

Policy Agenda

2015-2017

For a More Competitive Hungary



INVESTMENT



TALENT



INNOVATION



**HEALTHY
NATION**

AmCham Hungary Policy Agenda 2015-2017



INVESTMENT

I. Pledge to make investment & reinvestment a priority

1. Create an investor-friendly business environment to keep and attract more FDI into Hungary and the region;
2. Maximize the economic and employment impact of FDI;
3. Create and clearly communicate an investment strategy and align the country's education strategy accordingly.



TALENT

II. Foster cross-sector cooperation to educate & retain talent

1. Encourage wide scale promotion of key competences and skills in education for a competitive workforce
2. Recognize the importance of talent management and talent retention
3. Enhance cooperation between the corporate sector and education institutions



INNOVATION

III. Identify innovation as a cornerstone of macroeconomic policy & encourage corporate R&D spending

1. Focus on innovation as a cornerstone of macroeconomic policy
2. Stimulate high-value added R&D projects that lay solid groundwork for sustainable growth after 2020
3. Encourage long-term cooperation between large enterprises, SMEs and academia on R&D projects
4. Attract more people to Science, Technology, Engineering and Mathematics (STEM)



HEALTHY NATION

IV. Spearhead active health management and enhanced prevention for a healthy nation

1. Promote active health management, creating a healthy nation and increased healthy life expectancy.
2. Increase the economy's production assets by creating a healthy nation with healthy workforce.
3. Creating a healthy nation requires an efficient healthcare and effective use of resources.
4. As a prerequisite of a healthy nation, allocate sufficient financial means to implement public health policies.

Introduction

This Policy Agenda is presented to our membership and the business community in order to serve as a roadmap for our advocacy efforts and all related activities and projects in 2015-2017.

It is a manifestation of our commitment to reach our common goal and vision: "To achieve a 10 spot World Competitiveness Ranking improvement in 10 years for Hungary with CEE."



We represent:

360
members

After extensive discussions hours with dozens of stakeholders we have defined our vision, reconfirmed our mission and agreed the Policy Agenda, which is our roadmap for 2015-2017. AmCham Hungary is in the best position to make a positive impact, as we have wide and strong representation.

35.3%
of Hungarian exports

Our Policy Agenda is principally based on the pillars of the World Competitiveness Ranking (WCR) report. AmCham chose those areas that it is most critical they be improved, where the biggest impact can be made, in order to define focus areas and achieve "10in10". (Please see more details on pages 6-7.)

160,000
employees

These four focus areas are: **Investment; Talent; Innovation; and Health.** In order to put a system in place to support these topics we created the so-called Policy Task Forces. These professional groups – incorporating the brainpower of our expert members – worked out the Policy Agenda in close cooperation with the AmCham Board of Directors.

Established in
1989

The Policy Agenda defines how the AmCham community can improve Hungary's competitiveness, what is needed to make Hungary more attractive for international investors, and also what is required from the regulatory environment to achieve our common goals.

6 of the 10
largest companies

This is a living document. Please talk to us, share your ideas for improvement, challenge us and most of all, we invite you to actively contribute by joining a Policy Task Force!

7 of the 10
most valued global brands

Climbing the World Competitiveness Rankings

AmCham Hungary has made its vision crystal clear: To see a 10-spot world competitiveness ranking improvement in 10 years for Hungary with the region. But what, exactly, is the world competitiveness ranking?

The annual Global Competitiveness Report (the most recent 35th report details 2014-2015) assesses the competitiveness of 148 economies, and is produced by the World Economic Forum, an institution committed to improving the state of the world through public-private cooperation.

The report is said to be the most comprehensive assessment of national competitiveness worldwide, and as such provides a platform for dialogue between government, business and civil society about the actions required to improve economic prosperity. Competitiveness is defined as: "The set of institutions, policies and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy."

The various aspects of competitiveness are sorted into 12 pillars, which make up the Global Competitiveness Index. The 35th edition emphasizes innovation and skills as the key drivers of economic growth; significant risks arise from a strained geopolitical situation, rising income inequality and the potential tightening of financial conditions.

