central Hungary Region with the objective of “Regional competitiveness and employment”. This is supported by the public administrative services representing a national policy, therefore unified and identical work processes are important independent from where they are implemented. In addition, the governmental regulatory and administrative functions of public administration are in Budapest, that is the Central Hungary Region, yet their realisation takes place on the regional level.

The modernisation of public administrative functions takes place on the basis of national branch policy, in a unified electronic system in order to ensure cost-efficiency and unity.

The activities of both operational programmes can only be coordinated centrally.

The strategy included in Priority 6 supports the following CSG guidelines:

- Improving knowledge and innovation for growth
  - Promotion of an IT society for all
- More and better jobs
  - Administrative capacity

### ***3.3. Coordination and communication of the New Hungary Development Plan***

Effective coordination serving the implementation of the New Hungary Development Plan makes it necessary that a central government organisation takes responsibility for the coordination of the planning and utilisation of these funds and the information of the population, the utilisation of even historically outstandingly high amount of public moneys. A resource for this is the technical assistance (TA) to be allocated from the Cohesion Fund and Structural Funds.

**Stricter coordination of larger resources is needed**

The objectives of the allocated TA fund are:

- In the field of **programming and evaluation:**

- Preparation of studies and evaluations related to the New Hungary Development Plan as a whole;
- In the field of **implementation**:
  - Establishment and development of a central control authority, an approving and payment issuing authority and audit authority capacity;
  - Continuous training, working out and implementing of methodology and programmes for HR development related to the above organisations and the institutional system as a whole;
  - Development of an IT system in line with EU regulations supporting the people working in the institutional system;
- Support the preparation and implementation of good quality **projects**:
  - Informing possible beneficiaries and the wider public on the development plan as a whole;
  - Establishment and operation of an expert network supporting the preparation and implementation of the projects of local authorities and civil beneficiaries.

The coordination of the New Hungary Development Plan and the Operational Programmes between 2007 and 2013, in other words the **coordination and communication of the development plan** is financed from the TA part of the funds in the frame of the **Implementation Operational Programme**. OP-specific activities - which can be connected to individual operational programmes - can be financed from the technical assistance funds of the OPs.

## 4. List and Structure of the Operational Programmes

Based on the priorities described in Chapter 3, we envisage to implement the following operational programmes:

Priorities	Operational programme	CCI numbers
<b>1. Economic development</b>	▪ Economic Development OP	2007HU161PO001
<b>2. Transport development</b>	▪ Transport OP	2007HU161PO007
<b>3. Social renewal</b>	▪ Social Renewal OP	2007HU05UPO001
	▪ Social Infrastructure OP	2007HU161PO008
<b>4. Environment and energy developments</b>	▪ Environment and Energy OP	2007HU161PO002
<b>5. Regional development</b>	▪ West-Transdanubia Operational Programme	2007HU161PO003
	▪ Central Transdanubia Operational Programme	2007HU161PO005
	▪ South-Transdanubia Operational Programme	2007HU161PO011
	▪ North-Hungary Operational Programme	2007HU161PO006
	▪ North-Great Plain Operational Programme	2007HU161PO009
	▪ South-Great Plain Operational Programme	2007HU161PO004
	▪ Central Hungary Operational Programme	2007HU162PO001
<b>6. State reform</b>	▪ State Reform OP	2007HU05UPO002
	▪ Electronic Public Administration OP	2007HU16UPO001
<b>Co-ordination and communication of the New Hungary Development Plan</b>	▪ Implementation OP	2007HU161PO010

*(Remark: Operational programmes under the European Territorial Cooperation are not part of the National Reference Framework.)*

We intend to ensure the possibility of experimenting with the trial of new ideas and approaches as well as adopting best practices (experimentation)

in case of certain operational programmes – especially during regional operational programmes .

## **5. Indicative Financial Plan and Additionality**

### ***5.1. Indicative financial allocation plan of the operational programmes***

**Funds amounting to EUR 22.4 billion** on 2004 price level are available to us under the cohesion policy section of the European Union’s budget for the period between 2007 and 2013. This is completed by the national public contribution amounting to 15% of the total available funding, thus **in total EUR 26.3 billion may be used for developments.**

**EUR 26.3 billion  
may be expended  
for developments**

These funds will furthermore be completed by the expenditures from own contribution of the organisations implementing developments (enterprises, local governments, non-profit organisations), thus in all developments in excess of this volume may be implemented.

In addition to those under the cohesion section, further EU development funds amounting to about EUR 3.4 billion are available for Hungary from the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF).

The main criteria taken into consideration when defining the fund allocation rates are as follows:

- EU regulations concerning utilisation of the Cohesion Fund and of the Structural Funds;
- relative weight of the different intervention areas in attaining the main goals;
- development obligations in the field of environmental protection and transport, deriving from our EU membership;
- relative development level of the country’s different regions;
- probable fund absorption potentials of the different intervention areas;
- the objectives set in the Programme of the Government.

Funds under the cohesion policy section derive from three development funds:

- Cohesion Fund (CF – transport, environmental protection, energy)
- European Regional Development Fund (ERDF – physical infrastructure, supplies, R&D etc.)
- European Social Fund (ESF – human development, training, public administration).

Limitations under the Funds:

- No diversion is allowed from the stipulation of the Financing Memorandum allocating **EU funds to Central Hungary falling under the “Regional development and employment” Objective – within the Structural Funds – amounting to EUR 1860 million.** The

ESF funded developments from that will be implemented through the Social Renewal Operational Programme and the State Reform Operational Programme; while the ERDF funded developments from that will be implemented through the Central Hungary and the Electronic Public Administration Ops.

- Funds amounting to max. 4 % of the total available allocation (EUR 0.9 billion) may be used for financing the preparatory, management, monitoring, evaluation, information and supervision activities – including also strengthening of the administrative capacity indispensable for the implementation of the programmes – of the New Hungary Development Plan and of the Operational Programmes. These funds (**Technical Assistance**) appear at two locations: in the OPs' separate priorities and in the horizontal Implementation Operational Programme created for this purpose (this allocation is indicated in separate line in the financial table).
- National performance reserve may be allocated and decision on their use has to be made by the end of 2011, in knowledge of the Programmes' implementation. In compliance therewith, we have made this national performance reserve amounting to 2.5% of the Convergence objective's ERDF and ESF allocations.
- The financial framework for the „European Territorial Cooperation” objective (cross-border programmes, projects) is fixed: it contains EUR 338 million co-financing; this funding is composed of cross-border and trans-national allocation of funds, which will be integrated into the joint cross-border and trans-national budgets following programme level allocation decisions by the countries concerned.

The Government has defined the allocation of funds among the operational programmes as follows:

*(Note: The table includes the indicative financial allocation in current prices, in euro and in line with relevant decrees, giving the annual breakdown of EAFRD and EFF funds as well.)*

**Table 9.** Indicative financial allocation plan of the operational programmes

<b>Financial table of the NHDP per operational programmes, 2007-2013</b>										
Convergence objective			EUR, current prices, commitments							
Operational programme	Source	Total	2007	2008	2009	2010	2011	2012	2013	
Economic Development OP	ERDF	2 437 402 984	342 709 556	332 657 923	316 973 790	328 400 461	372 828 144	361 364 632	382 468 478	
Transport OP	CF+ERDF	6 289 779 395	364 188 005	597 138 725	859 352 936	1 032 699 259	1 094 686 465	1 139 959 612	1 201 754 393	
	CF	5 185 389 729	208 905 971	446 411 096	715 731 803	883 900 691	925 757 670	976 224 945	1 028 457 553	
	ERDF	1 104 389 666	155 282 034	150 727 629	143 621 133	148 798 568	168 928 795	163 734 667	173 296 840	
Electronic Public Administration OP	ERDF	357 306 637	65 290 039	58 624 473	51 079 216	46 420 553	45 320 058	44 046 127	46 526 171	
<i>Central Hungary Region</i>		76 422 554	25 796 504	20 289 280	14 551 447	8 575 985	2 355 685	2 402 798	2 450 855	
Social Infrastructure OP	ERDF	1 948 922 941	274 027 118	265 989 934	253 449 059	262 585 709	298 109 639	288 943 529	305 817 953	
Environment and Energy OP	CF+ERDF	3 852 957 624	194 954 364	351 657 916	528 656 684	642 625 891	677 749 187	709 531 437	747 782 145	
	CF	3 456 926 488	139 270 648	297 607 397	477 154 536	589 267 128	617 171 780	650 816 630	685 638 369	
	ERDF	396 031 136	55 683 716	54 050 519	51 502 148	53 358 763	60 577 407	58 714 807	62 143 776	
West-Transdanubia OP	ERDF	463 752 893	65 205 692	63 293 216	60 309 072	62 483 170	70 936 210	68 755 103	72 770 430	
Central Transdanubia OP	ERDF	507 919 836	71 415 758	69 321 142	66 052 793	68 433 948	77 692 040	75 303 208	79 700 947	
South-Transdanubia OP	ERDF	705 136 988	99 145 354	96 237 434	91 700 038	95 005 754	107 858 617	104 542 240	110 647 551	
South-Great Plain OP	ERDF	748 714 608	105 272 560	102 184 927	97 367 119	100 877 132	114 524 303	111 002 973	117 485 594	
North-Great Plain OP	ERDF	975 070 186	137 099 147	133 078 045	126 803 690	131 374 869	149 147 929	144 562 012	153 004 494	
North-Hungary OP	ERDF	903 723 589	127 067 503	123 340 627	117 525 372	121 762 074	138 234 666	133 984 304	141 809 043	
Implementation OP	ERDF	343 095 254	48 240 699	46 825 804	44 618 064	46 226 512	52 480 270	50 866 636	53 837 269	
Social Renewal OP	ESF	3 361 711 436	552 273 738	510 950 617	461 573 422	443 835 530	464 845 952	451 185 375	477 046 802	
<i>Central Hungary Region</i>		404 182 559	136 432 199	107 305 663	76 959 493	45 356 554	12 458 714	12 707 889	12 962 047	
State Reform OP	ESF	145 432 031	29 049 043	25 482 400	21 548 824	18 611 340	16 911 746	16 460 064	17 368 614	
<i>Central Hungary Region</i>		43 670 032	14 740 860	11 593 874	8 315 113	4 900 563	1 346 106	1 373 028	1 400 488	
National Performance Reserve		373 419 835	0	0	0	0	0	184 861 304	188 558 531	
<b>NSRF in total</b>		<b>22 890 071 092</b>	<b>2 298 969 013</b>	<b>2 637 594 366</b>	<b>2 997 184 026</b>	<b>3 342 509 100</b>	<b>3 665 164 721</b>	<b>3 868 884 841</b>	<b>4 079 765 025</b>	
ERDF in total		10 815 044 164	1 520 642 672	1 476 042 393	1 406 450 047	1 457 151 528	1 654 282 393	1 603 417 440	1 697 057 691	
CF in total		8 642 316 217	348 176 619	744 018 493	1 192 886 339	1 473 167 819	1 542 929 450	1 627 041 575	1 714 095 922	
ESF in total		3 059 290 876	430 149 722	417 533 480	397 847 640	412 189 753	467 952 878	453 564 522	480 052 881	
EAFRD		3 805 843 392	570 811 818	537 525 661	498 635 432	509 252 494	547 603 625	563 304 619	578 709 743	
EFF		34 291 356	4 885 263	4 641 875	4 331 579	4 441 817	5 042 728	5 326 934	5 621 161	

**Financial table of the NHDP per operational programmes, 2007-2013**

Regional competitiveness and employment objective

EUR, current prices, commitments

Operational programme	Source	Total	2007	2008	2009	2010	2011	2012	2013
Central Hungary OP	ERDF	1 506 802 363	508 622 538	400 038 109	286 906 854	169 090 333	46 446 389	47 375 317	48 322 823
Electronic Public Administration OP	ERDF								
<i>Central Hungary Region</i>		76 422 554	25 796 504	20 289 280	14 551 447	8 575 985	2 355 685	2 402 798	2 450 855
Social Renewal OP	ESF								
<i>Central Hungary Region</i>		404 182 559	136 432 199	107 305 663	76 959 493	45 356 554	12 458 714	12 707 889	12 962 047
State Reform OP	ESF								
<i>Central Hungary Region</i>		43 670 032	14 740 860	11 593 874	8 315 113	4 900 563	1 346 106	1 373 028	1 400 488
<b>NSRF in total</b>		<b>2 031 077 508</b>	<b>685 592 101</b>	<b>539 226 926</b>	<b>386 732 907</b>	<b>227 923 435</b>	<b>62 606 894</b>	<b>63 859 032</b>	<b>65 136 213</b>
<b>ERDF in total</b>		<b>1 583 224 917</b>	<b>534 419 042</b>	<b>420 327 389</b>	<b>301 458 301</b>	<b>177 666 318</b>	<b>48 802 074</b>	<b>49 778 115</b>	<b>50 773 678</b>
<b>ESF in total</b>		<b>447 852 591</b>	<b>151 173 059</b>	<b>118 899 537</b>	<b>85 274 606</b>	<b>50 257 117</b>	<b>13 804 820</b>	<b>14 080 917</b>	<b>14 362 535</b>

## ***5.2. Verifying compliance with the additionality principle***

In the programming period of 2007-2013, additionality has to be verified three times: ex ante, at mid-term and at the end of the period.

