

Policy Agenda

2021-2025

FOR A COMPETITIVE AND SUSTAINABLE HUNGARY



**SMART
GROWTH**



**HUMAN
CAPITAL**



**BUSINESS
ENVIRONMENT**





WHO WE ASPIRE TO BE

AmCham strives to be the most effective representative of a growing membership and the business community in Hungary, and a trusted partner in improving Hungary's competitiveness in the global economy.

WHAT WE STAND FOR

PARTNERSHIP
TRANSPARENCY
SUSTAINABILITY

WHO WE ARE

AmCham is an influential, member funded, politically independent community of American, international and Hungarian businesses founded in 1989. Today we are the strongest voice of US business, the chamber of choice in advocacy and a powerful network of decision makers.



Introduction

This publication is the third installment of our Policy Agenda series, an essence of our advocacy work, highlighting those pivotal points where Hungary's competitiveness can further be boosted. It is not a comprehensive roadmap, rather a strategic overview. It relies on the perspective of 1,000-plus top executives in our community, finetuned by our ongoing discussions with government partners and AmCham's advocacy background of more than 30 years.

AmCham Hungary first published its Policy Agenda in June 2015, with a second edition in 2017. These two papers served as a solid foundation for our advocacy work and were a clear indication of our priorities. Since 2015, we have witnessed improvements through our policy work in the level of our members' involvement, in our partnership with other organizations, as well as in our cooperation with the government. AmCham is proud to have launched flagship events (the Business Meets Government and Competitive Education summits), meaningful partnerships, and a robust set of recommendations published annually since 2016 in the "Cooperation For A More Competitive Hungary" package. These programs have made an impact, and we are dedicated to continuing, and further developing these endeavors.

In the Strategic Areas chapter (pages 6-19), some of our recommendations are a continuation of the suggestions we have stood behind over the past years, but have not yet been fully implemented in practice. AmCham, representing its members' economic considerations, aspires to be the incumbent government's strategic partner in boosting competitiveness; an endeavor that is possible only when actors in the Hungarian economy and society cooperate.

Policy Agenda Roadmap 2021-2025

THE POLICY AGENDA ELABORATES ON THOSE AREAS, WHERE THE AMCHAM COMMUNITY BELIEVES SIGNIFICANT CHANGES CAN AND SHOULD BE MADE TO ELEVATE HUNGARY IN THE COMING YEARS. INCREASING COMPETITIVENESS IS THE GENERAL GUIDING PRINCIPLE THROUGHOUT THE POLICY AGENDA, BY MEANS OF ENABLING A SMART, SUSTAINABLE GROWTH TRAJECTORY, DEVELOPING A WELL-SKILLED AND HEALTHY WORKFORCE AND ALSO BY MAINTAINING A TRANSPARENT, PREDICTABLE BUSINESS ENVIRONMENT.

I. SMART GROWTH

Setting the cornerstones of Hungary's future success by strengthening the ecosystem and support mechanisms to maximize the opportunities provided by digital transformation, innovation and R&D, increased productivity and a sustainable economy.

The Policy Agenda elaborates on the following topics:

- a. **Digitalization**
- b. **Innovation and R&D**
- c. **Productivity**
- d. **Sustainability**

II. HUMAN CAPITAL

Effective and supportive labor market regulations, and a well-educated and capable workforce is crucial for the expansion of businesses and for building a globally competitive national economy.

The Policy Agenda elaborates on the following topics:

- a. **Labor and employment**
- b. **Life-long learning**
- c. **Education**
- d. **Open corporate culture**

III. BUSINESS ENVIRONMENT

Predictable and stable regulations, a competitive taxation regime, efficiency in administration and a strengthened local supplier base have the potential to enhance the country's attractiveness for investments, and therefore are vital to increase Hungary's global competitiveness.

The Policy Agenda elaborates on the following topics:

- a. **Regulatory environment**
- b. **Taxation**
- c. **Supply chain & regional development**
- d. **Administrative efficiency**
- e. **Best practice governance and compliance**

Message From The AmCham Board

*"If you want to go fast, go alone.
If you want to go far, go together."
(African proverb)*

DEAR READER,

When preparations started for our Policy Agenda 2021-2025 back in early 2020, we did not expect "smooth sailing" from an economic standpoint; however, the current conditions considerably exceed our imagination.

We are living in a time of paramount uncertainty, with the ongoing pandemic, and the ensuing economic recovery. In just a few weeks, the global economic environment utterly transformed and all stakeholders were forced to adapt to the new, uncertain conditions. As we continue to learn to navigate this "New Normal" together, collaboration and the exchange of information is vital to our success. AmCham will continue to provide a platform for professionals and companies who are ready to lead the business community towards recovery and growth.

In such uncertain times, it is best to focus on what we do know and control what we can, while looking ahead. It is stated in our mission that we strive to improve our country's competitiveness, in line with the needs and interests of the membership, serving

as the basis of our work with decision-makers in the government and other stakeholders. The Policy Agenda embodies this mission.

We stand for those American, international and Hungarian businesses that drive our economy. We advocate for their ability to (re)invest, employ, grow, and succeed. We advocate for the policies and regulations needed to help businesses lead our economy.

We are optimistic that our nation and wider region will get through this challenging time and emerge stronger, and businesses will help lead the way. Our partners in government will play a vital role, helping create the conditions for recovery and development. The decisions they make will significantly impact the speed and sustainability of the recovery, and our role is to provide inputs that represent our membership and the business community for these decisions.

Business and government must work together to restore growth and help people rebuild their lives in the months and years to come, creating an era of growth and opportunity for Hungary.



Smart Growth

SETTING THE NEEDED CORNERSTONES OF HUNGARY'S FUTURE SUCCESS BY STRENGTHENING OF THE ECOSYSTEM AND OF SUPPORT MECHANISMS TO MAXIMIZE THE OPPORTUNITIES PROVIDED BY DIGITAL TRANSFORMATION, INNOVATION AND R&D, INCREASED PRODUCTIVITY AND A SUSTAINABLE ECONOMY.

A. DIGITALIZATION

Hungary is one of the most advanced states in ultrafast broadband in households, 4G coverage and 5G readiness within the EU. However, the country's overall digital infrastructure and the digital preparedness of SMEs is lagging behind most of Europe. In the European Commission's 2020 Digital Economy and Society Index (DESI), Hungary scored 48, compared to an EU average of 53 points*. When looking at the trend of Hungary's position in the DESI, we see that maintaining our relative position takes continued effort, as digitalization is a highly competitive, fast-moving area, with room for improvement in digital public services and integration of digital technology.