160+
Partner Institutes

Survey **15,000**
Business Executives

Combined with **5,600+**
International organizations' data points

Produce **114** Indicators
Distributed in **12** Pillars

Used to rank **148** Economies
Accounting for **99%** of World GDP

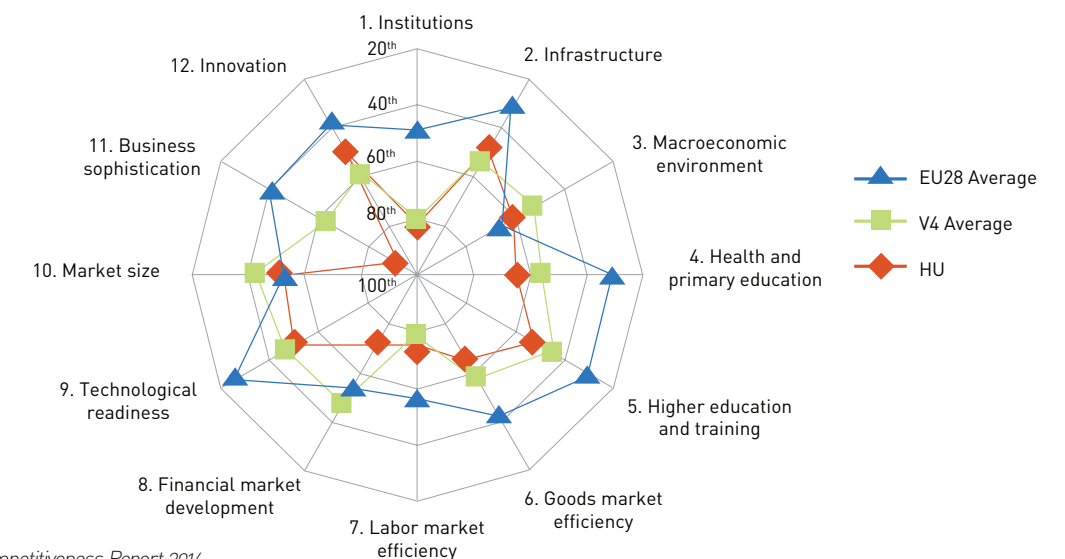
Since **1979**

The 12 Pillars of Competitiveness



Hungary is currently ranked 60th (out of 148) with an average score of 4.3 across the 12 pillars (see chart 1 on page 16 for the full report). The country's best individual results come in three separate pillars: **Infrastructure**; **Technological Readiness**; and **Innovation**, in each of which it is ranked 50th. Its worse ranking, conversely, comes in the 11th pillar, **Business Sophistication**, where it is ranked 92nd.

Ranking for Hungary, the V4 and the EU28 countries by the 12 pillars of the Global Competitiveness Report



Sources: Global Competitiveness Report 2014



I. Investment

Global Competitiveness Index

Hungary ranks 60th (out of 148)

Goal

To increase Hungary's global competitiveness by enhancing the country's attractiveness for FDI.

Foreign direct investment has played a key role in the modernization of the Hungarian economy. FDI inflow not only provides additional capital, but directly and indirectly increases productivity and competitiveness. According to the 2011 Századvég Study commissioned by AmCham Hungary, **FDI on average contributed 0.7-0.9 percentage points to annual GDP growth between 1995 and 2010.** According to the UNCTAD FDI Contribution Index, in 2011 the **host economy with the largest contribution by FDI was Hungary.** Positive impacts of FDI inflow include structural upgrading, technology transfer, and productivity growth. Relative to the size of its population, **Hungary is** listed in a recent study as **the world's third top destination country**, measured by number of jobs created by FDI.