### ***Ex ante verification***

As indicated in Table 10 the Hungarian authorities have determined the annual average of national public eligible expenditure to be maintained in the period 2007-2013 in the sum of all Convergence regions at 2 950,8 million euro (at 2006 prices). This level of expenditure is in real terms equal to the level attained in the previous programming period. The reference amount is defined as the average of national public eligible expenditure of the years 2004-2005.

The Hungarian authorities will provide the Commission with appropriate information and inform the Commission at any point during the programming period of developments likely to call into question its ability to maintain this level of expenditure.

### ***Mid-term review***

The Commission, working together with the Hungarian authorities makes a mid-term assessment of compliance with additionality principle in 2011. This mid-term review is also an opportunity for the Hungarian authorities in agreement with the Commission, to revise the level of expenditure targeted for the rest of the programming period.

### ***Verification at the end of the period***

A verification shall take place before 30 June 2016. Additionality is regarded as verified if the annual average of national public eligible expenditure in the years 2007 to 2013 has at least reached the level of expenditure agreed on ex ante or revised at mid-term. The submission of no or methodologically insufficient information shall be regarded as non-compliance.

Therefore, the Hungarian authorities will present information according to the following calendar:

- by 31 January 2016: presentation of aggregate and annual tables with final data on the years 2007-2013;
- by 31 March 2016: if necessary, methodological improvements on the basis of the Commission's comments;
- by 30 June 2016: deadline for the submission of any additional information.

***Table of additionality***

Table verifying additionality as follows:

**Table 10: Verification of additionality for 2007-2013 programmes**

Summary financial table of public or other equivalent structural expenditure in Convergence objective regions  
(€ millions, 2006 prices)

	Annual average in 2007-2013 NSRF (ex-ante)						Annual average 2004-2005 (actual)					
	Total	Of which public companies	NSRF		Not EU co-financed	Total	Total	Of which public companies	CSF		Not EU co-financed	Total
	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.
1	2	3	4	5	6	7=5+6=2-4	8	9	10	11	12	13=11+12=8-10
<b>Basic infrastructure</b>	<b>2 323,9</b>	<b>no data available</b>	<b>1 255,9</b>	<b>221,7</b>	<b>846,3</b>	<b>1 068,0</b>	<b>1 108,3</b>	<b>393,8</b>	<b>43,7</b>	<b>15,2</b>	<b>1 049,4</b>	<b>1 064,6</b>
Transport	1 265,3		675,9	119,3	470,1	589,4	629,2	390,2	39,8	13,3	576,1	589,4
Telecommunications & information society	58,8		27,3	4,8	26,7	31,5	31,5	3,6	0,0	0,0	31,5	31,5
Energy	29,1		24,7	4,4	0,0	4,4	1,0	0,0	0,0	0,0	1,0	1,0
Environment & water	656,5		347,3	61,3	247,9	309,2	313,1	0,0	3,9	1,9	307,3	309,2
Health	314,2		180,7	31,9	101,6	133,5	133,5	0,0	0,0	0,0	133,5	133,5
<b>Human Resources</b>	<b>1 558,9</b>		<b>391,1</b>	<b>69,0</b>	<b>1 098,8</b>	<b>1 167,8</b>	<b>1 199,5</b>	<b>0,2</b>	<b>28,3</b>	<b>16,4</b>	<b>1 154,8</b>	<b>1 171,2</b>
Education / Training	1 372,7		274,2	48,4	1 050,1	1 098,5	1 130,2	0,1	28,3	16,4	1 085,5	1 101,9
RTD	186,2		116,9	20,6	48,7	69,3	69,3	0,1	0,0	0,0	69,3	69,3
<b>Productive environment</b>	<b>921,3</b>		<b>378,1</b>	<b>66,7</b>	<b>476,5</b>	<b>543,2</b>	<b>573,4</b>	<b>1,1</b>	<b>30,2</b>	<b>16,2</b>	<b>527,0</b>	<b>543,2</b>
Industry	117,0		0,0	0,0	117,0	117,0	117,0	0,0	0,0	0,0	117,0	117,0
Services	658,7		278,2	49,1	331,4	380,5	407,7	1,1	27,2	14,1	366,4	380,5
Tourism	145,6		99,9	17,6	28,1	45,7	48,7	0,0	3,0	2,1	43,6	45,7
<b>Others</b>	<b>348,3</b>		<b>176,5</b>	<b>31,1</b>	<b>140,7</b>	<b>171,8</b>	<b>225,4</b>	<b>0,0</b>	<b>53,6</b>	<b>21,7</b>	<b>150,1</b>	<b>171,8</b>
<b>Total</b>	<b>5 152,4</b>		<b>2 201,6</b>	<b>388,5</b>	<b>2 562,3</b>	<b>2 950,8</b>	<b>3 106,6</b>	<b>395,1</b>	<b>155,8</b>	<b>69,5</b>	<b>2 881,3</b>	<b>2 950,8</b>

## **6. Implementation and administrative efficiency**

### ***6.1. Institutional system***

Community level legislation defines the responsibilities of the Member States in connection with the elaboration of managing and control systems and their principles of operation, with the aim of granting efficient and proper implementation of the developments performed with EU co-financing. In compliance with the shared management, the Member States themselves have to develop the institutional system and the procedural order of implementation.

For the sake of the regular, successful and efficient use of the development funds available under community co-financing, Member States are bound to comply with the requirements regarding management, monitoring, control, evaluation and information supply specified in the European Council's Directive No. 1083/2006/EC.

The scope of the institutions participating in the implementation of the New Hungary Development Plan during the period between 2007 and 2013 is therefore defined in compliance with Articles 58-59 and 62-65 of the Decree.

In compliance therewith, the following bodies will participate in the implementation of the development plan:

- National Development Council;
- Development Policy Steering Committee
- National Development Agency, and within it:
  - central co-ordination,
  - all managing authorities;
- Intermediary bodies;
- Monitoring committees;
- Ministry of Finance, as
  - Auditing Authority,
  - Certifying Authority.

#### **6.1.1. The National Development Council**

To ensure the supervision and evaluation of development policy, the National Development Council was set up as an advisory body to the Government with the structure as follows: the Prime Minister as chairman, representatives of the regional development councils as members, delegates of the Economic and Social Council as well as experts invited by the Prime Minister, ministers as permanent members and members of the Development Policy Steering Committee.

**Supervision and  
evaluation of  
development  
policy**

Primary tasks of the Council are as follows:

- monitoring and evaluating the implementation of development policy objectives;
- monitoring the implementation of objectives defined by the National Development Concept and the national development plan as well as the compliance with the development guidelines of the European Union and their coherence;
- submitting proposals to the Government concerning the modifications of development plans.

### **6.1.2. Development Policy Steering Committee**

The **Development Policy Steering Committee (DPSC)** is the Government's decision-preparatory, proposing and co-ordinating body responsible for the development policy; its chairman is the Prime Minister and chairmen of the monitoring committees and the commissioner responsible for the development policy are its members.

Most important tasks of the DPSC:

- co-ordinating the envisaged developments to be implemented from EU and domestic funds;
- co-ordinating tasks connected with the preparation of the New Hungary Development Plan, the National Action Programme, the Sustainable Development Strategy and the New Hungary Rural Development Strategic Plan;
- reports to the Government on the country's development strategy, the long term and medium term development and planning concepts, plans and operational programmes necessary for applying for the European Union's financial supports, the ideas and proposals concerning development of the institutional system necessary for the grants' utilisation, as well as on the regulatory instruments;
- discusses and reports on, any documents concerning also the development policy, prepared by the State Reform Committee;
- reports on the key-factors of the multiannual detailed programming/implementation documents of the operational programmes' implementation (action plans) and the proposals to the Government in those topics, reporting on the methodology and on the compliance with the development policy objectives thereof and of the preparation of calls for proposals; reports on the objectives set by the action plans serving implementation of the operational programmes and the parameters of the calls for proposals;
- reports on the scope of preferred developments, on the complex programmes and on the preferred projects of the operational programmes;
- reports on the so-called major projects (investments with high grant value, having importance in respect of the EU funds absorption);
- monitors the implementation of the operational programmes and of the action plans; may propose to the monitoring committees operating

at the different operational programmes reallocation of the funds, may make suggestions for the content or for the modification of the operational programmes, action plans and of the calls for proposals.

### **6.1.3. The National Development Agency**

The National Development Agency (NDA), in co-operation with the ministries concerned and the development regions, is responsible for the planning and implementation of the entire the New Hungary Development Plan and for providing managing authority functions in respect of all operational programmes.

As Managing Authority co-ordinating the institutional system of the operational programme's planning and implementation, it provides the following tasks:

- co-ordinating the strategic planning and programming activities connected with the preparation and implementation of the New Hungary Development Plan;
- granting compliance with and assertion of the objectives of, the National (Lisbon) Action Plan through the entire the New Hungary National Development Plan;
- development of the institutional, financial implementation and procedural rules necessary for the utilisation in Hungary of the financing amounts from the Structural Funds and Cohesion Fund;
- development and operation of the information system supporting implementation;
- supplying continuous information to the Government and to the European Commission on utilisation of the Structural Funds and Cohesion Fund moneys;
- granting compliance with the requirements concerning the annual reports prepared for the European Union;
- monitoring, measuring (by the help of monitoring indicators) and evaluating implementation of the New Hungary Development Plan, and feeding back the experiences for the Government in regular progress reports and studies;
- elaborating and discussing proposals concerning amendment or re-programming of the Development Plan;
- elaborating and amending as necessary a uniform communication strategy concerning implementation of the New Hungary Development Plan and complying with all information and publication obligations connected with the entire Development Plan;
- developing and granting training and education materials for the institutions participating in the implementation;
- development and operation of a single client service covering all operational programmes.

As in line with the mechanisms defined in Hungarian legislation, the

NDA ensures the co-ordination of Structural Funds and the Cohesion Fund among the single operational programmes as well as the coherence of the use of funds available under the European Agricultural Fund for Rural Development and the Financial Instrument for Fisheries Guidance. Co-ordination of the use of moneys takes into consideration the Hungarian sectoral, regional and local development policies, the supports received from the European Investment Bank and from other sources, while observing the community provisions concerning regional state supports.

The co-ordination also includes mutual information and information exchange during the working out of strategic objectives, intervention fields and calls for proposal, mutual participation in the monitoring committees and working groups and granting compatibility and interoperability of the implementation instruments.

#### **6.1.4. Managing Authorities (MA)**

The Managing Authority of the operational programme is responsible for the regular, efficient and successful use of the grants provided for the given operational programmes (OP). The MA may delegate in part its tasks to Intermediary Bodies meeting pre-defined professional and efficiency criteria, to be selected during proper qualification procedures.

Key responsibilities of the Managing Authorities:

- Co-ordinating the planning of operational programmes and related documents. In this respect, creating and operating the Operational Programme Planning and Co-ordination Committee as a sub-committee of the Planning Operational Committee with the participation of ministries and experts involved;
- Granting compliance of the operations elected for financing with the conditions applicable to the operational programme and compliance with the relevant community and Hungarian legal provisions during the entire implementation period.
- Ensuring the data uploading and availability of a computer system allowing recording and storage of the accounting of each operations of the operational programme and collection of all necessary data required for the financial control, monitoring, auditing and evaluation.
- Ensuring that the beneficiaries and other organisations involved in the implementation of measures use separate accounting system or an appropriate accounting code appropriate for all operations – without prejudice to national accounting regulations.
- approving the calls for proposals and samples of grant contracts; approving decisions on project proposals.
- Collecting and controlling the withdrawal of funds and authorisation reports prepared by the Intermediary Bodies.
- granting compliance of the operational programmes' evaluation with the relevant community legislation; participating in evaluation

activities concerning the operational programme.