** The Digital Economy and Society Index (DESI) is a composite index, based on a weighted sum of its five components (connectivity, human capital, use of internet services, integration of digital technology and digital public services), that summarizes relevant indicators on Europe's digital performance and tracks the evolution of EU Member States in digital competitiveness.*

We believe that, alongside a well-established digital infrastructure, a digitally competent workforce is also a precondition for attracting high value-added industries. Currently, the digital competences of the Hungarian labor force are behind the EU average. We closely monitor related government strategies, while encouraging timely action to avoid losing momentum.

We advocate for the following:

- An **enabling economic and legislative environment**, in order to ensure Hungarian companies have the ability to explore the comparative advantages of a supportive ecosystem in the digital era.
- **The enhancement of digital competencies and skills**, in line with the Digital Education Strategy launched in 2016, and future strategies in the same spirit. We support the establishment of a digital skill benchmark for students in primary, secondary and higher education, and a greater support for dedicated adult training programs.

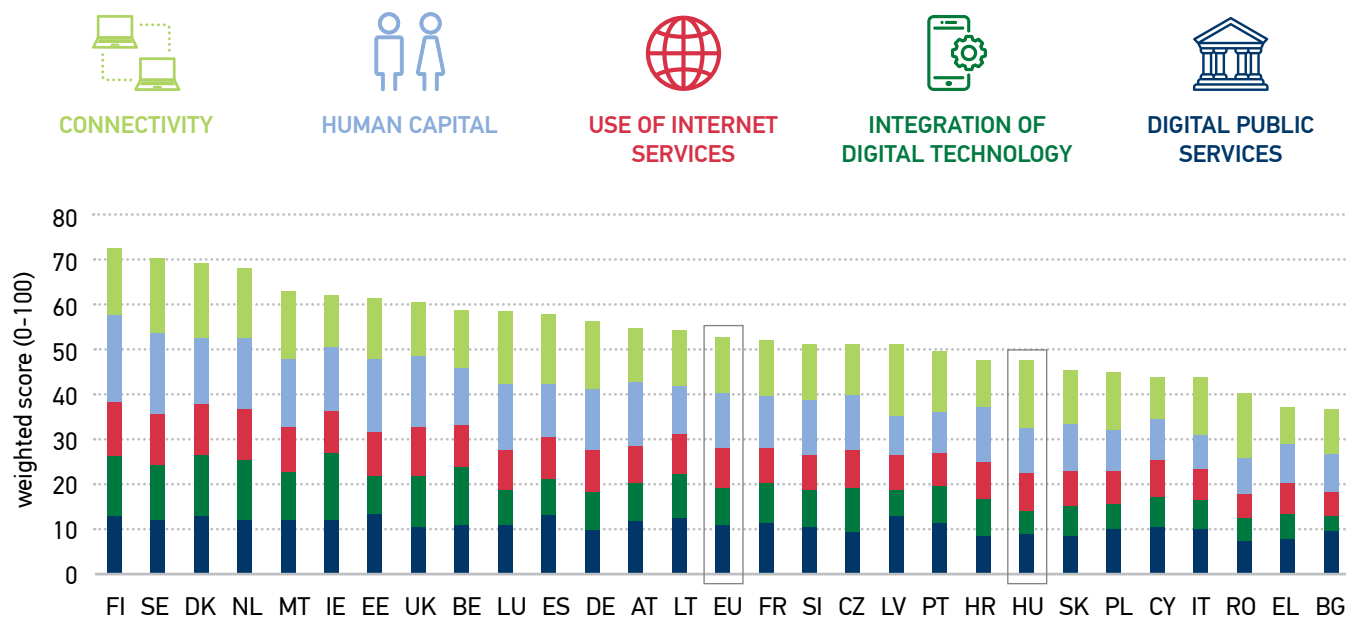
- The further increasing of the quality, **interconnectivity and adoption rate of digital public services**.
- The **narrowing of the digital device gap** in less developed regions.
- Further increase in the **share of e-commerce and adoption of e-business technologies** such as big data, cloud technologies or social media tools, with an emphasis on SMEs. We advocate for dedicated, simplified and cooperation-based programs to support the digitalization of SMEs.
- An **Open Data policy**, providing access for companies, with a special emphasis on startups, to national data wealth that we believe will have a prospective positive impact on the country politically, socially, environmentally and economically.

- **Enhanced cyber-resilience and data security**, based on effective harmonization of regulation and standards, done through public-private partnerships and global cooperation.
- Further development and expansion of **telemedicine solutions** in clinical care.

B. INNOVATION AND R&D

Innovation is more than technological development. It is also a mindset, encouraged by a supportive environment, and focused on processes and productivity. In this broader sense, the level of innovation is determined by not only an inventor's willingness to take risks and ability to solve problems, but

THE DIGITAL ECONOMY AND SOCIETY INDEX (DESI)



(Source: DESI 2020)

also by the level of digitalization, a capable workforce, and the general business environment. Therefore, we believe that first and foremost, an enabling environment is needed to foster and to sustain innovation.

AmCham welcomes the growing trend of R&D spending in Hungary's GDP – 0.4% growth since 2010 – in line with the shift to the “Invented in Hungary” approach and would support its continued accelerated growth. Hungary is below the OECD average of 2.37%: according to its data for 2019, Hungary's R&D spending was only 1.5% of GDP. The number of new patents registered per year is also lower than the V4 and EU averages, indicating inefficient resource allocation in the face of rising R&D expenditures.

According to the World Intellectual Property Organization's Global Innovation Index, Hungary ranked 22nd among 39 European countries in the overall 2020 index, amidst other V4 countries and Austria. In some areas, such as the quality of academic and research publications, the country is near the bottom of the list. In line with AmCham's previous advocacy efforts, the government clarified that innovations generated at a university are to be undisputedly in the ownership of the university, currently implemented at seven selected institutions. However, what remains undefined is how universities manage this IP, therefore best practices are yet to be established.

Hungary's success as an innovation hub is predicated on a strong and globally respected university basic and applied research capacity and depth. Only with this in place and with an improved reputation can Hungary attract and keep innovation capacities sustainably in Hungary. Facilitating effective university and corporate collaborations (large and small, industry and investors) is essential to this process.

Finally, in the Global Competitiveness Index Innovation report Hungary has ranked poorly in the past years as measured by the “Multi-stakeholder collaboration” indicator.