1. Create investor-friendly business environment to keep and attract more FDI into Hungary and the region

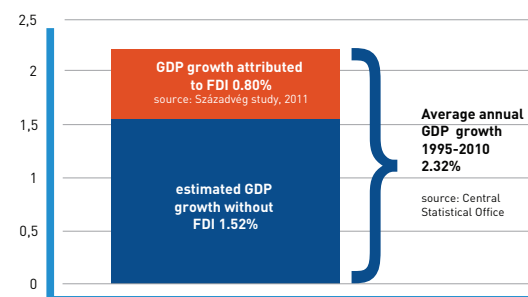
Investment and re-investment decisions are based on a great number of elements, from geographic location to labor costs. Based on corporate leaders' feedback, we would like to highlight some key issues that we believe Hungary needs to focus on.

- Create and maintain a stable and predictable regulatory framework supported by continuous consultation.
- Improve Hungary's image through communication and business intelligence, in close cooperation with the business sector.
- Maintain the competitiveness of the Hungarian tax regime, while eliminating sector-specific taxes.
- Continue cutting red tape, and further reduce the overall administrative burden on businesses.

2. Maximize the economic and employment impact of FDI

- To guarantee the long term competitiveness of the country focus on attraction of FDI to high value added sectors.
- To maintain employment opportunities for the less educated and skilled workforce, and maintain a favorable FDI environment for labor intensive manufacturing sectors.

Estimated contribution of FDI to GDP growth 1995-2010



3. Create and clearly communicate an investment strategy and align the country's education strategy accordingly

It is important for both international and local potential investors, to have a clear picture of the strategic long-term goals of the government.

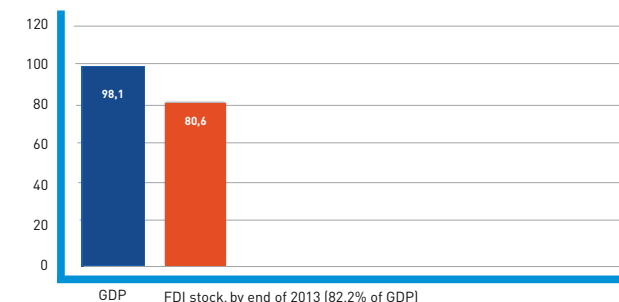
It is crucial to realize that the investment promotion strategy has to be adjusted to the innovation driven global environment. Therefore, we suggest more focus on high value-added industries, building on the competitive advantages of existing, well-developed sectors such as, but not limited to, the pharmaceutical, electronics manufacturing and mechanical engineering industries, the shared service, ICT, financial and professional services sectors. The knowledge and experience accumulated in Hungary in these sectors is recognized globally and is a sound base from which to successfully attract FDI for higher value-added jobs. AmCham, as a platform for a diverse variety of sectors, is taking action to represent these industries.

To keep pace with these dynamically growing industries, we need a well-educated workforce, with skills aligned to future business needs.

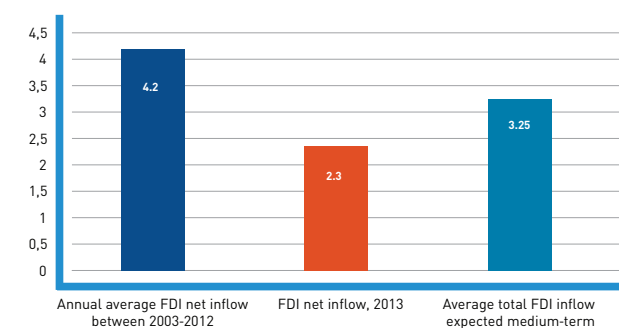
AmCham's commitment:

- Sign strategic agreements with further government bodies
- Work closely with current and future strategic partners (Ministry of Justice, HIPA) on realizing the above goals
- Provide a platform for regular and meaningful dialogue between the government and business
- Support policy-makers in better understanding local and global corporate decision-making processes
- Support decision-making by conducting impact assessments before measures are introduced
- Enhance communications with current and prospective foreign investors