- Elaborating procedures to ensure that all documents of costs and control are stored according to the rules, to ensure appropriate control.
- Safeguarding that the Managing Authority receives all necessary information about the procedures and examinations performed to verify costs.
- Operating the Monitoring Committee of the operational programme; ensuring necessary documents so that the Monitoring Committee can assess the quality of the implementation of the operational programme with regard to the actual objectives of the OP.
- Being responsible for the preparation of the annual and final implementation reports and the submitting of these to the European Commission after the approval of the Monitoring Committee.
- Delivering information necessary for the evaluation of major projects to the European Commission.
- Co-ordinating the elaboration and modification of the detailed multiannual programming-implementation document (action plan) concerning the implementation of the operational programme; making proposals for the contents of this document.
- Controlling the formal and methodological compliance of the action plan(s) relevant for the implementation of the operation programme; ensuring consistence with the contents of the operational programmes; enforcing aspects of regularity and feasibility of the programmes.
- Countersigning the multiannual programming documents concerning implementation.
- Making proposals for the modification of the operational programme.
- Monitoring the implementation of the operational programme; measuring implementation by the help of the monitoring indicators; taking necessary steps.
- Supervising and evaluating the implementation of programmes in its responsibility; safeguarding regularity of the programmes; taking necessary steps.
- Supervising and controlling the Intermediary Bodies of the programme; managing system level irregularities.
- Maintaining contacts to the Directorate General(s) of the European Commission in charge concerning issues of the operational programmes
- Providing information and publicity tasks in respect of the entire New Hungary Development Plan and of the operational programme(s) under its responsibility, while observing the meeting of relevant requirements.
- Managing the Technical Assistance allocation connected with the operational programme's implementation.

Activities of the Managing Authority concerning the Intermediary Bodies (further referred to as IBs) performing administrative, financial and technical tasks are as follows:

- Professionally supervising the activities of Intermediary Bodies implementing the operational programmes.

- Contracting with the Intermediary Bodies in its responsibility in terms of the performance of tasks; ensuring a performance based financing of Intermediary Bodies for their services.
- Approving the internal order of procedure of the Intermediary Bodies concerning the use of funds.
- Controlling and evaluating the activities of the Intermediary Bodies on a regular basis.

#### **6.1.4.1. Managing authorities of the operational programmes**

All managing authorities **operate as independent organisational units of the National Development Agency**. Centralisation of the implementation management increases efficiency of co-ordination of the implementation of operational programmes, improves transparency, forwards the exchange of experiences (further enhanced thanks to the integration of the procedures) and the accountability (also supported by the performance-based financing and on-going evaluation of Intermediary Bodies), as well as the rationalisation of task organisation.

The managing authorities will be established in compliance with the priorities of the New Hungary Development Plan. More than one operational programmes may be referred to a single managing authority. This structure is presented in the following table.

**Table 11.** Assignment of the operational programmes to Managing Authorities

<b>Managing Authorities</b>	<b>Operational programme</b>
<b>1. Economic development</b>	▪ Economic Development OP
<b>2. Transport</b>	▪ Transport OP
<b>3. Social renewal</b>	▪ Social Renewal OP
	▪ Social Infrastructure OP
<b>4. Environment, energy</b>	▪ Environment and Energy OP
<b>5. Regional programmes</b>	▪ West-Transdanubia Operational Programme
	▪ Central Transdanubia Operational Programme
	▪ South-Transdanubia Operational Programme
	▪ North-Hungary Operational Programme
	▪ North-Great Plain Operational Programme
	▪ South-Great Plain Operational Programme
	▪ Central Hungary Operational Programme
<b>6. Public administration</b>	▪ State Reform Operational Programme
	▪ Electronic Public Administration Operational Programme
<b>7. Co-ordinating Authority</b>	▪ Implementation Operational Programme

### **6.1.5. Intermediary bodies (IB)**

Considerable part of the tasks connected with the implementation of the operational programmes will be delegated by the managing authorities to intermediary bodies – if Intermediary Bodies are involved during the implementation of the given priority / measure. Such intermediary bodies will be elected by the National Development Agency that integrates the managing authorities. The MA will grant professional supervision of the IB in respect of the programmes. For the sake of transparency and accountability – as a general rule – the entire implementation process of each priority (central programme or call for proposals) will fall under responsibility of a single intermediary body. Responsibilities of the intermediary bodies generally include the following tasks:

- implementation of central projects,
- receiving and evaluating proposals, preparing decisions;
- contracting, modification;
- monitoring;
- continuous data recording in the information system;
- controlling (first level), reporting any irregularities;
- rendering accounts and disbursement, with the connected tasks;
- project closing;
- client service, information;
- reports to the Managing Authority.

Responsibilities of the intermediary bodies are established in a Hungarian legal rule, while their detailed tasks and the terms and conditions of financing are defined in the task assignment contract to be concluded between the MA and the intermediary body.

In compliance with the requirements specified in the task assignment contract, the intermediary body has to prepare an annual work plan, including the planned terms for announcing the calls for proposals and for submitting proposals and the annual indicative data concerning commitments, conclusion of support contracts and payments. This work schedule is sent to the managing authority and the intermediary body has to report on its implementation every three months to the managing authority and to the Ministers of the sectors concerned, exercising supervision.

The Intermediary Body must report on the progress of the action programmes (the operational programmes or the multiannual, detailed programming document concerning implementation of the priorities) on a quarterly basis.

Intermediary Bodies are selected by the National Development Agency under a **qualification system**, measuring the institutional and professional eligibility in compliance with pre-established and objective system of criteria. Prerequisite for delegating the tasks consists in the intermediary body's ability to actually demonstrate availability of the necessary resources, organisational conditions and professional skills required for providing the task during the qualification procedure.

In order to grant efficiency of the implementation, **performance of the Intermediary Bodies has to be evaluated on a regular basis**. Subject to the results of such evaluation, replacement of the poorly performing Intermediary Bodies will be possible in compliance with the national legislation.

#### **6.1.6. Responsibilities of the line ministers involved in the operational programmes**

In respect of the professional areas under their competence and responsibility, Ministers concerned by the operational programmes will:

- participate – through their representatives – in the activities of the Planning Operational Commission and the Operational Programme Planning and Co-ordination Committee involved;
- making suggestions as regards content of the operational programme and the action plan (or – in case of operational programmes concerning several areas – for the content of the priorities concerning his/her area of competence);
- delegate representatives to the committees evaluating proposals;
- co-operate in the preparation of the reports on the implementation of

the operational programme and of the action plan;

- ensure coherence, co-ordination and the elimination of overlaps among supports financed exclusively from domestic funds and those granted from EU supports and completed by domestic funds.

### **6.1.7. Monitoring Committees**

#### **6.1.7.1. Operational Programme Monitoring Committee (OP MC)**

The Monitoring Committees (MC) grant supervision of the operational programmes. The monitoring committee constitutes the operational programme's overall co-ordination and decision-making body.

Within their scope of responsibility and competence, the monitoring committees will:

- examine and approve the selection criteria of the operations to be financed and also approve revision of such criteria in compliance with the programming requirements;
- assess, on a regular basis, the progress of the support objectives' implementation;
- review the implementation achievements, with special regard to the objectives set in connection with the single priority axis;
- review and approve the annual and final implementation reports prior to their submission to the European Commission;
- receive information on the annual control report or on the part of the report concerning the operational programme in question and on any remarks made – following examination – by the European Commission on the report or on its part mentioned;
- review and approve suggestions for the content complementation of the European Commission's decisions on financial funds;
- make proposals to the managing authority for amendment or revision of the supports allowing attainment of the fund's objectives and improving management of the support funds, including also their financial management.

Decisions of the OP MB are taken in form of majority decisions.

#### **Composition of the Monitoring Committees**

The Managing Authorities are responsible for establishing the monitoring committees. The member of the Development Policy Steering Committee responsible for the programme area concerned will act as chairman of the Monitoring Committee.

Members of the Monitoring Committee of the operational programmes usually include:

- the Management Authority,
- representatives of the line ministers interested in the OP's implementation,
- intermediary bodies of the OP concerned,

- delegates of the Regional Development Councils concerned,
- delegated representative of a local governments' association,
- representatives of the employer and employee side of the National Council for the Reconciliation of Interests,
- delegated representative of an environmental protection NGO,
- delegates of non-governmental organisations representing Roma people, disabled people and the equal opportunities of genders ,
- governmental organisations concerned.

Following persons may attend the monitoring committee meetings with right of consultation:

- a representative of the European Commission on own initiative or on request of the monitoring committee,
- a representative each of the Controlling Authority and of the Certifying Authority,
- a representative each of the EIB and of the EIF for operational programmes, to which contribution is granted by EIB or EIF,
- as permanently invited, a representative each of the organisations responsible for the implementation of the European Agricultural Fund for Rural Development and of the European Fisheries Fund.

### **Operation of the Monitoring Committees**

The OP Monitoring Committee elaborates its own regulations. Generally speaking – while respecting decisions on their own principles of operation – the OP monitoring committees will operate in the following operational framework:

- the Monitoring Committee holds meetings at least twice a year;
- in compliance with the regulations, the secretariat sends the agenda and documents of the meeting to all members;
- the OP Managing Authority is responsible for operating the OP Monitoring Committee Secretariat; decisions of the Monitoring Committee are leading in respect of the Secretariat's administrative tasks and operating regulations.

### **6.1.8. Institutional conditions of the regional operational programmes**

The **Managing Authority of Regional Programmes** will supervise the following operational programmes:

Convergence objective:

- West-Transdanubia Operational Programme
- Central Transdanubia Operational Programme
- North-Hungary Operational Programme
- North-Great Plain Operational Programme
- South-Great Plain Operational Programme
- South-Transdanubia Operational Programme

Regional competitiveness and employment objective:

- Central Hungary Operational Programme

Participation of the Government in the regional development council grants professional and Government control of the decisions. As also in the case of the other operational programmes, the Government bears ultimate responsibility for the implementation of the regional programmes.

The monitoring functions of the regional development councils have to be developed in a manner that they cover also the implementation of the sectoral operational programmes and that the regional level is represented also in the sectoral monitoring committees.

The intermediary bodies grant assistance in the preparation of the projects and in the elaboration of the decision proposals.

## **6.1.9. Financial management and control**

### **6.1.9.1. Controlling Authority**

The Controlling Authority is a body performing horizontal co-ordination, designated for granting successful and economical operation of the managing and controlling systems, its operation being independent from the managing authority, the certifying authority and the Intermediary Bodies.

Responsibilities of the Controlling Authority include:

- ensuring proper operation of the operational programmes' management and control systems and granting regularity of the operations principally examined through system checking and performed within the programmes by random sampling controls;
- granting that controls are performed according to the relevant international control standards and by harmonised methodology;
- ensuring performance of the controls in a co-ordinated manner both on domestic level and in Member State/EU relation (elaboration of a controlling strategy and its co-ordination with the European Commission);
- attesting the annual control reports.

The Controlling Authority's scope of responsibility is not limited to performing controls but constitutes a considerably wider, horizontal-co-ordinative, legislative, methodology and harmonisation task, establishing on national level the only channel of control-oriented co-operation with the European Commission. Performance of the controls may be delegated by the authority to other administrative or market organisations.

For any and all operational programmes, the Controlling Authority will be a separated organisational unit of the Ministry of Finance.

### **6.1.9.2. Certifying Authority**

The Certifying Authority for all operational programmes targeted at the use of support available under the structural Funds and the Cohesion Fund will be the separate organisational unit of the Ministry of Finance. The activity of the Certifying Authority will be based on the structure and practice of the Paying Authority of the programming period of 2004-2006. Consequently, the Certifying Authority will be in charge for tasks as follows:

- compiling the payment application documentation, including issuance of the payment request and the cost attestation;
- issuing a certificate confirming correctness and adequacy of the cost attestations, efficient operation of the managing authority and of the intermediary bodies, as well as compliance with the community policies;
- receiving payments from the European Commission;
- reimbursing to the EU funds any financial corrections applicable due to administrative defaults, or any events and irregularities during programme management,
- developing a financial system able to transfer the grants within the shortest possible time to the final beneficiaries.