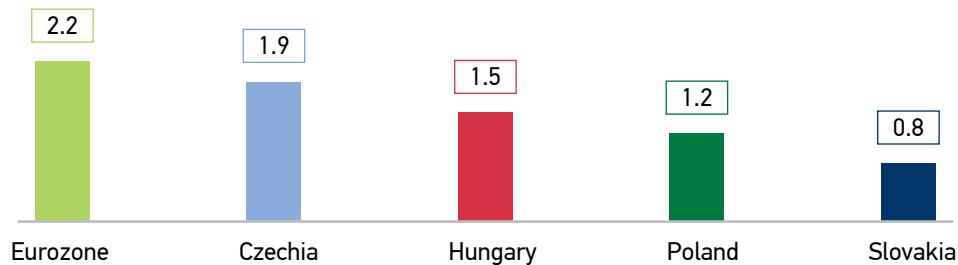
This indicator references the level of university-industry cooperation, an area that largely contributed to Hungary's overall weak position in the rankings.

Data shows that enhancing innovation and establishing a sustainable environment are major challenges. These can only be achieved by attracting both people and capital.

We advocate for the following:

- **Transforming the economy to a higher value-added level**, through macroeconomic policy and the right incentives. We advocate for EU, and EU-conform state aid to increase the amount of subsidy grants for attracting and supporting innovative companies and solutions in the Hungarian market. These programs should be combined with measures to attract private capital.
- Building a **stronger local innovation ecosystem**, with transparent cooperation frameworks, to substantially enhance cooperation between large enterprises, SMEs and academia in innovation and on small and large strategic R&D projects, with **clear Intellectual Property rights**. AmCham supports the creation of an enabling innovation environment, where universities can retain high-level scientific goals, can establish, and maintain close cooperation with industry and can also become successful in business activities.
- We support that academia **defines best practices to protect and strengthen the clarity surrounding its IP management**. Hungary's academic sector can only be world class by resolving this important matter.
- To define proposals on policy matters on how to **best utilize and transfer IP**, how to regulate it, manage the valuation of IP and other related matters.
- Promote **university spin-offs with investors and licensing of IP to the corporate sector** by better defining best practice IP management.

PERCENTAGE OF GDP SPENDING ON R&D (2018)



(Source: OECD)

- **Both market-oriented applied R&D and world class basic research are needed** as these are key to elevate Hungary's reputation as an innovation center. Building international networks, creating better research performance management and encouraging an ongoing dialog between the private sector and academia are all critically important. University funding should make available adequate resources not only for teaching but also for research, both applied and basic. Taking the results of basic research to the market is important, to move toward higher value-added services and working environment. We believe that productization of research results should be supported.
- **Cross-border R&D grants** (V4 or beyond) can accelerate knowledge sharing and innovation. We see it as a tool to show the strength and capabilities of our researchers, people, and education system across Europe.
- Stimulate **high value-added R&D projects in select, strategic industries** such as automotive, healthcare, or green technology. We believe that by supporting these focused efforts, growth can be accelerated.

- **Unlock the power of data to fuel innovation**, the success measured by the levels of customization, for instance in the healthcare sector.

C. PRODUCTIVITY

Increasing productivity is the most effective way to increase per capita GDP.

As the growth in quantity – specifically in employment numbers – reaches a cap, we need to focus on the qualitative factors to maintain progress. According to European Central Bank projections, if output per worker, structural unemployment, and labor participation remain at current levels, population ageing will result in a stark fall of output per capita income. We believe that structural reforms are needed to increase productivity and to unlock unused labor potential and thereby avoid stagnation in per capita income, providing both monetary and fiscal policy more space to operate in.

The GDP growth seen in the Hungarian economy in recent years was primarily driven by increases in productivity and employment. Assessing Hungary's productivity more closely, most sectors showed productivity improvements with declines only in manufacturing, particularly machinery and equipment, and the energy sector*. In comparison to the V4 and the eurozone, Hungary shows potential for improvement.

* McKinsey & Company: *Flying start - Powering up Hungary for a decade of growth, 2020*

By bringing productivity levels to those seen in other V4 countries, for example, Hungary's GDP would rise by 28%. The greatest potential is in construction and real estate, which would account for 22% of the improvement, and retail, which accounts for 18%. The potential is even greater if the gap with the eurozone average could be closed. Hungary is falling behind in total factor productivity, assessed across expenditures on R&D as a share of GDP, levels of innovation, an increasingly qualified labor force and the presence of large companies with a well-developed SME supplier base.

Finally, Hungary needs to focus on productivity in order to avoid the middle-income trap, a potential stagnation of growth. The advantages of low-cost labor and imitation of foreign technology can disappear when middle- and upper-middle-income levels are reached. Moving up the global value chain into higher value-added business processes, while better integrating the local supply chain and elevating the workforce through education and training is a potential answer to this phenomenon.

We advocate for the following:

- **Raising investment** is essential in tackling the productivity challenge in advanced economies. At the same time, **efficient allocation** of these resources, including EU funds, is needed to boost total factor productivity. Therefore, investment in innovation and R&D, process optimization, technology and machinery is encouraged, at all levels of the Hungarian economy.
- A lower productivity in SMEs, compared to large corporations is a global phenomenon; however, in Hungary this gap is deeper than the worldwide average. We believe that to have a diverse economy and labor force we need **strong, competitive SMEs**. Therefore, strengthening of the mid-level sector is essential, with special regards to enabling the growth of regional or global multinational companies from Hungary.

- We advocate for a general business environment that enables the **increase in the number of corporate headquarters in Hungary**, potentially moving their operations higher up the value chain, entailing more complex jobs and processes, essentially driving productivity.
- **Innovation and education** are also at the core of productivity, for more on these topics, see page # 7-8 and 15-16.

D. SUSTAINABILITY

We believe that for Hungary to become a smart, resource-efficient, and competitive economy, sustainability needs to be a cornerstone of economic policy, as countries and businesses with no clear sustainability measures will have a long-term competitive disadvantage.

We consider it crucial for sustainable economic development that the Hungarian regulatory system follows the UN 2030 Framework for Sustainable Development, incentivizing the business sector to create long-term value with innovative products and services, while minimizing the negative external economic and environmental impacts. The key to sustainability is continuous renewal, which requires an appropriate and transparent regulatory environment, with the involvement of all stakeholders.