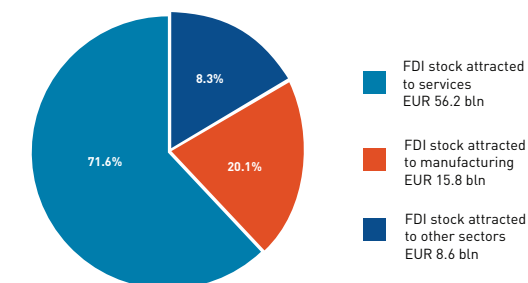
GDP and FDI Stock in Bln EUR



Key FDI inflow figures in Bln EUR



FDI stock attracted to main sectors



Sources:

Key FDI indicators (Source: MNB, Ministry for National Economy)



II. Talent

Global Competitiveness Index

74th in primary education (4th Pillar of Competitiveness)
52nd in higher education and training (5th Pillar of Competitiveness)
75th in labor market efficiency (7th Pillar of Competitiveness)

1. Encourage the wide-scale promotion of key competences and skills in education for a competitive workforce

AmCham encourages policy-makers to put skills and competences into the focus of education in order to strike a better balance between enhancing students' skills and teaching an encyclopedic curriculum, thus better meeting labour market requirements.

The EU defines eight key competences:

- | | |
|---|--|
|  Communication in the mother tongue |  Learning to learn |
|  Communication in foreign languages |  Social and civic competences |
|  Mathematical competence and basic competences in science and technology |  Sense of initiative and entrepreneurship |
|  Digital competence |  Cultural awareness and expression |

We recognize that teachers play a vital role in preparing next generations for future challenges. Therefore we advocate for an advanced, holistic teacher training to international standards and increased social and financial appreciation that can enable teachers to better support the development of their students.

In order to make a change we also need an enhanced focus on professional measurement of competences and skills in primary and secondary education. Although the PISA system has been in place since 2000, Hungary is lagging behind the region and the EU in the assessed cognitive-based areas (see *Chart 2 in the Appendix*). We recommend strengthening these competencies, and also complementing them with a competence assessment, examining personal preferences and motivation for more efficient labour market orientation.

However, the outstanding performance of Hungarian talents in the field of STEM should also be noted. At the International Mathematical Olympiad Hungary is ranked fourth on the medal table with 78 gold and 153 silver medals.

Promoting foreign language learning must continue to be top priority for education policy-makers, as investors say there is growing

Goal

To represent the needs of businesses regarding the Hungarian talent pool in order to improve Hungary's long-term competitiveness.



"Today, corporate leaders fear that a lack of skilled workforce is an obstacle to further investments and enhancement of competitiveness."

demand for skilled white- and blue-collar employees with foreign language skills. Indeed, there has been a great expansion in the Hungarian service sector, which needs employees with good foreign language and communication skills.

2. Recognize the importance of talent management and talent retention

It is in our common interests to retain and attract workforce in Hungary, and we understand the importance of talent management in a number of areas. It is imperative to launch career orientation at the secondary school level, incorporating the findings of the competence assessments examining motivation (see *point 1*).

We support the introduction of incentive programs to attract Hungarians back to the country. According to the Hungarian Demographic Research Institute, in early 2013 approximately 335,000 Hungarian citizens aged 18-49 lived abroad.

We are dedicated to supporting the efforts of member companies to prepare and adjust their workplaces to answer the needs of generations Y and Z, whose workplace expectations fundamentally differ from those of previous generations.

We also cherish diversity, and encourage the education system to better focus on female talents, especially in the so-called STEM (Science, Technology, Engineering and Mathematics) fields.

3. Enhance cooperation between the corporate sector and education institutions

To improve the competitiveness of the education system, AmCham advocates for more well-developed and transparent partnerships between business and academia. Well-established frameworks would increase corporate spending on education related projects. Best practices of cooperation could give orientation to policy-makers and teachers on how to further develop education and teaching methods. Enhancing practice-oriented training and curricula as well as improved exchange of experts between industry and academia are priority issues in Hungary. AmCham welcomes and supports the recently introduced "dual training" framework, which creates a transparent and efficient partnership between businesses, universities and students; however, AmCham also believes that this framework should complement other educational cooperation projects, as dual training alone cannot not solve all the challenges.