## **6.2. Implementation processes**

### **6.2.1. Basic principles**

Based on the experiences of the programming period between 2004 and 2006, changes regarding division of tasks within the institutional system are justified:

- co-ordination will be strengthened: the New Hungary Development Plan has to serve the common development policy objectives of the Government and of the European Union;
- the scope of authority of the intermediary bodies responsible for the practical tasks connected with the programme implementation will be extended;
- the domestic legal rules and other regulations adapted to the EU legislation and to the efficient implementation of supports will be streamlined (unified application procedures, modernisation of the public procurement, state budget and financing systems etc.);
- the concept of the state providing service will be asserted throughout the entire application process (applicant-friendly calls for proposals, introduction of the „single-counter” system, operation of unified client service and client gate, simplification of the application documentation, radical decrease of the documentation and time required for payments, default interest paid to applicants);
- an efficient and state-of-the-art institutional system will be developed that will perform its activities building on the existing institutional

system and practices but with lower costs and in a more efficient way, through applying more simple and integrated operational mechanisms; the legal and financial instruments of such integration have to be assigned to the central co-ordination, its financing is to be accounted to the charge of EU allocations (technical assistance);

- in addition to the division of tasks within the institutional system, different procedures will be developed applicable to different project types, allowing differentiated project selection and cutting of the implementation's administration;
- to enforce horizontal policies, guidelines will be prepared for the individual project types in co-operation with social partners. These guidelines will include obligatory and mandatory project elements and the system of indicators helping in the quantification of those elements.

### **6.2.2. Processes**

Annex 5 presents the procedures from the preparation of the New Hungary Development Plan to launching the programmes in detail. The list of projects in this Annex is indicative, the Government will decide on its finalisation following comparison with other lists of projects and after evaluation.

#### ***Rolling planning, action plans***

The detailed content of the New Hungary Development Plan and of the Operational Programmes and their co-ordination will be established in action plans to be approved on national level during the 2007-2013 programming period.

The action plans will include the support schemes and the related information for the different operational programmes or – if different ministers or regional development councils are responsible for the single priorities – for one or more priorities.

The action plans include:

- presentation of the support schemes in detail for at least two years;
- presentation and scheduling of the implementation of the operational programmes or of the priorities for the entire programming period;
- detailed motivation of the support scheme.

The action plan will be prepared by the National Development Agency on the basis of a standard methodology as well as the suggestions of the line minister and the regions involved.

#### ***The system of on-going evaluations***

In compliance with the European Commission's methodological directives, evaluation of the implementation, achievements and impacts of the New Hungary Development Plan will be made in on-going

manner.

The rolling planning and implementation will be supported by a continuous evaluation system that is able:

- to improve efficacy and efficiency of the implementation and grant fine-tuning of the system through evaluations performed for operational purposes;
- to grant stable foundations to evaluations investigating attainment of the objectives set in the Development Plan and in the OPs and the joint effects of the interventions, performed for strategic purposes.

Elements of the on-going evaluation system:

- system of indicators and evaluation reports,
- evaluation of the individual interventions,
- ex-ante and final evaluation of the action plans,
- overall evaluation of the operational programmes,
- overall mid-term and ex-post evaluation of the Development Plan.

The system of indicators based on information from the monitoring information system and from other regular data collections helps to render tangible the progress made in implementation and the results achieved in attaining the strategic objectives. Annual reports are prepared on the progress with the aim of detecting any improvement potentials within the system of implementation and of compiling the annual evaluation plan of the individual interventions ensuring enhancement of the interventions' and programmes' efficacy and efficiency.

The annual evaluation plan sets out the evaluation of individual interventions selected in compliance with pre-defined criteria. Purpose of the evaluation of individual interventions consists in granting continuous feedback for the planning and implementation, as well as in supplying intervention-level information for performance of the overall programme evaluations quickly and in good quality.

### ***6.3. Efficiency of the administrative capacity in the service of the NHDP***

Serving directly or indirectly the New Hungary Development Plan two types of administrative capacities can be identified.

There are organisations which task is the implementation of the NHDP. These **directly serving organisations** are presented in the chapter of implementation, detailing their interlinkages and their specific tasks.

The task of the Implementation OP is to enable these organisations to perform their duties effectively and efficiently. As already stated earlier, there is a clear intention to strengthen the coordination among the actors of the development policy, to establish an effective operation

at the managing authorities and at the intermediary bodies, to achieve lower operational costs by building on present experiences and on good practice. In order to serve the customers on a higher level, we are determined to lower the administrative burdens (e.g. by introducing one stop administration, unified electronic information and customer service system, simplified documentation demand for calls for proposals, radical reduction of documentations needed for payments).

Making the institutional system of development policy more efficient is a necessary but not sufficient condition for realising the goals of the New Hungary Development Plan. **The entire public administration is serving indirectly** also the implementation of the NHDP. Nevertheless without the systemic renewal of this public administration, the social benefit of this implementation cannot be maximized. Therefore, beside the institutional system of the development policy, the administrative efficiency of the broader public environment will be increased in the coming years.

The basic demand for the public administration is to bring effectiveness into the centre of its activities, to utilise efficiently the resources provided for its functioning, and to increase the qualitative level of its services. Where appropriate, there should be an endeavour to realise interventions aiming at the whole system, otherwise the renewal of the key elements should be aimed at. While restructuring the public administration, the benefits provided by the information technologies should be exploited.

It should be stressed, that the implementation is not limited within the borders of the public administration, as the partners are playing an active role in it, too. Therefore, during the planning of the interventions aiming at the effectuation of the administration, and during their translation into practice, the involvement of the partners should be seen as a horizontal point of view.

The renewal of organisations indirectly serving the implementation of the NHDP, will be done mainly through the State Reform OP and the Electronic Public Administration OP.

## **7. Coherence and consistence**

### ***7.1. Coherence with the National Action Programme***

The National Action Programme (NAP) defines measures for the period between 2005 and 2008, thus covering both the last years of implementation of National Development Plan I and the first years of implementation of the New Hungary Development Plan. Consequently, in coherence with NAP, the New Hungary Development Plan focuses on the extension of employment, on growth, on strengthening social cohesion and on real convergence. Through the operational

programmes, the New Hungary Development Plan contributes to the achievement of the Lisbon objectives through increasing productivity and improving business conditions and working conditions.

Upon initiative of the European Commission, Hungary – as the other EU Member States – will prepare a report in September 2006 on the progress of the measures outlined in the National Action Programme. With special regard to the country report of the European Commission concerning the National Lisbon Action Programme, the conclusions of the European Council of 23-24<sup>th</sup> March, 2006 as well as the triple set of objectives defined by the Government (balance, reform, development), Hungary has revised the National Lisbon Action Programme of 2005 and identified priorities that can indeed contribute to the growth of the economy and employment, based on national characteristics. The relevant measures of the New Hungary Development Plan will be drafted in consideration of the progress report's content.

As a consequence, strategies of the New Hungary Development Plan and of the NAP are co-ordinated and the areas of intervention are in correspondence as shown in the figure of Annex 3.

When implementing the New Hungary Development Plan, we intend to compare the progress of implementation and its results with our Lisbon objectives set. In this context, special attention will be paid to the competitiveness of businesses and the level of innovation during the sessions of the Monitoring Committee.

## ***7.2. Compliance with the Community Strategic Guidelines***

In the section outlining the strategy, we have described connections with Community Strategic Guidelines (CSG) concerning cohesion. The summary of these connections on the level of priorities can be found in the following table.

**Table 12.** Correspondence of the priorities with the CSG guidelines

<b>CSG guidelines</b>	<b>Priorities</b>
Guideline 1: Making Europe and its regions more attractive places in which to invest and work	<ul style="list-style-type: none"><li>▪ Environment and energy development</li><li>▪ Transport development</li></ul>
Guideline 2: Improving knowledge and innovation for growth	<ul style="list-style-type: none"><li>▪ Economic development</li></ul>
Guideline 3: More and better jobs	<ul style="list-style-type: none"><li>▪ Social renewal</li><li>▪ State reform</li></ul>
Regional dimensions of cohesion policy	<ul style="list-style-type: none"><li>▪ Regional development</li></ul>

Annex 4 includes a more detailed presentation of the correspondences between the intervention groups of the New Hungary Development

Plan and the Community Strategic Guidelines.

### ***7.3. Compliance an coordination with the New Hungary Rural Development Strategic Plan***

In compliance with the already mentioned national concepts (National Development Policy Concept, National Regional Development Concept, National Action Programme, Sustainable Development Strategy, National Environmental Programme), the New Hungary Rural Development Strategic Plan, co-ordinated by the Ministry of Agriculture and Rural Development, will be prepared by building on the directives defined in the Community Strategic Guidelines and on the provisions of the Regulation 1698/2005 EC on the European Agricultural Fund for Rural Development and of the Council Decision 2006/144/EC on the Strategic Guidelines.

**Agriculture and rural development do not make part of this document**

#### **7.3.1. Principles of planning coherence**

The compliance of the New Hungary Development Plan with the New Hungary Rural Development Strategic Plan results from the fact that these two plans jointly implement national development policy objectives by using resources available under various funds (Cohesion Fund, Structural Funds, agriculture and rural development, fisheries).

**The two plans together are realising the goals of national strategic planning**

Common development objectives will be implemented in the following fields:

- improving economic competitiveness in the field of agriculture as well, through the improvement of quality, added value and productivity as well as the development of agriculture and forestry, and food processing;
- improving human resources in the field of agriculture and rural development as well, through supporting the acquisition of knowledge and improving professional skills of human resources necessary for better competitiveness;
- conserving natural environment through the promotion of the use of renewable sources of energy, better water management, the rationalisation of land use and the protection of environmental and cultural values;
- reduction of regional differences and strengthening social cohesion through the extension of rural employment, the diversification of economic activities and the development of local communities and services.

When separating the scopes of Structural Funds and the European Agriculture Fund for Rural Development (EAFRD), we will ensure that rural development programmes will be implemented under the EAFRD as specified by Development Axis III. Funds available under EAFRD will be allocated among the major fields according to the following principles:

- in the field of tourism: private accommodation, portals of village

- heritage, programmes of village guest tables;
- exclusively in the field of agriculture: renewable sources of energy (bio-mass, bio-gas, bio-ethanol);
  - exclusively agriculture related water management in non-urban areas.

### **7.3.2. Co-ordination during implementation**

With regard to the connections of the New Hungary Rural Development Strategic Plan and the New Hungary Development Plan, special attention must be paid to the co-ordination of the planning and implementation of the programmes. The cohesion of development actions involving several ministries or programmes can be ensured by the constant and strong co-operation of the ministries, from the planning period through implementation to control. During the planning period, this will be ensured by the Development Policy Steering Committee. Then, co-ordination will be safeguarded throughout the entire programming period through inter-ministerial committees and the harmonisation of various action plans and tenders – therefore, synergic effects can be guaranteed. The representative of the EAFRD will also be invited to participate in the work of the Monitoring Committees supervising programme implementation.

**The coherence of the New Hungary Development Plan and the New Hungary Rural Development Strategic Plan is of special importance throughout the whole implementation phase**

## **8. Evaluation (ex-ante and environmental evaluation)**

### ***8.1. Ex-ante evaluation***

The National Development Office announced a public procurement procedure On 28<sup>th</sup> December, 2005 for the ex-ante evaluation of the New Hungary Development Plan. In addition to fair competition and the selection of the best bid, a procedure like this ensures the **independence of the evaluators**. The best bid was submitted by the **Consortium** (further referred to as Consortium) **of HBF Hungaricum Gazdasági, Tanácsadó és Szolgáltató Kft., the EX ANTE Tanácsadó Iroda Kft. and the MEGAKOM Stratégiai Tanácsadó Iroda Kft.** Evaluation started on 1<sup>st</sup> March, 2006.

#### ***Continuous interaction***

The evaluation process was performed in the form of workshops, with the programming experts of the National Development Agency involved. employees and experts of the Managing Authority of the operational programmes of priorities also participated in work. During the **iteration process**, standpoints of the evaluators and the programmers could be approximated. Since the dimensions of the NHDP do not allow all necessities and problems to be described by the situation analysis, focus points had to be defined in certain cases.