An essential, key driver in this process is the personal commitment of decisionmakers. Where the government and market-leading companies are committed to sustainable operations, supplier markets must also move in this direction; sometimes driven by customers' demands, the market will follow suit. From a corporate perspective, sustainability has become a real business development issue, while focusing on environmental, customer and employee needs. Companies in all sectors need to be open to sustainable business models.

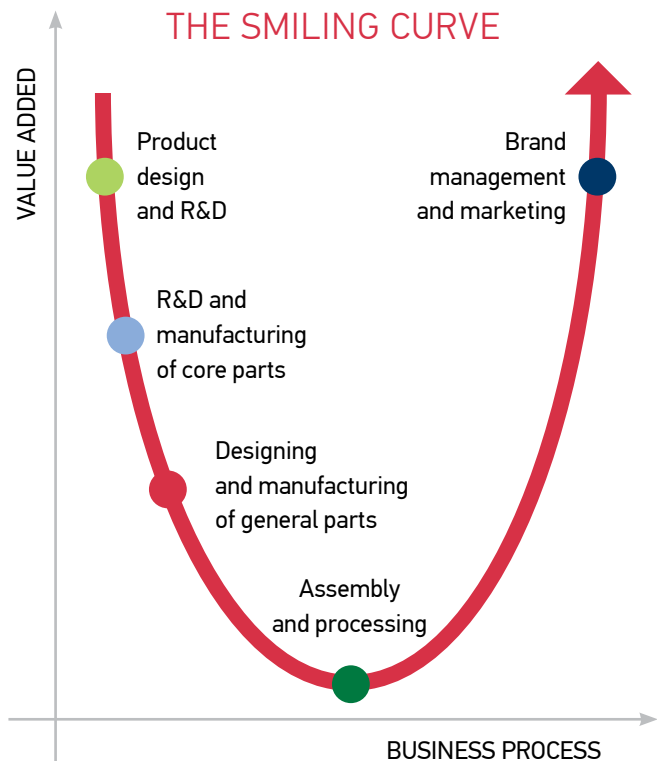
Sustainability is a complex issue, spreading from green energy and infrastructure, through rule of law to education. It is a guiding principle throughout the Policy

Agenda; however, we believe it is also a strategic focus area to be highlighted on its own.

We believe in long-term, consensus-based solutions, preceded by a multilateral coordination involving all stakeholders and overarching political cycles, to the most strategic and pressing issues, such as environment protection, carbon neutrality, education and healthcare, supported by sustainable financing.

We advocate for the following:

- A **future-proof education and healthcare system** is the token of a stable economy in the long run.
- Hungary's climate neutrality goal for 2050, in line with the European Green Deal (the **EU greenhouse gas net zero emissions strategy**) is a tremendous opportunity for the country. We believe that this goal needs to be implemented in a transparent manner with a focus on clean and renewable resources, setting clear milestones and involving a multi-stakeholder approach.
- The government should **proactively promote and support smart and green investment**, preferably making these a horizontal prerequisite in investment incentivization.
- In order to have a leapfrog in sustainability, we believe that **new technologies, sustainable solutions** (such as sustainable product policy, supporting the circular design of all products) and **disruptive innovation** needs to be subsidized and incentivized.
- We believe that the **taxation system needs to reflect sustainability goals**, for instance by shifting the tax burden from labor to pollution, or by a more targeted use of VAT to support organic fruit and vegetables.
- We advocate for the **promotion of a circular economy action plan**, especially focusing on resource-intensive sectors such as textiles, construction, electronics and



plastics. We encourage the government to incentivize businesses to offer reusable, durable and repairable products, thus extending the product lifecycle.

- As protection of the **health and well-being of citizens** from environment-related risks and impacts is a multi-stakeholder effort, we advocate for more coordination and a clear strategy. We also advocate for the **adequate funding of academic institutions that would instill the education of sustainable concepts and that would adequately encourage supporting R&D for sustainable smart and green and circular economy initiatives.**



Human Capital

EFFECTIVE AND SUPPORTIVE LABOR MARKET REGULATIONS, AND A WELL-EDUCATED AND CAPABLE WORKFORCE IS CRUCIAL FOR THE EXPANSION OF BUSINESSES AND FOR BUILDING A GLOBALLY COMPETITIVE NATIONAL ECONOMY.

A. LABOR AND EMPLOYMENT

In Hungary, the primary challenge for investments and businesses to grow is the availability of a skilled workforce. The employment rate has grown significantly in Hungary over the last decade, rising from 55% in 2010 to 70% in 2019 in the 15-64 demographic, according to Eurostat data. More than half of this came from manufacturing, construction and real estate. As the number of private sector jobs rose, the number in the public sector fell. The shift created a more efficient labor market, as wages and productivity are typically higher in the private sector. The COVID-19 pandemic has reversed this trend, at least temporarily.

While the unemployment rate is comparatively low, and the employment rate has also substantially increased, certain measures could further contribute to widening Hungarian labor market supply, as Hungary still has a significant labor reserve. Looking at activity rates, which compares the total labor force to the total population, Hungary harbors a labor reserve of about

200,000 people*. This group needs to be reskilled and have flexible and atypical employment options, especially in light of the new remote work possibilities, all accelerated by COVID-19. In addition, Hungary has a very low overall part-time employment rate compared to other EU countries and is even lagging behind the V4. In addition, about 28,000 more Hungarians worked in other countries in 2019 than foreigners worked in Hungary.

We advocate for the following:

- **A more flexible, supportive, and up-to-date regulatory environment**, enabling the introduction of **incentives for atypical work**, such as remote work, part-time or collaborative work, job-sharing, employee sharing, hired labor or school cooperative employment. This could boost the labor market participation of the younger generation, the 50-plus generation, women and the physically challenged, among others. We believe there is an ever-growing need for exploring and expanding new, flexible employment schemes, all induced by digitalization, and accelerated by COVID-19. AmCham encourages dialogue around issues of how to engage fresh graduates, and how to help companies employ highly skilled third-country employees.

* McKinsey & Company: *Flying start - Powering up Hungary for a decade of growth, 2020*

- Education and training to generate more **highly qualified, niche specialists**, with language proficiency and with degrees in STEM or digitalization. The training of **well-qualified blue-collar workers** is also essential, as there is currently a labor market shortage at both ends of the spectrum.
- **Making Hungary an attractive employer brand** is a continued priority, and therefore AmCham supports member companies that prepare and adjust their workplaces to answer needs of both younger and older generations, and that provide them with attractive career paths and good value jobs. Besides a goal of retaining talent in Hungary, cooperation between the government and corporate sector is needed to attract back Hungarians who graduate and work or attend school abroad. To this end, AmCham advocates the removal of existing administrative barriers and more efficient information sharing with those studying or working abroad.
- **Mental and physical health** is a pillar of a competitive workforce, therefore AmCham promotes the principle

of active health management that can lead to increased healthy life expectancy. We believe that the government should create incentives for companies to finance healthcare services for their employees. We encourage and promote programs, many of which are run by member companies, that enhance mental and physical health awareness.