AmCham recommends the introduction of macro-level, strategic human-resource planning to make the education system more competitive and compliant with industry expectations and with the national investment strategy.

We believe that more resources need to be channeled to education and training, and a strategy that improves this would have the highest positive effect on Hungary's competitiveness in both the mid- and long-term.

While we encourage concentrated efforts to train more engineers and computer scientists in Hungary, we also call attention to the increased labor market demands for financial, accounting, supply chain, taxation and HR experts, which are a prerequisite for further growth in the service sector.

AmCham's commitment:

- Work closely with our government partners (Ministry of Human Capacities, HIPA) on realizing the above goals
- Continue our talent-related programs:
 - Career & Language Ambassador program
 - Start your business! program
 - Career School series
 - Women of Excellence Program



III. Innovation and Research & Development

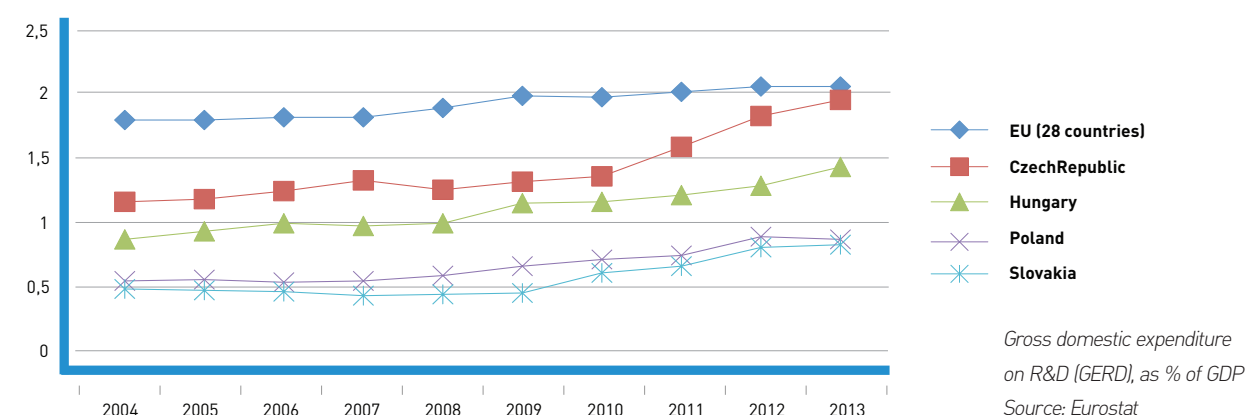
Global Competitiveness Index

41st in Technological readiness (9th Pillar of Competitiveness)
50th in Innovation (12th Pillar of Competitiveness)

1. Focus on innovation as a cornerstone of macroeconomic policy

AmCham welcomes the recent trend of a growing proportion of R&D spending in Hungary's GDP, and would support its continued growth to reach the country's R&D target: 1.8% of GDP by 2020, and the complementary target of business expenditure on R&D: 1.2% by 2020.

To keep Hungarian R&D activities competitive, Hungary needs to assess tendencies in GDP proportionate R&D spending, and the use and availability of R&D funds beyond 2020. We recommend a forward-looking policy environment and the refinement of selected elements of the tax regime, in order to substantially increase corporate R&D spending, serving as a driving force behind high added-value job creation and economic growth in the long-term.



Goal

To improve and recognize innovation and R&D as a driving force of economic growth and a competitive edge for Hungary, while representing the needs of businesses to enhance this development.



We have identified the following as critical elements to be refined in the tax regime: improved definition of R&D staff with a reduced level of social security contributions, the possibility of R&D costs deduction from innovation contributions, and the revision of what vocational training contributions can be spent on.