#### ***Examining consistency***

The **consistency of situation analysis and strategy** was considered to be the key-factor of changes of structure and content safeguarding the improvement of the internal coherence of the Plan.

Coherence has been created among the elements of the documents. Currently, the structure of the situation analysis is in line with the logics of the strategy. The system of the document has become more transparent. General objectives and thematic/regional priorities can clearly be matched.

*Relevance*

The relevance and weighting of the given interventions are not transparent in all fields – this is mainly due to the application of static indicators. The evaluators considered the existence of chronological indicators in the documents to be a positive fact as these can illustrate the direction of processes and the necessity of intervention. **The rate of improvement of initial values of the indicators of general objectives has been defined in the NHDP.**

*Examining external coherence*

As far as external coherence is concerned, the document has showed great progress. Now it includes almost all necessary connections.

*Answers given to opinions of the ex-ante evaluators*

The methodology of workshops allowed **direct interaction of programmers, ex-ante evaluators and experts of the Managing Authority** involved. This method also contributed to the mutual understanding and approximation of the individual standpoints. Ex-ante evaluators and programmers discussed proposals and opinions in the frames of constructive dialogue. Proposals approved were included in the document, or their relevant place was marked in the Plan for further written reflections.

As far as the suggestions of the evaluators are concerned, differences of opinion remained in fields as follows:

– Evaluators think that it is not enough to devote one single sentence to the description and solution of the contradiction between two general objectives.

Answer of the programmers: Objectives defined are in line with the Lisbon Strategy. The genre of a strategic document is not appropriate for the detailed description of their eventual contradiction.

– According to the evaluators, the NHDP is not focussed enough. They think, absorption capacity will most probably limit large-scale plans. The change of approaches described would take at least 30-35 years – a single programming period is surely not enough for that. There are no verbs referring to progress, only a bad situation and a perfect target situation to be reached by the country within 7 years (in all fields!).

Answer of the programmers: The ex-ante opinion is too general. Focussing is targeted at the most important development objectives and tasks to be solved.

– According to the evaluators, the human resources development priority does not include a clear objective. Formulation is too vague (human resources represent only one factor and not the only basis of social renewal).

Answer of the programmers: The priority will appropriately be described and it is in line with the Community Strategic Guidelines.

– In case of the environmental development priority, neither the expected target situation nor a sharp concept serving as basis of measures is present. According to the evaluators, the priority does not give an account of factors influencing target phenomena, processes and problems of the measures (e.g. regulation of gas price, rate of renewable sources of energy).

Answer of the programmers: When defining investments of environmental protection character, focus was on meeting community regulations and obligations. A document like this does not allow the detailed description of external factors.

– The system of criteria for selecting poles is missing, therefore, their weight is not appropriate in the light of the weight of the poles.

Answer of the programmers: Poles are listed by the resolution of the Parliament on the National Development Policy Concept and the National Regional Development Concept. The justification of poles is properly described in the document.

### *Partnership*

In August and September, 2006, the National Development Agency has invited 4000 partners to formulate their opinions. Chapters ‘Macroeconomic objectives’ and ‘Structural risks of economic growth’ serving as basis of the situation analysis of the Hungarian economy were missing. The reconciliation with the partners held in August and September, 2006, generally satisfied requirements of partnership.

## **8.2. Environmental evaluation**

The environmental evaluation of the NHDP was performed by Respect Kft – Corvinus Egyetem Konzorcium, entrusted also with the strategic environmental assessment of the operational programmes of the programming period of 2007-2013 within the frames of public procurement procedure.

The objective of environmental evaluation is to improve the quality, the environmental efficiency and consistency of strategic documents, by integrating environmental and sustainability aspects into the process of preparation and programming so that eventual negative environmental impact can be reduced or eliminated while positive effects increased and strengthened.

When evaluating the NHDP from environmental aspects, the evaluators applied to approach of sustainability.

According to the evaluators, the preparation of the integration of sustainability aspects has partially been made: the NHDP describes the principle of sustainability in the section about horizontal policies in details but the situation assessment highly reticent about the actual status of sustainability. Consequently, the development of environmentally appropriate measures and indicators is difficult.

According to the definite position of the evaluators, principles formulated under horizontal policies must properly be enforced in all relevant sections of the NHDP as well as during the preparation and implementation of the operational programmes. Therefore, the evaluators suggest to define minimum criteria of sustainability to be followed when implementing operational programmes, major projects, flagship projects and action plans to ensure compliance with aspects of sustainability. Starting point for that could be principles of horizontal policies defined in section 3.1.4.1. and 3.1.4.2.

When assessing the set of objectives and priorities of the programme, evaluators found that there are no environmental connections and links among the individual priorities in fields supporting the implementation of the objectives.

Evaluators also pointed out that two main objectives of growth have an outstanding role in the current structure, there is a high risk that environmental and sustainability aspects become marginal during the implementation of measures defined under the priorities. Under such circumstances, the strict following of horizontal policies is of special importance.

Evaluators called the attention to another risk, namely, aspects of local and regional landscape and environment may become marginal in a plan setting growth as primary objective. In addition to that, the evaluators also pointed out the danger of the considerable reduction of the outstanding biodiversity – unique on an European level as well – entailed by infrastructure investments, especially in the field of roads and motorways.

According to the evaluators, it is an important deficiency of the NHDP that it deals exclusively with Natura 2000 and protected areas (and does not deal with the current situation and future factors of unprotected areas with considerable values) as well as with the topic and problem of architectural

heritage.

According to the evaluators, the New Hungary Development Plan also has potentials in terms of **increased competitiveness based on special and unique strengths of the country, in addition to the creation of necessary infrastructure**. So that these potentials can be utilised, the evaluators suggest the consideration of the following requirements under the priorities, when finalising operational programmes and action plans.

1. Priority of material and energy saving solutions,
2. Importance of the reduction and organisation of traffic, community transport and additional environmental measures
3. Environmental health, prevention in healthcare, establishment of proper working environment
4. Reduced contamination and emission
5. Use of land preserving values
6. Preventive, controlling and servicing type of authority work, exemplary public administration promoting good environmental husbandry
7. Strengthening communities, protecting families.

## **9. Annexes**

### ***Annex 1. Forums discussing the New Hungary Development Plan***

#### **National fora and bodies:**

National Council for the Reconciliation of Interests:

Employer side:

- Union of Agrarian Employers (AMSZ)
- National Federation of General Consumer Cooperatives and Business Associations (ÁFEOSZ)
- National Association of Craftsmen's Corporations (IPOSZ)
- National Federation of Traders and Caterers (KISOSZ)
- Hungarian Industrial Association (OKISZ)
- National Federation of Agricultural Cooperators and Producers (MOSZ)
- Confederation of Hungarian Employers and Industrialists (MGYOSZ)
- National Association of Strategic and Public Utility Companies (STRATOSZ)
- National Association of Entrepreneurs and Employers (VOSZ)

Employee side:

- Autonomous Trade Union Confederation
- Confederation of Unions of Professionals
- Forum for the Cooperation of Trade Unions
- LIGA Trade Unions
- National Confederation of Hungarian Trade Unions (MSZOSZ)
- National Federation of Workers' Councils

Economic and Social Council

in representation of the following organisations:

- Union of Agrarian Employers
- National Federation of General Consumer Cooperatives and Business Associations
- National Association of Craftsmen's Corporations
- National Federation of Traders and Caterers
- Hungarian Industrial Association
- Hungarian Chamber of Commerce and Industry
- National Federation of Agricultural Cooperators and Producers
- Confederation of Hungarian Employers and Industrialists
- National Association of Strategic and Public Utility Companies
- National Association of Entrepreneurs and Employers
- Autonomous Trade Union Confederation
- Confederation of Unions of Professionals
- LIGA Trade Unions
- National Confederation of Hungarian Trade Unions
- National Federation of Workers' Councils
- Forum for the Cooperation of Trade Unions
- Association of Families, Children and the Youth
- Association of Hungarian Industrial Parks
- European House
- Hungarian Academy of Sciences

Hungarian Economic Association

National Regional Development Council

Ministry of Municipalities and Regional Development

Prime Minister's Office

Ministry of Agriculture and Rural Development

Ministry of Environment and Water

Ministry of Economy and Transport

Ministry of Social Affairs and Labour

Ministry of Finance

Ministry of Health

Ministry of Education and Culture

Ministry of Foreign Affairs

West-Transdanubia RDC

South-Transdanubia RDC

South-Great Plain RDC

Central Hungary RDC

Central Transdanubia RDC

North-Hungary RDC

North-Hungary RDC

North-Great Plain RDC

Municipality of Budapest

Committee for Regional Development of the Hungarian Chamber of Commerce and Industry

Hungarian Agricultural Chamber

Hungarian Industrial Association

Confederation of Unions of Professionals

Association of Hungarian Local Governments

National Association of Local Governments of Communes, Small Municipalities and Microregions

Municipality of Miskolc County Town

Association of Cities of County Rank

Hungarian National Association of Local Authorities

National Society of Conservationists

REFLEX Environmental Protection Association

EU-Drom Association

ECOVAST

Hungarian Central Statistical Office

Regional Development Council of Lake Tisza

Lake Balaton Development Council

Hungarian Academy of Sciences

Budapest Suburban Development Council

National Environmental Council

Hungarian Academy of Sciences

Representatives of the historical churches:

The Catholic Church in Hungary

The Reformed Church in Hungary

The Evangelical-Lutheran Church in Hungary  
Alliance of the Jewish Communities of Hungary

Experts of the parliamentary parties:

Hungarian Socialist Party  
Alliance of Free Democrats  
Fidesz-Hungarian Civic Union  
Christian-Democratic People's Party  
Hungarian Democratic Forum

**Sectoral fora:**

*Economy:*

Union of Agrarian Employers (AMSZ)  
National Federation of General Consumer Cooperatives and Business Associations (ÁFEOSZ)  
Amcham (The American Chamber of Commerce in Hungary)  
Federation of Management and Scientific Associations  
Hungarian European Business Council  
Association of Industrial Parks  
Joint Venture Association  
National Federation of Traders and Caterers (KISOSZ)  
Lisbon Strategy Hungarian Platform  
Hungarian Banking Association  
Association of Hungarian Inventors  
Hungarian Association for Innovation  
Hungarian Industrial Association (OKISZ)  
Hungarian Lawyers' Association  
Hungarian Chamber of Commerce and Industry  
Hungarian Economic Association  
Hungarian Association of Logistics, Purchasing and Inventory Management (MLBKT)  
National Bank of Hungary  
Hungarian Consortium for Enterprise Promotion  
National Association of Managers  
National Federation of Agricultural Cooperators and Producers (MOSZ)  
Federation of Technical and Scientific Societies  
German-Hungarian Chamber of Industry and Commerce  
Hungarian Association of International Companies (HAIC)  
National Association for Consumer Protection in Hungary  
Scientific Society for Management and Organisation  
Telecommunication Conciliatory Forum  
Association of Scientific, Technological and Industrial Parks (TTIPSZ)  
National Association of Entrepreneurs and Employers (VOSZ)  
National Association of Agricultural Research Institutes (AIOSZ)

*Transport:*

FÖMTERV Rt.  
Hungarian Scientific Association for Transport  
Hungarian Railways Co.