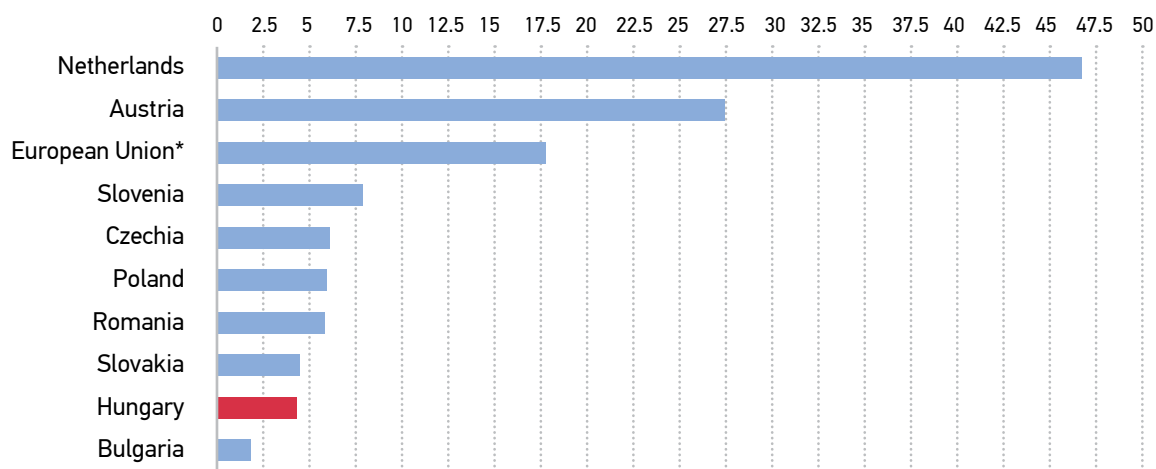
- **Increase the mobility of employees** and the flexibility of the Hungarian labor market, through the promotion of rental housing programs and incentivization of labor mobility.

B. LIFE-LONG LEARNING (ADULT EDUCATION)

A competitive workforce in today's ever-changing environment is based on life-long learning and adaptability. In today's fast paced knowledge economy, organizations also see life-long learning as a core component in employee development.

AmCham welcomes Hungary's participation in the OECD Survey of Adult Skills (Program for the International Assessment

PART-TIME EMPLOYMENT RATE IN SELECTED EU COUNTRIES (2019)



* 27 countries (from 2020)

Source: Eurostat

of Adult Competencies, PIAAC). This survey measures adults' proficiency in key information processing skills that will provide relevant data for the planning of targeted adult-training programs. On average, adults in Hungary perform well above the OECD average in numeracy but slightly below the average in literacy. Interestingly, performance of "highly educated adults" in Hungary is well above the OECD average in both literacy and numeracy.

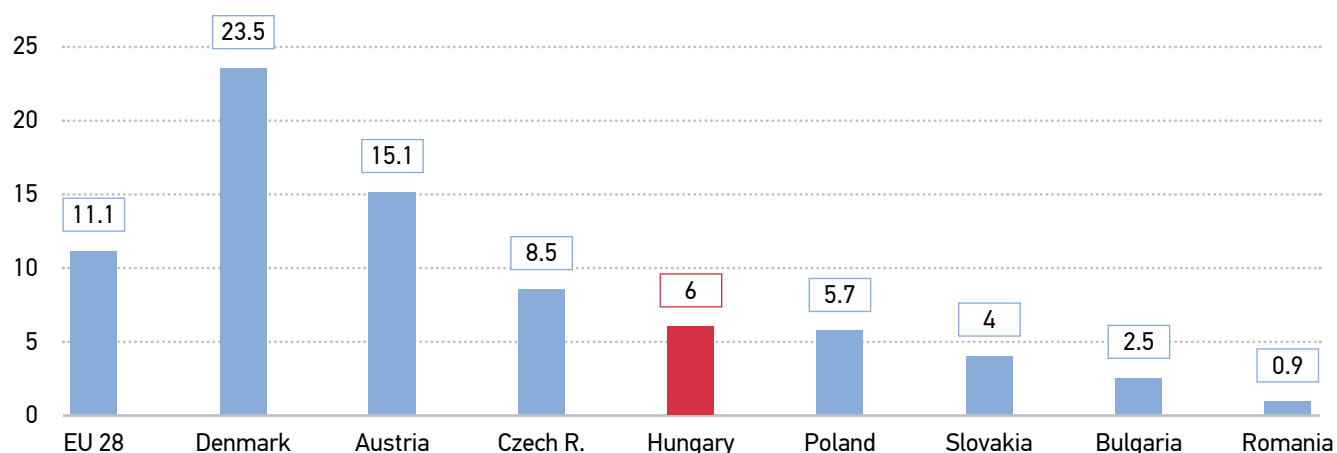
According to Eurostat data, Hungary underperformed compared to most of the EU in the percentage of participation in adult training (defined as participation of adults aged 25-64 in education and training) at just 6%, compared to an 11% EU average.

In adult education, there has been significant progress in Hungary, as in the last 10 years an entire sector developed to provide training has emerged. While the system performed well in some areas, certain others remain underfunded, due to inefficient distribution. The central reason for this is that performance of these systems in Hungary was measured by input, rather than output.