2. Stimulate high-value added R&D projects that lay a solid groundwork for sustainable growth after 2020

Between 2015 and 2020, Hungary will benefit from substantial EU funds to promote economic development. After 2020, however, EU funds for economic development will scarcely be available. Therefore, it is critical that EU funds are used in such a way that they both facilitate growth over the next five-to-six years and also lay the groundwork for sustainable growth beyond 2020. This will only be possible if such funds are dedicated to promote innovative and value added production and job creation.

A coherent R&D policy approach, a concentrated and harmonized incentive system, and a transparent and predictable grant system, along with simplified administrative burdens would contribute to the stimulation of innovative and value added projects.

3. Encourage long-term cooperation between large enterprises, SMEs and academia on R&D projects

AmCham supports building a stronger local innovation ecosystem, with transparent cooperation frameworks, in order to substantially enhance cooperation between large enterprises, SMEs and academia on large and strategic R&D projects building on current momentum and best practices.

4. Attract more people to Science, Technology, Engineering and Mathematics (STEM)

We need to focus on attracting more people – with a special emphasis on female talents – to Science, Technology, Engineering and Mathematics (STEM) and making education more practice-oriented at all levels. We need to involve children at a very early age – even in kindergarten – with the support of a society-wide collaboration with the active involvement of parents, teachers and industry representatives.

Solving these challenges is not only key for those strategic, innovative industries, but also a prerequisite for a competitive, 21st century economy. Investing in skills development, education and fostering a true entrepreneurial environment will ensure a dynamic and adaptable workforce that can drive innovation in Hungary.

AmCham's commitment:

- Work closely with our government partners (Ministry for National Economy, National R&D and Innovation Office, HIPA) on creating a stronger local innovation ecosystem and realizing the above goals
- Publish a Position Brief on Innovation in 2015
- Continue the Start your business! program



IV. Healthy Nation

Global Competitiveness Index

50th in Health (4th Pillar of Competitiveness)

1. Promoting active health management creates a healthy nation and may increase healthy life expectancy

AmCham Hungary believes that working together to increase healthy life expectancy is a priority. There is a great need for continued research and innovation to improve health and well-being. We commit ourselves to supporting policies and activities that contribute to a healthy life.

The increase of healthy life expectancy in the EU has boosted economic growth by improving the health status of the population and enabling people to remain active and in better health for longer.

We advocate for individual responsibility in keeping and improving individual health, but also support awareness programs run by our member companies for their employees. At the same time, the importance of financial self-care needs to be emphasized.

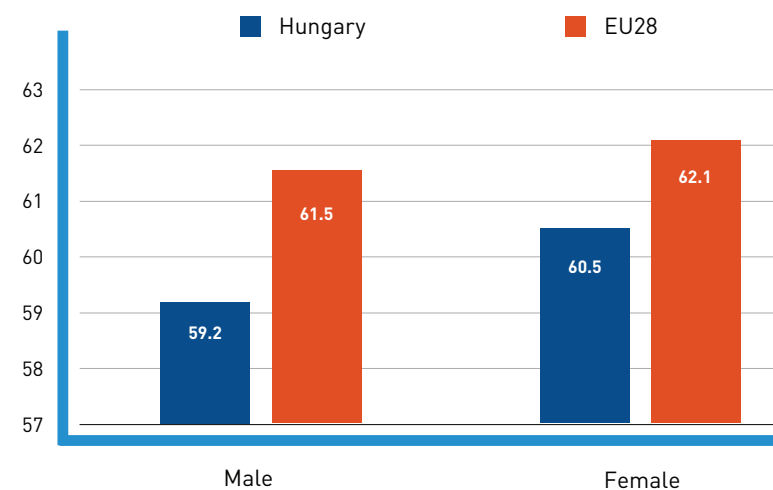
2. A Healthy Nation with healthy workforce increases the economy's assets

We support investment in preventive healthcare, which extends active years and enables the population to enjoy a better quality of life. Investment in health also results in an efficient and healthy workforce, which is of vital importance for an attractive investment location. Active health management and efficient healthcare go hand-in-hand. We believe that efficient health spending increases productivity.