Hungarian Cyclists' Club  
Hungarian Road Transport Association  
Hungarian Association of Logistics, Purchasing and Inventory Management (MLBKT)  
Hungarian Chamber of Engineers  
Hungarian Association of Rail, Water and Air Transport  
Institute for World Economics of the Hungarian Academy of Sciences  
National Motorways Co.  
Hungarian Society for Urban Planning  
Volán Association

*Education, healthcare, employment:*

Association of Hungarian Foundation, Communal and Private Educational Institutions  
Autonomous Trade Union Confederation  
Central European University  
Association of Hungarian Ph. D. Students  
Association of Economic Managers in Healthcare  
Confederation of Unions of Professionals  
European Integration and Development Co-operation Agency  
National Association of High Schools  
National Union of Students in Hungary  
Junior Achievement  
Káva Cultural Workshop  
Trade Union of Workers in Public Education and Public Collections (KKDSZ)  
Lélegzet Foundation  
The Clean Air Action Group  
The Clean Air Action Group  
LIGA Trade Unions  
Hungarian Hospital Association  
Hungarian League Against Cancer  
Hungarian Rectors' Conference  
Hungarian Krishna Community  
Negotiating Group of National Federation of Trade Unions (MSZOSZ)  
Confederation of Hungarian Employers and Industrialists (MGYOSZ)  
National Federation of the Societies of Unemployed and Job-seekers  
National Federation of Workers' Councils  
National Association of Large Families  
National Association of Nonprofit Human Services of Hungary  
National League for the Protection of Children  
Conciliatory Forum of National Parents' Organisations  
Voluntary Centre Foundation  
Alliance of Social Professionals  
Association for the Development of Community Participation  
Foundation "Let's take action for our health" (TESZ)  
Scientific Educational Society  
Association of Management Consultants in Hungary

*Environmental protection, energy:*

CSEMETE Nature Conservation Association

E-Mission Association for Environmental and Nature Protection  
EMLA Association  
Energy Club Association for Environmental Protection  
Hungarian Scientific Society of Energy Economics  
Biology of Architecture Association  
European Integration and Development Co-operation Agency  
Independent Ecological Centre Foundation  
Young People's Nature Protection Circle in Hajdúböszörmény  
Waste Prevention Alliance  
Association of Environmental Enterprises  
The Clean Air Action Group  
Hungarian Bioculture Federation  
National Society of Conservationists  
Business Council for Sustainable Development in Hungary/BCSD Hungary  
Paksi Atomerőmű Zrt.  
REFLEX Environmental Protection Association  
Protect the Future  
Trade Union of Electricity Industry Workers  
WWF Hungary  
Green Action Association

*Regional development, tourism:*

Hungarian Federation of Rural and Agrotourism  
National Association of Self-governments of Small Towns (KÖÖÉSZ)  
National Association of Local Governments of Communes, Small Municipalities and Microregions  
The Clean Air Action Group  
Association of Hungarian Villages  
Association of Hungarian Municipalities of Europe (MÖESZ)  
Association of Hungarian Local Governments (MÖSZ)  
Hotel Association of Hungary  
Association of Hungarian Community and Regional Development  
Hungarian Society of Tourism  
Magyar Turizmus Rt.  
Hungarian Catering Association  
Association of Cities of County Rank  
National Association of County General Assemblies (MÖOSZ)  
Centre of Regional Studies of the Hungarian Academy of Sciences  
National Civil Conciliatory Forum of Regional Development (OTCEF)  
National Association of Local Authorities (TÖOSZ)  
Conciliatory Council of the Regional Development Regions (TERET)  
Reconciliation Council of Regional Development Regions (TERET)  
Association of Tourism Consultants

*State reform:*

Budapest Business Center Association  
Biology of Architecture Association  
European Integration and Development Co-operation Agency  
Information Society Research Institute/Infónia  
Hungarian Association of IT Companies

National Association of Craftsmen's Corporations (IPOSZ)  
National Association of Notaries  
The Clean Air Action Group  
Hungarian Association of Judges  
Hungarian European Business Council  
Hungarian Body of Public Administration  
Hungarian Society for Quality  
Hungarian Association of Content Industry  
Hungarian Telecottage Association  
Hungarian Chief Information Officers' Association  
Computer and Automation Research Institute of the Hungarian Academy of Sciences  
John von Neumann Computer Society  
National Association of Strategic and Public Utility Companies (STRATOSZ)  
Association of City Notaries

**Participants of regional reconciliation:**

South-Great Plain RDC:

Ministry of Interior  
Ministry of Youth, Social, Family and equal Opportunity Affairs  
Ministry of Economy and Transport  
Ministry of Employment Policy and Labour  
Ministry of Environment and Water  
Ministry of Education  
Békés County Micro region Forum  
Prime Minister's Office  
Ministry of Informatics and Communication  
Csongrád County Regional Development Council  
Bács-Kiskun County Regional Development Council  
Békés County Regional Development Council  
South-Great Plain Regional Tourism Committee  
Szeged City of County Rank  
Hódmezővásárhely City of County Rank  
Kecskemét City of County Rank  
Békéscsaba City of County Rank  
Csongrád County Regional Development Associations of Municipalities  
Ministry of Agriculture and Rural Development  
Bács-Kiskun County Micro region Forum

South-Transdanubia RDC:

Ministry of Informatics and Communication  
Ministry of Finance  
Chairman of the Somogy County Regional Development Council  
General Assembly of Baranya County  
Ministry of Interior  
Ministry of Employment Policy and Labour  
Local Government of Pécs City of County Rank  
Ministry of Environment and Water  
Tolna County Self-Government Office  
South-Transdanubia Regional Tourism Committee

Ministry of Youth, Social, Family and equal Opportunity Affairs  
Szekszárd City of County Rank Self-Government, mayor  
Ministry of Education  
Ministry of Agriculture and Rural Development  
Somogy County Micro region associations  
Tolna County Micro regions' associations  
Baranya County Micro regions' associations  
Kaposvár City of County Rank Self-Government  
Hungarian Office for Territorial and Regional Development  
Ministry of Economy and Transport

North-Great Plain RDC:

Szabolcs-Szatmár-Bereg County  
Jász-Nagykun-Szolnok County  
Hajdú-Bihar County  
Szolnok City of County Rank  
Debrecen City of County Rank  
Nyíregyháza City of County Rank  
Minister without portfolio for regional development and convergence  
Ministry of Interior  
Ministry of Economy and Transport  
Ministry of Finance  
Ministry of Youth, Family, Social Affairs and Equal Opportunities  
Ministry of Environmental Protection and Water Management  
Ministry of Education  
Ministry of Informatics Communication  
Ministry of Health  
Ministry of Employment Policy and Labour  
Ministry of Agriculture and Rural Development  
Regional Tourism Committee  
Hajdú-Bihar County Micro regional Forum  
Jász-Nagykun-Szolnok County Micro regional Forum  
Szabolcs-Szatmár-Bereg County Micro regional Forum

North-Hungary RDC:

Heves County Regional Development Council  
Nógrád County Regional Development Council  
Borsod-Abaúj-Zemplén County Regional Development Council  
Mayor's Office of Salgótarján City of County Rank  
Mayor's Office Miskolc City of County Rank  
Mayor's Office Eger City of County Rank  
B.A.Z. County Self-Government, Regional Development Committee  
Ministry of Health, Social and Family Affairs, Planning Department of Property  
Management Directorate  
GKM, Tiszaújváros Mayor's Office  
Ministry of Informatics and Communication  
Ministry of Environment and Water  
Ministry of Employment Policy and Labour  
Heves County Labour Centre  
Prime Minister's Office

Ministry of Education  
Mayor's Office of Eger City of County Rank  
FVM B.A.Z. County Agricultural Office  
Ministry of Finance  
Ministry of Youth, Family, Social Affairs and Equal Opportunities  
North-Hungary Regional Tourism Committee  
Mayor's Office of Kazár  
Micro regional representative of Heves County  
Mayor's Office of Heves City  
Micro regional representative of Nógrád County, Mayor's Office of Balassagyarmat

Central Transdanubia RDC:

Székesfehérvár City of County Rank  
Veszprém City of County Rank  
Tatabánya City of County Rank  
Dunaújváros City of County Rank  
Chairman of Fejér County Regional Development Council  
Chairman of the Regional Tourism Committee of Central Transdanubia  
Chairman of Veszprém County Regional Development Council  
Chairman of Komárom-Esztergom County Regional Development Council  
Representative of the Fejér County Small-region Associations  
Representative of Veszprém County Small-region Associations  
Representative of Komárom-Esztergom County Small-region Associations  
Representative of the Ministry of Youth, Family, Social Affairs and Equal Opportunities  
Ministry of Environment and Water  
Ministry of Interior  
Ministry of Health  
Ministry of Economy and Transport  
Ministry of Finance  
Ministry of Education  
Ministry of Employment Policy and Labour  
Prime Minister's Office, National Office for Regional Development  
Ministry of Informatics and Communication  
Minister of Agriculture and Rural Development  
Fejér County Small-region Associations

Central Hungary RDC:

Ministry of Economy and Transport  
Ministry of Interior  
Ministry of Informatics and Communication  
Ministry of Youth, Family, Social Affairs and Equal Opportunities  
Ministry of Finance  
Ministry of Environment Water  
Ministry of Education  
Ministry of Employment Policy and Labour  
Ministry of Health  
Prime Minister's Office  
Micro regions of Nyugat-Pest County  
Pest County Regional Development Council

Municipality of the 13<sup>th</sup> District  
Office of the Lord Mayor of Budapest  
Regional Tourism Committee of the Central Danube Region of Budapest  
Multi-purpose Municipality Association of the Micro regions of Dunakanyar  
Heart of the Country Local Governments' Association

West-Transdanubia RDC:

Győr-Moson-Sopron County Regional Development Council  
Zala County Regional Development Council  
Representative of the Minister heading the Prime Minister's Office  
Prime Minister's Office, National Office for Regional Development (Regional Director)  
Representative of the Minister of Interior (mayor)  
Representative of the Minister of Environment  
Representative of the Minister of Economy and Transport (mayor)  
Representative of the Minister of Health  
Representative of the Minister of Education, Fund Management Directorate of the Ministry of Education  
Representative of the Minister of Youth, Family, Social Affairs and Equal Opportunities  
Representative of the Minister of Finance  
Director of the State Treasury of GyMS County  
Representative of the Minister of Agriculture and Rural Development  
Representative of the Minister of Informatics and Communication  
Representative of the Minister of Employment Policy and Labour  
Győr-Moson-Sopron County Labour Centre (director)  
Representative of the Győr-Moson-Sopron County Micro regional Forum  
Representative of the Vas County Micro regional Forum  
Representative of the Zala County Micro regional Forum  
Local Government of Győr City of County Rank (mayor)  
Local Government of Sopron City of County Rank (mayor)  
Local Government of Szombathely City of County Rank (mayor)  
Local Government of Zalaegerszeg City of County Rank (mayor)  
Local Government of Nagykanizsa City of County Rank (mayor)  
West-Transdanubia Regional Tourism Committee (chairman)

***Annex 2. Separation of national/sectoral and regional interventions***

In the spirit of decentralisation, development competences that are optimally manageable at regional level will be identified within the Hungarian development policy. Main criteria for separating developments that can optimally be managed at regional or central level include:

- identification of the optimal regional level of the single developments in respect of efficiency and accountability;
- identification of the development contents that are strongly dependent on the local potentials or require regional integration.

**Integrated local and regional development programmes under regional competence**

Developments fall under sectoral responsibility in the following cases:

- Ensuring the international competitiveness of the country:  
National level developments and investments of priority, requiring national co-ordination may not be broken down to regions. Hereunder country-wide a small number of strategically important projects will be supported (transport, large-scale logistic projects, development of institutions performing basic research activities).
- Guaranteeing central accountability or nation-wide uniform standards:
  - Development of institutions operating under the ministries' supervision or measures where beneficiaries are organisations having national functions; in their case, calling for accounts and performing control is easier for a ministry also having national competence.
  - Developments covering the entire territory of the country and less depending on the local properties that are to be built out according to identical standards in order to grant equal opportunities.
  - Measures connected with commitments.

Developments fall under regional competence in the following cases:

- Regionally integrated developments:  
Regional programmes are suitable for the financing of integrated local, regional development programmes or project packages. These integrated developments may well complement the infrastructure projects implemented in big regions financed under the sectoral programmes and the sector development programmes. Typical examples of integrated developments include regional infrastructure developments, improvement of the settlements' environment or granting efficient and rational public services in the micro regions.
- Local accountability:  
Developments connected with tasks to be provided by the local governments. Developments may be performed through integrated regional or urban actions.
- Ensuring site specific developments and regional competitiveness:  
Both planning and selection of such developments require in depth knowledge of the local properties. Economic developments building on the local or regional competitive advantages, aimed at improving regional economic competitiveness, regional spread of innovation or at

developing economic networks, development of sectors strictly defined by the cultural or landscape characteristics (areas connected with tourism, environment and landscape protection) belong here.

In line with the above, the ROPs embrace the following thematic areas of development:

- improving the regional economic competitiveness, promoting regional spreading of innovation, development of the business infrastructure and of the economic networks;
- utilisation of the regions' tourism potential and leisure-time economy, conservation of the region's natural and cultural heritage;
- development of the regional transport infrastructure and community transport for the sake of improving accessibility of rural and peripheral areas;
- promoting energy efficiency and saving as well as the use of renewable sources of energy,
- regional and local environment and renewable energy developments;
- certain environmental projects;
- infrastructure development of the settlements (URBAN model integrated local development programmes);
- development of the human and cultural infrastructure, extension of the infrastructure in connection with granting efficient public service provision in the region;
- regional, integrated regional programmes, preferred regional, thematic integrated developments.