We advocate for the following:

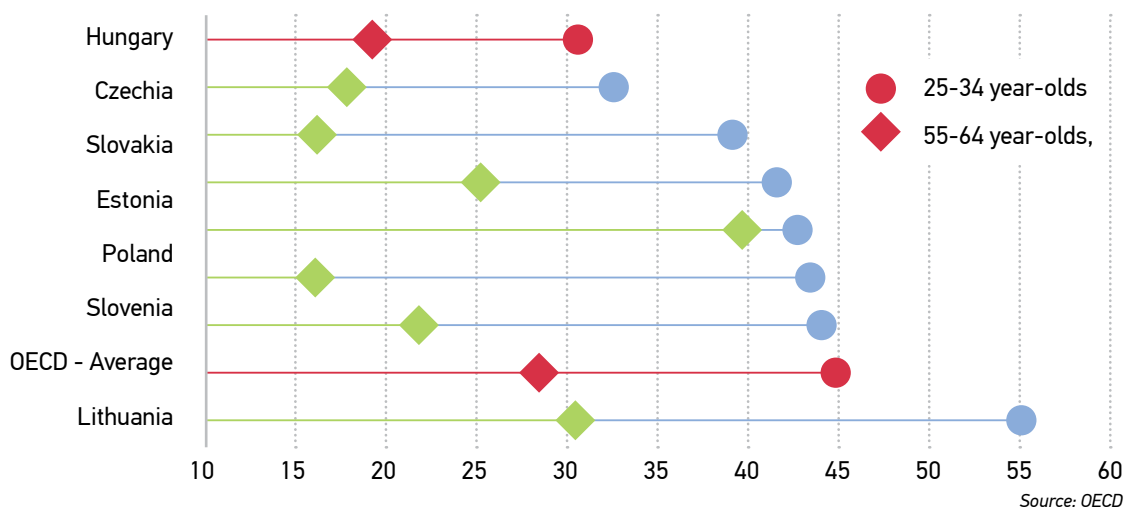
- **Attitude-shaping and motivational campaigns** to raise public awareness of the skills gap and the availability of related adult training programs, starting from an early age and embedded into the education system. Life-long learning starts with the individual and is therefore a question of mindset-change.
- **Correction of inefficiencies in adult training** with more focus on the output, and harmonization of training with current market trends. AmCham encourages **regular dialogue between the business community and decision-makers** to facilitate the education system's adjustment.
- Increased efforts to **extend working life, raise the employment rate and improve productivity**. The main objectives of adult education policy should ensure the availability and competence of the labor force, provide educational opportunities for the adult population, and strengthen social cohesion.

ADULT PARTICIPATION IN LEARNING, AGED 25-64 (%), (2018)



Source: Eurostat

POPULATION WITH TERTIARY EDUCATION (% IN SAME AGE GROUP), (2019)



- **Stronger competencies, more flexibility and agility** for every level of the workforce, especially in SMEs and the blue-collar sectors. As the labor market is swiftly changing, the demand for employees to quickly adapt to new, as yet unknown jobs creates a skills mismatch that impacts 40% of the workforce*. It is a joint task of individuals, employers and the government to proactively prepare for this trend in order to guarantee sustainable growth.
- **Digital literacy** should be a priority for the existing and future labor pool, with a special focus on retraining and reskilling. Employees in jobs soon to be automated need to be prioritized.
- **Foreign language competencies** should be a priority in adult education as well.

* Ember-Adat-Stratégia, Boston Consulting Group & Profession, 2020

C. EDUCATION (PRIMARY, SECONDARY, VOCATIONAL, UNIVERSITY)

Education is an essential requirement for building national competitiveness. This is particularly true for a middle-income country like Hungary, no longer seeking to compete based on low wages, but rather on innovative, higher value-added products and services. For this transition to take place, the availability of skilled human capital is viewed by most corporations as a crucial consideration in locating a business to any country.

We believe that the education system needs to adapt to the challenges of the new economy. According to the World Economic Forum, 133 million completely new jobs will emerge in the next decade. Already evident is the displacement of 75 million jobs due to the adoption of new technologies and structural changes in the labor market. While it is impossible to predict the future of every profession, there are certain capabilities that can help safeguard a successful future career. STEM skills, especially applied in IT,

and tech, and finance and soft skills that cannot be automated will be in high demand. These include communication and conflict resolution, critical thinking, problem-solving and innovation.

In such a fast-changing environment, regulators and educators need to embrace the fact that skills and agility are of utmost importance in teaching the younger generations, as well as in reskilling the existing workforce, as elaborated in the previous chapter.

In comparison to other EU countries, Hungary spends less, with lower efficiency, on education and underperforms in international metrics in language, math, and science, and in 21st Century skills, such as coding, digital prowess, and problem solving in primary and secondary education.

Finally, a significant issue is that students are leaving the education system without qualifications. Here, Hungary is in a poor position, with twice as many cases as in the V4, according to the National Bank of Hungary's analysis. The number of students enrolling in tertiary education is also one of the lowest in the EU.

Graduates in tertiary education and at doctoral level in Science, Math, Computing, Engineering, Manufacturing & Construction per 1,000 population aged 20-29 (2017)

We advocate for the following:

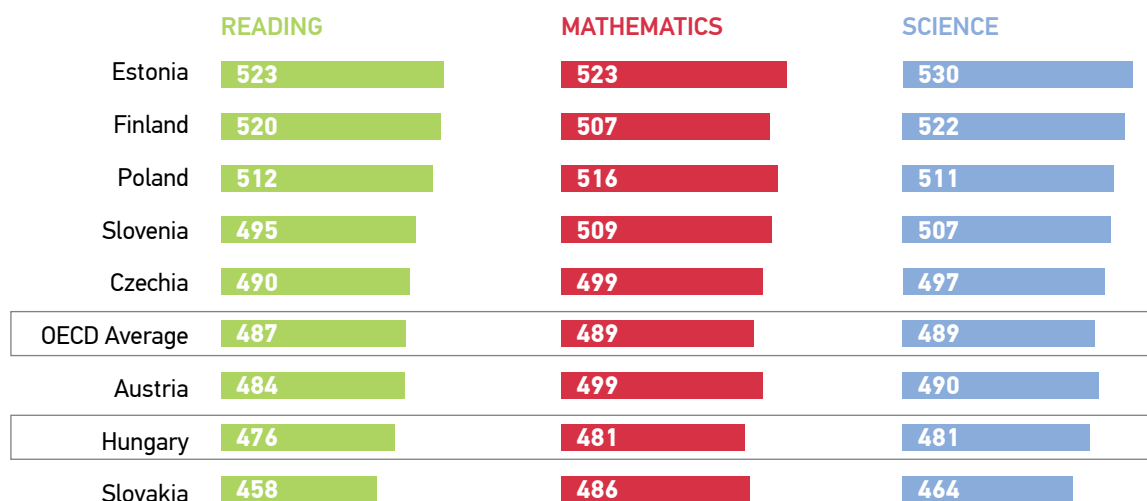
- An **increased proportion of GDP to be spent on education**, to close the gap with the level of the more developed EU member states, by a more structured and **efficient allocation of funds, following a clear and transparent education strategy**.
- The **transformation towards a competence- and skill-based education** in all tiers and segments of Hungarian education. A strong command of key competencies such as communications, language skills, STEM subjects, digital competences, and social skills is essential for employees in keeping up with ever changing labor market expectations. AmCham encourages **regular dialogue between the business community and decision-makers** to channel

relevant information between stakeholders and to facilitate the education system's adjustment.