Goal

To increase awareness of collaborative opportunities between the government and AmCham to increase the responsibility of citizens and companies to keep and/or improve the mental and physical health of the Hungarian population.

Healthy Life Expectancy in 2012



Source: Eurostat



3. A Healthy Nation requires efficient healthcare and effective use of resources

- a) Healthcare can be made efficient and sustainable only with long-term systematic programs that are supported by active, personal health management.
- b) Priorities and policies for decision makers and individuals need to be defined for the longer-term, and need to be based on in-depth analyzes of public healthcare data and trends.
- c) Reform of core healthcare services should be based on enhanced prevention.
- d) Well-qualified human resources need to be retained in the healthcare sector.
- e) Reaching health policy goals requires innovative products, solutions and technologies.
- f) Innovative technologies need to be in place to improve health data sharing between healthcare providers.

4. A prerequisite of a Healthy Nation is sufficient financial means to implement public health policies

- a) Even with efficient healthcare, full state financing of all healthcare expenditure will be challenging and alternate financing models have to be developed and encouraged; a system of supplementary insurances has to be created, and it is necessary to support multipurpose pre-savings.
 - Declare what should be covered by the national insurance fund.
 - Controlled transition of patients has to be established between the private and the public healthcare sectors.
 - Sector neutrality should be ensured where the private service providers have been approved and are accepted.
- b) Quality assurance standards are a prerequisite to controlling the efficient utilization of healthcare spending, both in public and private settings.
- c) In order to attract private investment into selected segments of the healthcare sector, a predictable environment and investment incentives are required.

AmCham's commitment:

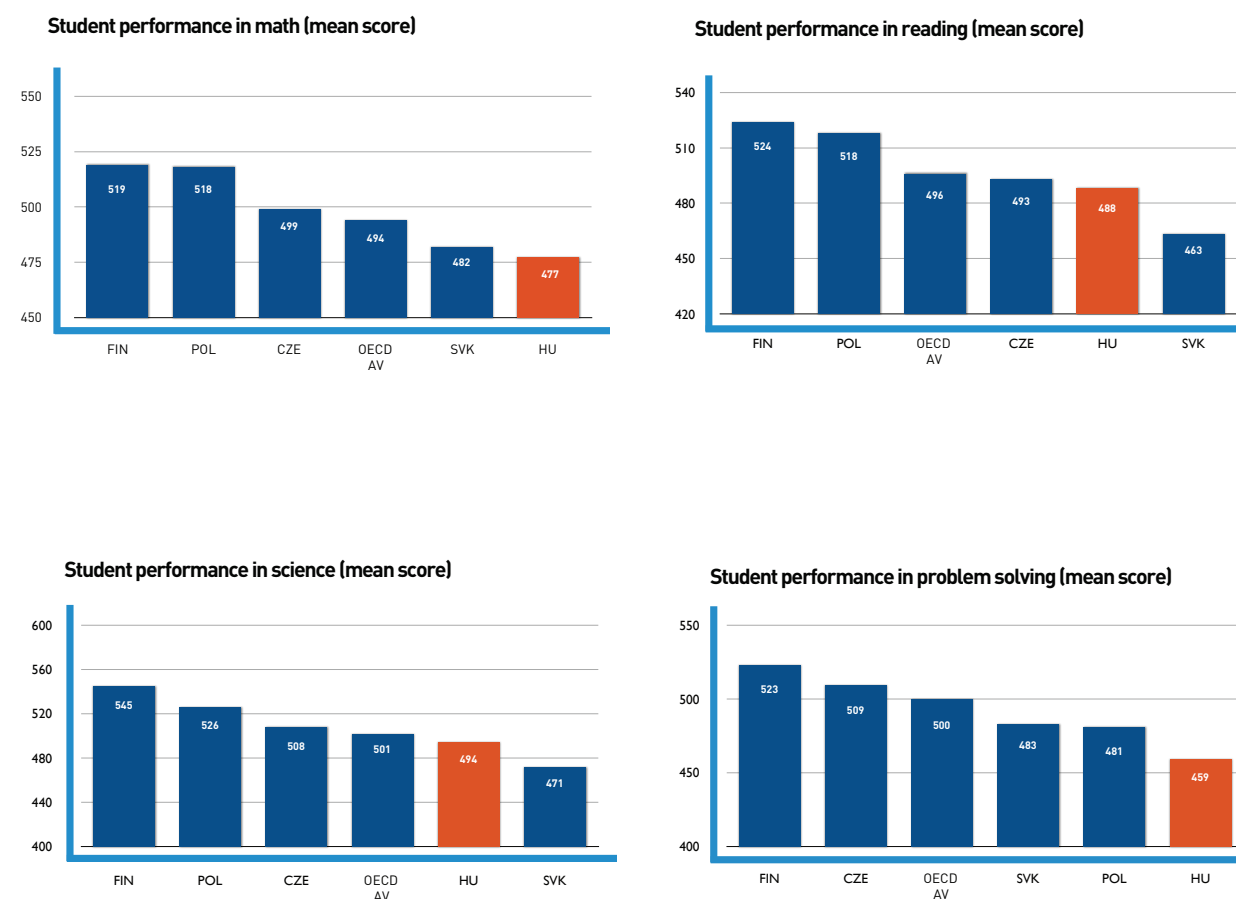
- Work closely with our government partners (Ministry of Human Capacities, HIPA) on realizing the above goals
- Incorporate financial health as a message into the Career Ambassador Program
- Continue Annual Sports Day
- Continue to share industry best practices
- Launch '10,000 Steps' employee awareness program