In compliance with the EU Member States and also domestic experiences, decentralised regional programmes have remarkable fund utilisation potential. According to the new and more efficient development paradigm accepted by the professional circles internationally (in the EU Member States and by OECD), regional programmes constitute the appropriate programming level for financing the integrated local and regional development plans. Therefore, the regional programmes will be prepared and implemented in a definitively integrated approach. It is the implementation that has to grant accord between the development programmes of big regions with regional developments financed under sectoral planning.

**Annex 3. Compliance with the National Action Programme**

<b>Guidelines included in the NAP</b>	<b>Elements of the New Hungary Development Plan partially or entirely complying with the NAP's guidelines</b>
1. Fiscal course supporting macro-economic stability	Improving employability
2. Long-term sustainable economic development and budget stability – answers to the challenges of the demographic changes	Developing innovative, knowledge-based economy Improving employability
3. Distribution of resources promoting growth and employment	Fundamental objective of the New Hungary Development Plan's financial allocation
4. Wage policy promoting macroeconomic stability and growth	
5. More flexible goods and labour markets	Developing the business environment Improving employability Improving adaptation
6. Encouraging research and development, increasing and improving research and development oriented investments, especially in the private sector (guideline 7)	Developing innovative, knowledge-based economy
7. Encouraging all forms of innovation (guideline 8)	Developing innovative, knowledge-based economy
8. Encouraging the spread and use of the info-communication technologies, development of the information society (guideline 9)	Development of ICTs
9. Strengthening competitive advantages of the industrial sector (guideline 10)	Supporting technological modernisation Developing innovative, knowledge-based economy
10. Promoting sustainable use of resources, strengthening synergies between environmental protection and growth (guideline 11)	Environment-friendly energetic developments Environment business, as driving force of the economy
11. Extension and intensification of the single market (guideline 12)	-
12. Providing open and competitive markets (guideline 13)	-
13. Developing a more competitive business environment and encouraging business initiatives through improving the quality of legislation (guideline 14)	Business environment development
14. Dissemination of the business culture and development of an environment supporting SMEs (guideline 15)	To be found in the priority axis envisaging improvement of the SMEs profit generation ability
15. Improving accessibility through the development and quality improvement of the infrastructure (guideline 16)	Improving accessibility of the country and of the regional centres Improving regional accessibility Developing a public transport free of obstacles in urban and agglomeration areas Improvement of the freight traffic's logistics and transport infrastructure
16. Let work to be an opportunity for everyone –	Improving employability

<b>Guidelines included in the NAP</b>	<b>Elements of the New Hungary Development Plan partially or entirely complying with the NAP's guidelines</b>
irrespectively of age and gender (guideline 18)	
17. Be worth working (guideline 19)	Improving employability
18. Granting more and more efficient assistance for those seeking employment and for the disadvantaged (guideline 19)	Social participation and inclusion
19. Advanced employment services (guideline 20)	Improving employability
20. Migration management adjusted to labour market conditions (guideline 20)	Improving adaptation
21. Improving adaptiveness of employees and enterprises - Flexibility and security on the labour market	Improving adaptation
22. Increasing and improving the efficiency of investments directed to human resources development (guideline 23)	Increasing efficacy and efficiency of education, improving accessibility, creating chances
23. Education and training adjusted to the labour market needs (guideline 24)	Strengthening flexible adaptation of the education system to the social and economical needs

**Annex 4. Compliance of the priorities with the CSG guidelines**

**Guideline 1: Making Europe and its regions more attractive places to invest and work**

<b>System of priorities of the New Hungary Development Plan</b>	<i>1.1. Expand and improve transport infrastructure</i>	<i>1.2. Strengthen the synergies between environmental protection and growth</i>	<i>1.3. Address Europe's intensive use of traditional energy sources</i>
<i>1.1. Developing the innovative knowledge-based economy</i>		there is coherence	there is coherence
<i>1.2. Improvement of the business infrastructure and services</i>	there is coherence	there is coherence	
<i>1.3. Improving profit generation ability of the SMEs</i>		there is coherence	
<i>2.1. Improving (international) accessibility of the country and of the regional centres</i>	there is strong coherence		
<i>2.2. Improving regional accessibility (within the region)</i>	there is strong coherence	there is coherence	
<i>2.3. Developing a public transport free of obstacles in urban and agglomeration areas</i>	there is strong coherence	there is coherence	
<i>2.4. Improvement of the freight traffic's logistics and transport infrastructure</i>	there is strong coherence	there is coherence	
<i>3.1. Improving employability</i>			
<i>3.2. Improving adaptation</i>		there is coherence	there is coherence
<i>3.3. Strengthening flexible adaptation of the education system to the social and economical needs</i>			
<i>3.4. Increasing efficacy and efficiency of education, improving accessibility, creating chances</i>	there is strong coherence		
<i>3.5. Strengthening the role of the education and training system through improving the innovation potential</i>		there is coherence	there is coherence
<i>3.6. Social participation and inclusion</i>	there is coherence	there is coherence	there is coherence
<i>3.7. Human infrastructure development</i>			
<i>4.1. Environmental improvement</i>	there is coherence	there is coherence	there is coherence
<i>4.2. Environment-friendly energetic developments</i>		there is strong coherence	there is strong coherence

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<b>System of priorities of the New Hungary Development Plan</b>	<i>1.1. Expand and improve transport infrastructure</i>	<i>1.2. Strengthen the synergies between environmental protection and growth</i>	<i>1.3. Address Europe's intensive use of traditional energy sources</i>
<i>5.1 Improving regional economic competitiveness, intensifying regional spreading of the innovation, developing the business infrastructure and the economic networks</i>		there is coherence	there is coherence
<i>5.2. Utilisation of the regions' tourism potential and leisure-time economy, conservation of the natural and cultural heritage within the region</i>	there is coherence	there is coherence	
<i>5.3. Infrastructure development of the settlements (urban model integrated local development programmes)</i>	there is coherence	there is coherence	
<i>5.4 Development of the regional transport infrastructure and community transport for the sake of improving accessibility of the rural and peripheral areas; regional and local environment and renewable energetic developments</i>	there is strong coherence	there is strong coherence	there is strong coherence
<i>5.5. Development of the human and cultural infrastructure's regional dimensions, extension of the infrastructure in connection with granting efficient public service provision in the region</i>			
<i>5.6. Regional, integrated regional programmes, preferred regional, thematic integrated developments</i>	there is coherence	there is coherence	
<i>6.1. Renewal of public administration</i>			
<i>6.2. Public services modernisation</i>		there is coherence	
<i>6.3. Co-ordination and communication of the New Hungary Development Plan</i>			

**2Guideline 2: Improving knowledge and information for growth**

<b>System of priorities of the New Hungary Development Plan</b>	<i>2.1. Increase and improve investment in research and technology development</i>	<i>2.2. Facilitate innovation and promote entrepreneurship</i>	<i>2.3. Promote the information society for all</i>	<i>2.4. Improve access to finance</i>
<i>1.1. Developing the innovative knowledge-based economy</i>	there is strong coherence	there is strong coherence	there is strong coherence	there is coherence
<i>1.2. Improvement of the business infrastructure and services</i>	there is coherence	there is strong coherence	there is coherence	there is coherence
<i>1.3. Improving profit generation ability of the SMEs</i>	there is coherence	there is coherence	there is coherence	there is coherence
<i>2.1. Improving (international) accessibility of the country and of the regional centres</i>				there is coherence
<i>2.2. Improving regional accessibility (within the region)</i>				
<i>2.3. Developing a public transport free of obstacles in urban and agglomeration areas</i>				
<i>2.4. Improvement of the freight traffic's logistics and transport infrastructure</i>		there is coherence		there is coherence
<i>3.1. Improving employability</i>				
<i>3.2. Improving adaptation</i>	there is coherence	there is coherence	there is coherence	
<i>3.3. Strengthening flexible adaptation of the education system to the social and economical needs</i>	there is coherence		there is coherence	
<i>3.4. Increasing efficacy and efficiency of education, improving accessibility, creating chances</i>	there is coherence		there is strong coherence	
<i>3.5. Strengthening the role of the education and training system through improving the innovation potential</i>	there is strong coherence	there is strong coherence	there is strong coherence	
<i>3.6. Social participation and inclusion</i>			there is coherence	
<i>3.7. Human infrastructure development</i>	there is coherence	there is strong coherence	there is strong coherence	there is coherence
<i>4.1. Environmental improvement</i>				
<i>4.2. Environment-friendly energetic developments</i>	there is coherence	there is strong coherence		there is coherence

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<b>System of priorities of the New Hungary Development Plan</b>	<i>2.1. Increase and improve investment in research and technology development</i>	<i>2.2. Facilitate innovation and promote entrepreneurship</i>	<i>2.3. Promote the information society for all</i>	<i>2.4. Improve access to finance</i>
<i>5.1 Improving regional economic competitiveness, intensifying regional spreading of the innovation, developing the business infrastructure and the economic networks</i>	there is strong coherence	there is strong coherence		there is coherence
<i>5.2. Utilisation of the regions' tourism potential and leisure-time economy, conservation of the natural and cultural heritage within the region</i>				
<i>5.3. Infrastructure development of the settlements (urban model integrated local development programmes)</i>				
<i>5.4 Development of the regional transport infrastructure and community transport for the sake of improving accessibility of the rural and peripheral areas; regional and local environment and renewable energetic developments</i>	there is coherence	there is coherence		
<i>5.5. Development of the human and cultural infrastructure's regional dimensions, extension of the infrastructure in connection with granting efficient public service provision in the region</i>			there is coherence	
<i>5.6. Regional, integrated regional programmes, preferred regional, thematic integrated developments</i>				
<i>6.1. Renewal of public administration</i>		there is coherence	there is coherence	
<i>6.2. Public services modernisation</i>	there is coherence	there is coherence	there is strong coherence	there is coherence
<i>6.3. Co-ordination and communication of the New Hungary Development Plan</i>			there is coherence	there is strong coherence

**Guideline 3: More and better jobs ely**

<b>System of priorities of the New Hungary Development Plan</b>	<i>3.1. Attract and retain more people in employment and modernise social protection systems</i>	<i>3.2. Improve adaptiveness of workers and enterprises and the flexibility of the labour market</i>	<i>3.3. Increase investment in human capital through better education and skills</i>	<i>3.4. Administrative capacity</i>	<i>3.5. Help maintain a healthy labour force</i>
<i>1.1. Developing the innovative knowledge-based economy</i>	there is coherence	there is coherence			
<i>1.2. Improvement of the business infrastructure and services</i>	there is coherence	there is coherence		there is coherence	
<i>1.3. Improving profit generation ability of the SMEs</i>	there is coherence				
<i>2.1. Improving (international) accessibility of the country and of the regional centres</i>					
<i>2.2. Improving regional accessibility (within the region)</i>	there is strong coherence	there is strong coherence	there is coherence		there is coherence
<i>2.3. Developing a public transport free of obstacles in urban and agglomeration areas</i>	there is strong coherence	there is strong coherence	there is coherence		there is coherence
<i>2.4. Improvement of the freight traffic's logistics and transport infrastructure</i>					
<i>3.1. Improving employability</i>	there is strong coherence	there is coherence	there is coherence		there is coherence
<i>3.2. Improving adaptation</i>	there is coherence	there is coherence	there is coherence		there is coherence
<i>3.3. Strengthening flexible adaptation of the education system to the social and economical needs</i>	there is coherence	there is strong coherence	there is strong coherence		there is coherence
<i>3.4. Increasing efficacy and efficiency of education, improving accessibility, creating chances</i>	there is coherence	there is coherence	there is strong coherence	there is coherence	
<i>3.5. Strengthening the role of the education and training system through improving the innovation potential</i>	there is coherence	there is coherence	there is strong coherence		
<i>3.6. Social participation and inclusion</i>	there is coherence	there is coherence	there is coherence	there is coherence	there is strong coherence