- The **continued promotion of foreign language learning** (with an emphasis on teaching English as the lingua franca) should be a top priority in all tiers of education, starting at an early age.
- A **boost in general digital literacy** by lifting the baseline in the existing and future labor pool. In line with this, we support measures and programs that extend the digital talent pool in Hungary, in line with the government's Digital Education Strategy.
- **STEM** (science, technology, engineering, and mathematics) subjects hold the key to success for the new economy and therefore **should be prioritized and promoted from a very early age, including teaching problem solving, creative thinking and analytical skills**.
- The introduction of a **more advanced, interdisciplinary teacher training** system that builds on international standards and best practices. We call for **strengthening the social prestige of teachers**, who play a key role in this transformation and who need to receive a better level of professional and financial support. At the same time, we believe that the reform of teaching methodology, with the incorporation of the latest digital tools and e-learning best practices should be introduced.
- Introduction of **targeted, nationwide programs to lower the percentage of students leaving the education system** before acquiring a qualification.
- A **more globally competitive Hungarian university education system**. It should adopt a modernized curriculum, based on international best practices, tapping into cross-border research and educational networks. The system should be enhanced to promote university-industry cooperation, building on the learnings of successfully run Science Park projects.
- **Career orientation** in secondary and university education to be supported by data derived from a very comprehensive career monitoring system.

PISA INTERNATIONAL STUDENT ASSESSMENT RESULTS (2018)

Snapshot of students' performance in reading, mathematics, and science



Source: OECD

- **Encourage entrepreneurship** for the next generation of leaders in university, secondary and tertiary education, by involving the private sector and promoting the definitive successes of Hungarian entrepreneurs.
- **Vocational training** needs to be harmonized with the new economy's needs. Therefore it should be more skill based, adaptable and more flexible.

D. OPEN CORPORATE CULTURE

We believe that in order to have a healthy society that provides equal opportunities, there needs to be a multi-stakeholder effort to promote and enable social responsibility, a high degree of business ethics, equality, diversity and inclusion in the workplace and in society at large.

We are proud that AmCham's member companies operate in an open, inclusive corporate culture, integrating global best practices of these values.

We advocate for the following:

- Continued recognition and visibility of **good corporate practices in ethical social responsibility, community outreach programs** and fair and equal employment practices.
- Promotion of a **positive mindset change in gender equality and diversity**, by showcasing role models and empowering stories.
- **Removal of barriers, both regulatory and cultural**, to guarantee equal opportunities for minority groups.
- Further steps to build a **competitive, value-based, sustainable and ethical business eco-system** and attractive Hungarian corporate culture.



Business Environment

PREDICTABLE AND STABLE REGULATIONS, A COMPETITIVE TAXATION REGIME, EFFICIENCY IN ADMINISTRATION AND A STRENGTHENED LOCAL SUPPLIER BASE HAVE THE POTENTIAL TO ENHANCE THE COUNTRY'S ATTRACTIVENESS FOR INVESTMENTS, AND THEREFORE ARE VITAL TO INCREASE HUNGARY'S GLOBAL COMPETITIVENESS.

Between 2015 and 2019, Hungary's economy expanded by an average of 4.1% a year; faster than regional peers the Czech Republic and Slovakia, or the eurozone as a whole. During this period, the pace of economic growth in Hungary was about twice that of the previous five years. Investments contributed more to this GDP growth in the past years (25%), than in most other eurozone countries (21%).

Hungary ranks 52nd out of 190 countries in the World Bank's Doing Business 2020 report, scoring very low in the procedure, time and cost of dealing with construction permits and in getting electricity, areas where more efficiency could potentially make doing business easier, and drive us up in the rankings.

Hungary has one of the most open economies in Europe, with an FDI stock of around EUR 97 billion in 2019, more than 60% of the GDP, according to UNCTAD. FDI inflow not only provides additional capital, but also increases productivity and

competitiveness and acts as a multiplier when working with Hungarian SMEs. Recognizing current trends, we believe that there is a turning point, thus the priority for Hungary's investment promotion agenda should be to bring high value-added activities and technology intensive investments to Hungary.

Looking past the pandemic, once recovery starts, Hungary has the potential to achieve annual growth of about 4% – almost twice the baseline pace of 2.2% – with the right initiatives, including smart growth and human capital considerations, as detailed in the previous two chapters.

A. REGULATORY ENVIRONMENT

We advocate for the following:

- **Optimization of the regulatory environment** as a key to implementing any growth strategy; all growth engines must interface with legal structures in some way.

- A **stable and predictable regulatory framework; a robust legislative and judicial system** is an important business enabler.
- Heavier emphasis on **transparency and consultation in policy making**, with sufficient time allocated to a substantive dialogue with stakeholders.

B. TAXATION

We advocate for the following:

- A **reduction in the number of taxes** to maintain the competitiveness of the Hungarian tax system.
- **Following, advocating, and commenting on changes in tax** and tax administration legislation and a continuation of a reliable dialogue and partnership with relevant decision-makers.
- **Full digitization of the tax administration** by extending the scope of e-tax returns.

C. SUPPLY CHAIN & REGIONAL DEVELOPMENT

We advocate for the following:

- Development of **domestic value chains** to enhance security of supply.
- Performance boost in SMEs through becoming more **demand-centric, agile, and cost-competitive with improved operational resilience** in the supply chain.
- **Digitization of SMEs**, and support for their investment in **Industry 4.0 capabilities** to become a solid supplier background for different industries.
- **Reduction of regional disparities to drive growth**, encourage investment in infrastructurally underdeveloped areas, with a special emphasis on catching up in digitalization, and on creating better job opportunities.
- Focus on **“pockets of excellence” (PoE)**, where Hungary can compete globally, especially in the fields of science and technology. As a first step, potential PoEs need to be identified

where performance is relatively higher than in other regions. Next, the extent to which the PoE has potential to contribute to regional growth priorities needs to be assessed. Finally, the potential for cooperation and synergies should be analyzed.