Appendix

Chart 1: How Hungary and its peers rank in the 12 pillars that make up the Global Competitiveness Index 2014

	Attribute	Hungary	Czech Republic	Poland	V4 AV	EU15 AV	EU28 AV
1st pillar: Institutions	Rank	83	76	56	81	32	49
2nd pillar: Infrastructure	Rank	50	41	63	55	17	33
3rd pillar: Macroeconomic environment	Rank	61	40	63	52	71	66
4th pillar: Health and primary education	Rank	64	37	39	56	20	30
5th pillar: Higher education and training	Rank	52	35	34	44	21	30
6th pillar: Goods market efficiency	Rank	65	50	51	58	32	43
7th pillar: Labor market efficiency	Rank	75	62	79	78	50	57
8th pillar: Financial market development	Rank	73	44	35	48	50	54
9th pillar: Technological readiness	Rank	50	36	48	47	16	26
10th pillar: Market size	Rank	53	42	19	43	35	53
11th pillar: Business sophistication	Rank	92	35	63	64	21	41
12th pillar: Innovation	Rank	50	39	72	60	21	39
Global Competitiveness Index	Rank	60	37	43			

Chart 2: How Hungary compares to the region and the OECD in the assessed cognitive-based areas



Source: PISA 2012

Our sources:

- Competitiveness Department, 2014
- Country Report Hungary 2015, European Commission
- http://europa.eu/legislation_summaries/education_training_youth/lifelong_learning/c11090_en.htm
- <http://www.demografia.hu/en/migration-mobility>
- <http://www.oecd.org/pisa/keyfindings/pisa-2012-results.htm>
- <https://factcheckeu.org/numbers/show/189/gdp-per-capita-of-eu28-average>
- https://www.imo-official.org/results_country.aspx?column=awards&order=desc
- IBM Institute for Business Value: Global Location Trends 2014 annual report
- Innovation Position Brief, AmCham Hungary, 2015
- Overview of foreign direct investments in Hungary, Ministry for National Economy,
- Priorities for a Digital Single Market, AmCham EU, 2015
- PwC CEO Survey for Hungary, 2015
- PwC Investing Guide, 2014;
- World Competitiveness Ranking report, 2014

More information on the WCR country listings:


<http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/>



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