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<b>System of priorities of the New Hungary Development Plan</b>	<i>3.1. Attract and retain more people in employment and modernise social protection systems</i>	<i>3.2. Improve adaptiveness of workers and enterprises and the flexibility of the labour market</i>	<i>3.3. Increase investment in human capital through better education and skills</i>	<i>3.4. Administrative capacity</i>	<i>3.5. Help maintain a healthy labour force</i>
<i>3.7. Human infrastructure development</i>	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence
<i>4.1. Environmental improvement</i>		there is coherence			there is strong coherence
<i>4.2. Environment-friendly energetic developments</i>	there is coherence	there is coherence			there is coherence
<i>5.1 Improving regional economic competitiveness, intensifying regional spreading of the innovation, developing the business infrastructure and the economic networks</i>	there is coherence	there is coherence			
<i>5.2. Utilisation of the regions' tourism potential and leisure-time economy, conservation of the natural and cultural heritage within the region</i>	there is coherence	there is coherence			there is coherence
<i>5.3. Infrastructure development of the settlements (URBAN model integrated local development programmes)</i>	there is coherence				there is coherence
<i>5.4 Development of the regional transport infrastructure and community transport for the sake of improving accessibility of the rural and peripheral areas; regional and local environment and renewable energetic developments</i>	there is strong coherence	there is strong coherence	there is coherence		there is coherence
<i>5.5. Development of the human and cultural infrastructure's regional dimensions, extension of the infrastructure in connection with granting efficient public service provision in the region</i>	there is strong coherence	there is coherence	there is coherence	there is strong coherence	there is coherence
<i>5.6. Regional, integrated regional programmes, preferred regional, thematic integrated developments</i>	there is coherence	there is coherence		there is coherence	
<i>6.1. Renewal of public administration</i>	there is coherence	there is coherence		there is strong coherence	
<i>6.2. Public services modernisation</i>		there is coherence	there is coherence	there is coherence	

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<b>System of priorities of the New Hungary Development Plan</b>	<i>3.1. Attract and retain more people in employment and modernise social protection systems</i>	<i>3.2. Improve adaptiveness of workers and enterprises and the flexibility of the labour market</i>	<i>3.3. Increase investment in human capital through better education and skills</i>	<i>3.4. Administrative capacity</i>	<i>3.5. Help maintain a healthy labour force</i>
<i>6.3. Co-ordination and communication of the New Hungary Development Plan</i>		there is coherence		there is coherence	

**Guideline 4. Territorial dimension of cohesion policy**

<b>System of priorities of the New Hungary Development Plan</b>	<i>4.1. Contribution of cities to growth and jobs</i>	<i>4.2. Supporting the economic diversification of rural areas</i>	<i>4.3. Co-operation</i>	<i>4.4. Cross-border co-operation</i>	<i>4.5. Trans-national co-operation</i>	<i>4.6. Interregional co-operation</i>
<i>1.1. Developing the innovative knowledge-based economy</i>		there is coherence	there is coherence	there is coherence	there is coherence	
<i>1.2. Improvement of the business infrastructure and services</i>	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence
<i>1.3. Improving profit generation ability of the SMEs</i>	there is coherence	there is coherence				
<i>2.1. Improving (international) accessibility of the country and of the regional centres</i>	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence
<i>2.2. Improving regional accessibility (within the region)</i>	there is coherence	there is coherence		there is coherence	there is coherence	there is coherence
<i>2.3. Developing a public transport free of obstacles in urban and agglomeration areas</i>	there is coherence	there is coherence	there is coherence			there is coherence
<i>2.4. Improvement of the freight traffic's logistics and transport infrastructure</i>	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence
<i>3.1. Improving employability</i>	there is coherence					
<i>3.2. Improving adaptation</i>	there is coherence	there is coherence				

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<b>System of priorities of the New Hungary Development Plan</b>	<i>4.1. Contribution of cities to growth and jobs</i>	<i>4.2. Supporting the economic diversification of rural areas</i>	<i>4.3. Co-operation</i>	<i>4.4. Cross-border co-operation</i>	<i>4.5. Trans-national co-operation</i>	<i>4.6. Interregional co-operation</i>
<i>3.3. Strengthening flexible adaptation of the education system to the social and economical needs</i>						
<i>3.4. Increasing efficacy and efficiency of education, improving accessibility, creating chances</i>		there is coherence				
<i>3.5. Strengthening the role of the education and training system through improving the innovation potential</i>		there is coherence	there is coherence	there is coherence	there is coherence	there is coherence
<i>3.6. Social participation and inclusion</i>						
<i>3.7. Human infrastructure development</i>	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence
<i>4.1. Environmental improvement</i>	there is strong coherence	there is strong coherence				
<i>4.2. Environment-friendly energetic developments</i>		there is strong coherence	there is coherence	there is coherence	there is coherence	there is coherence
<i>5.1 Improving regional economic competitiveness, intensifying regional spreading of the innovation, developing the business infrastructure and the economic networks</i>	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence	there is coherence
<i>5.2. Utilisation of the regions' tourism potential and leisure-time economy, conservation of the natural and cultural heritage within the region</i>	there is strong coherence	there is strong coherence				
<i>5.3. Infrastructure development of the settlements (urban model integrated local development programmes)</i>	there is coherence	there is strong coherence				
<i>5.4 Development of the regional transport infrastructure and community transport for the sake of improving accessibility of the rural and peripheral areas; regional and local environment and renewable energetic developments</i>	there is coherence	there is strong coherence				

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<b>System of priorities of the New Hungary Development Plan</b>	<i>4.1. Contribution of cities to growth and jobs</i>	<i>4.2. Supporting the economic diversification of rural areas</i>	<i>4.3. Co-operation</i>	<i>4.4. Cross-border co-operation</i>	<i>4.5. Trans-national co-operation</i>	<i>4.6. Interregional co-operation</i>
<i>5.5. Development of the human and cultural infrastructure's regional dimensions, extension of the infrastructure in connection with granting efficient public service provision in the region</i>	there is coherence	there is coherence				
<i>5.6. Regional, integrated regional programmes, preferred regional, thematic integrated developments</i>	there is strong coherence	there is strong coherence	there is coherence	there is coherence		there is coherence
<i>6.1. Renewal of public administration</i>	there is coherence	there is coherence	there is coherence			
<i>6.2. Public services modernisation</i>			there is coherence	there is coherence	there is coherence	there is coherence
<i>6.3. Co-ordination and communication of the New Hungary Development Plan</i>			there is coherence	there is coherence	there is coherence	there is coherence

***Annex 5. From preparation of the New Hungary Development Plan to the launching of the programmes***

This planning phase covers the planning tasks connected with the elaboration of the operational programmes and the major projects, of the complex programmes spanning over several operational programmes and their integration in the operational programmes, as well as with the development of the implementation's institutional system.

*Major projects*

As of 2005, the Hungarian Republic's budget includes independent appropriations for the planning activities connected with the EU supports after 2007 and for the preparation of the major investments. At present, based on the Government's decision, 35 major projects are under preparation.

Typically, the projects elected for preparatory support are public service development investments in the speciality fields preferred by the European Union. Among them, there are projects of the transport and environmental protection sectors connected with our EU accession commitments, development of some elements of the trans-European transport corridors, of the environment-friendly transport modes, improvement of the mass transport services and developments intended for protecting or improving the condition of the environment, granting environmental safety, increasing the level and eliminating insufficiencies of the communal supplies and services, as well as developments having the purpose of levelling regional disparities.

- Selection of the projects under preparation was made through assertion of the following general criteria:
- they may be considered 'major projects' as defined by the EU (total costs exceeding EUR 50 resp.25 million)
- due to their technical content, they may receive high rate of support from the Structural Funds or from the Cohesion Fund,
- they contribute to a high extent to the country's competitiveness,
- their development effects may be quantified,
- they contribute to the fulfilment of our EU commitments,
- their implementation may be initiated in 2007 or 2008,
- legal, financial, organisational and other conditions of their implementation can be granted.

The Government resolution decided on supporting preparation of major projects. The European Commission will then decide on the actual projects receiving support, as the projects will be implemented in compliance with the Commission's approval procedure. In the operational programmes only the indicative list of the major projects envisaged during the period from 2007 to 2013 is to be included, the

scope of the projects may change or be extended thereafter.

Also the list of major projects under preparation is not complete; further major project proposals will be revealed in co-operation with the social partners, they being at the same time important means of preparation of the strategy.

Based on the Government's resolution, at present, the projects by sectors under preparation with budgetary support are as follows:

Environmental protection, water management, regional development:

- Drinking water quality improvement
  - South Great Plain Region drinking water quality improvement
  - Drinking water quality improvement of the North Great Plain, Stage II
- Waste water treatment
  - Canalisation and waste water treatment of the city of Nyíregyháza and its outskirts
  - Canalisation and waste water treatment of the city of Békéscsaba and its outskirts
  - Sewage system of Székesfehérvár and its surroundings
  - Sewage system of Makó and its surroundings
  - Canalisation and waste water treatment of Nagykanizsa and surroundings
  - Sewage disposal and purification in Tápiómente region
  - Waste water treatment of the South Balaton settlements falling under the Balaton Act
  - Canalisation and waste water treatment of the South Buda agglomeration
- Flood protection, river control, water quality protection
  - Flood storage of Szamos-Kraszna interfluvia
  - Flood storage of Nagyunság
  - Flood storage of Hany-Tiszasüly
  - Tisza inundation area project (flood protection works, improving navigability, reconstruction of large structures, recreational development)
  - Duna-project (flood protection structures)
  - Kis-Balaton water protection system, Stage II
  - Improving water management and water quality of the Ráckeve Danube branch
- Complex regional development
  - Sustainable development of the Danube-Tisza interfluvia sand ridge
- Waste management
  - Mecsek-Dráva region waste management
  - Győr-Mosonmagyaróvár-Sopron waste management
  - Central Danube region waste management

Transport:

- Railway transport
  - Reconstruction of the Budapest-Székesfehérvár-Boba railway line
  - Reconstruction of the Szolnok-Debrecen-Nyíregyháza-Záhony-country border railway section
  - Development of the Budapest suburban railway network
- Public road developments
  - Construction of the M3 rapid way section Nyíregyháza Vásárosnamény
  - Main road 4, construction of the Monor-Pilis by-pass section
  - Construction of the Csorna by-pass section of the main roads 86 and 85
  - Pavement reinforcement of main road 4 (Szapárfalu-Karcag)
  - Pavement reinforcement of main road 8 (Ajka-country border)
- Water transport development
  - Construction of national public port of Győr-Gönyű
- Urban mass transport development
  - Miskolc city tram system development
  - Debrecen city tram network development (line 2)
  - Szeged electric mass transport development
  - Extension of tram lines 1 and 3 of Budapest, Phase I
  - North-South regional rapid railway, Békásmegyer-Szentendre section

Individual development program:

- European Capital of Culture 2010 – Pécs (development of cultural tourism quarter, Musical Conference Centre, South Transdanubia Knowledge Centre, “Large Exhibition Square”, rehabilitation of public spaces and parks)

### ***Complex programmes and flagship projects***

Flagship projects are priority development actions meeting the following criteria:

*they answer to a severe problem – that are important from the aspect of one or more sectors/regions/social groups,*

*they offer an innovative solution for that problem,*

*they have transparent results, perceivable for the people and*

*they serve the major strategic objectives of the New Hungary Development Plan and shape the image of the plan as a whole.*

Thus, these development actions are crucial not because of their dimensions or costs but because they can be well perceived by the people.

Complex programmes and flagship projects offer answers to complex problems. They have their synergic effect by the harmonisation of

interventions and resources embracing several OPs (and in certain cases, support systems beyond that, e.g. the NHRDP, innovation oriented support) and the creation of a balance of the points of view of different stakeholders.

Complex policies (programmes) serving as basis of necessary interventions will be worked out within the frames of independent, complex framework documents. Intervention elements identified on that basis are defined under the operational programmes, as organic parts of them. The coherent implementation of complex programmes and projects functioning as parts of the programmes can be ensured by action plans of two years, selection (preferential and guarantee) and procedural criteria as well as by a management structure adjusted to co-ordination demands of planning and implementation.

According to the plans, flagship projects embodying complex programmes will be launched in the following fields:

- Knowledge is a change
- Seven poles of competitiveness
- Enterprise promotion
- Hungary free of obstacles
- We shall cure healthcare
- Let's save energy!
- Pécs – Cultural Capital of Europe
- School of the 21<sup>st</sup> century
- Clean environment
- Realignment of regions falling behind