D. ADMINISTRATIVE EFFICIENCY

We advocate for the following:

- More **streamlined, transparent, user-friendly, and time-conscious administration processes**.
- A **boost in e-government** readiness, with special regards to growing penetration and adoption, user-friendly services and database integration.
- More efficiency in the **procedure, time and cost of issuing construction permits and connection to the electric grid**.

E. BEST PRACTICE GOVERNANCE AND COMPLIANCE

Promoting best practice governance in business, government, academia, and not-for profit sectors is a critical pillar of competitiveness, as transparency and compliance are key decision-factors for foreign investors considering entering Hungary and for well-functioning, efficient domestic sectors.

We advocate for the following:

- Broader adoption of best practice standards for **better defining conflicts of interest and codes of ethics**.
- Clearer definitions, measures and **adoption of compliance with laws, regulations, and due process and of sustainable governance**.
- Refined **data protection and data security** to ensure more business and social confidence.
- Promote **best practices in the next generation of leaders** at universities and other forums.
- Eliminate the disparate standards adopted by judges and **clarify rules to establish, modify or change association and foundation court filings**.

Commitments By The AmCham Community

We, as a community of 320-plus members, involving more than 1,000 decisionmakers, understand our responsibility in shaping a healthy, sustainable, and competitive Hungary. It can only be achieved if we not only make recommendations to the government, but also make commitments ourselves. The following is a non-comprehensive list of activities and shared values that we stand for and will continue to strive for.

I. EDUCATE FUTURE GENERATIONS

We pledge to devote time and resources to enable knowledge-sharing with students in the education system and also employees of our member companies. AmCham also endorses the numerous educational programs run by its member companies and will continue regular dialogue with government partners responsible for education and vocational training.

Our programs include:

- Career Orientation Program
- HR Academy
- Best Practices' Corporate Governance Case Study Simulations
- Start Your Business program

We also facilitate the active participation of companies in collaborative programs with educational institutions, i.e. financial/digital/sustainability thematic weeks and in programs designed to attract students enrolled in foreign universities back to Hungary.

II. CHAMPION LEADERSHIP IN SUSTAINABILITY AND PROMOTE CIRCULAR ECONOMY SOLUTIONS

A key driver in sustainability is the personal commitment of decisionmakers, therefore we advocate and spread knowledge and awareness to facilitate this mindset change – one that is already championed by several of our member companies.

We stand by the following values:

- Create a modern, resource-efficient and competitive economy.
- Protect, conserve and better utilize the country's natural resource capital.
- Implement sustainable development goals and incentivize new technologies, sustainable solutions.
- Find solutions to make a long-lasting positive impact on the environment, the business community and society.

III. PROMOTE BEST PRACTICES, RESPONSIBLE BUSINESS CULTURE AND TRANSPARENCY INITIATIVES.

We are proud that AmCham's member companies operate in an open, inclusive corporate culture, integrating global best practices.

We will continue to advocate for the following:

- Lead by example in social responsibility, transparency, diversity, integrity and compliance best practices.
- Working towards and promoting a Conscious Hungarian Business Culture, as a member of the CBC Initiative.
- Aligning HR policy to provide equal opportunities for all, while enforcing non-discrimination policies.

- Make data protection and data security an integral part of business operations.
- Continue cooperation with external partners in promoting employment of people with disabilities, work-life balance and creating a family friendly corporate environment.

IV. DRIVE INDUSTRY-WIDE COOPERATION

There is great power in synergies, and we see that when like-minded business leaders from the same sector start a dialogue, meaningful alliances and initiatives are formed. We are a platform for several industrial working groups, making a tremendous positive impact in their respective sectors through various programs and events.

Our working groups include:

- Business Services Sector
- U.S. Financial Institutions
- Electronic Manufacturers
- Healthcare

V. AMCHAM FOUNDATION

We will continue to work closely with the AmCham Foundation, whose mission is to help children in need of social, mental or physical support, to provide transparent and ethical charity services for donor corporations and to promote corporate social responsibility and the ethos of volunteerism in the Hungarian business culture.

Methodology And Background

The Policy Agenda document is a composition of the intellectual contribution of our members, relying on discussions with top executives from our membership and the business community at large, while also building on relevant statistical data and research (for a full list of sources, please see page 14). It is not designed as a scientific publication, but rather a collection of ideas, trends and concepts, that are of essence to doing business in Hungary.

Our first two Policy Agendas were principally based on the Global Competitiveness Index (GCI), relying on the GCI ranking methodology and focusing on its 12 pillars of competitiveness. The GCI methodology was changed in 2018 by the World Economic Forum, as metrics used before were heavily reliant on survey based (often called “subjective”) sources, while several other indicators were based on legislation, something easily changed by governments. The new methodology is committed to include more

data from official statistical sources (deemed to be more “objective”) at the cost of leaving out other aspects of competitiveness that cannot be measured directly. While the GCI framework remains unchanged, the inner configuration has been updated.

Taking the above into consideration, AmCham decided that, while still closely monitoring the GCI, to use it only as background for the current Policy Agenda, and not tie the methodology to GCI as significantly, as previously.

The following chapters elaborate on those areas where the AmCham community believes significant changes can and should be made, to elevate Hungary in the coming years. Increasing competitiveness is the general guiding principle throughout the Policy Agenda, by means of enabling a smart, sustainable growth trajectory, developing a well-skilled and healthy workforce and also by maintaining a transparent, predictable business environment.

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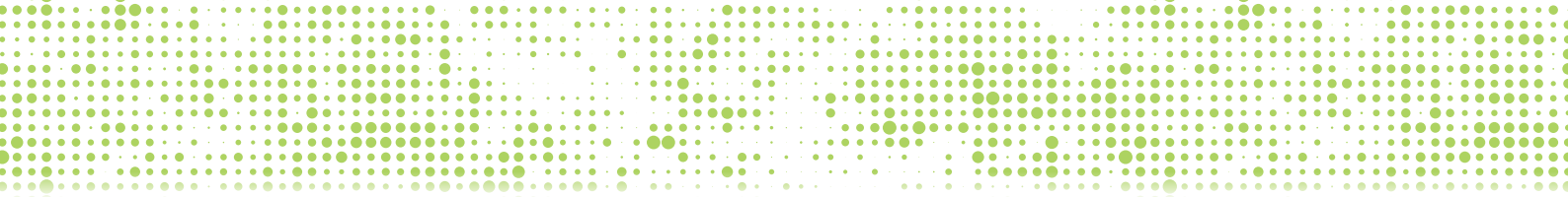
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