

First Monitoring Report on
the National Framework
Strategy on Sustainable
Development

Executive
summary

2013

2014

The brochure you are reading is the very first executive summary of the monitoring report on Hungary’s sustainable strategy. In spring 2013, members of Hungary’s Parliament solidly voted in favour of the proposal of the National Council for Sustainable Development to adopt a renewed national framework strategy on sustainable development and in the meantime required reporting on progress toward achievement of the framework’s objectives.

Pursuant to resolution 18/2013 (March 28) of the Parliament, the Framework Strategy is intended to

- contribute to developing a common agreement on the definition of sustainability;
- promote the determination of the first steps of the transition to sustainability; and
- provide long term strategy for public policy development and decision making.



NSSD is intended to define a system of political and policy goals and means that helps maintain (the quality and quantity of) our national resources on a level ensuring Hungary’s solid and sustained ability to successfully compete with other nations; facilitating the protection of our natural and cultural heritage for future generations; and ensuring appropriate enhancement of augmentable resources.

The Framework Strategy sets forth responsibilities for the period ending in 2024. NSSD has defined 34 strategic objectives and 77 tasks (instruments) for the four – human, social, natural and economic – resources.

Purpose of the monitoring report

This biennial regular monitoring report has been designed to

- monitor our national resources through indicators and qualitative analysis;
- review social responses and actions initiated in the previous two years; and
- update the public on the size of progress made in sustainability transition, which areas have improved substantially and which areas require more intense efforts.

It is important to stress that the impacts of actions for sustainability typically appear with relatively long delays – occasionally after some decades – therefore the first monitoring report evaluating a period of less than two years is not appropriate to definitively assess government actions. This report reviews the period from the adoption of the Framework Strategy in March 2013 until 31 December 2014.

	Resource	Indicator	Current state	Trend
Human resources	Population	Total fertility rate	poor	&
	Knowledge	Expenditure on education as % of GDP	poor	(
		Early school leavers (%)	average	1
	Health	Healthy life expectancy at birth (years), male/female	below average	&
	Cohesion	Severe material deprivation rate (%)	poor	&
Social capital		General trust scale (ESS, scale of 0 to 10)	below average	NA (&)
		Corruption index (Transparency Int., on a scale of 0 to 100)	below average	1
		Number of non-governmental organizations	average	(
Natural resources	Natural capital, environmental conditions	Biologically inactive areas (as % of total area)	poor	1
		Natural resource productivity (GDP/DMC, €/kg)	below average	1
		Public exposure to particulate matter pollution [PM(10)] (µg/m3)	below average	&
Economic resources	Business capital	Employment rate for population aged 20-64 (%)	below average	&
		Investments: gross fixed capital formation (GFCF/GDP)	average	&
		R&D spending (as % of GDP)	below average	&
	Macroeconomic stability	Public debt (gross) as % of GDP	below target	&
	Generational balance	Old age dependency ratio	above average	(

Biologically inactive areas: built-up areas + arable land

GDP: gross domestic product; GFCF: gross fixed capital formation; DMC: domestic material consumption; PM: particulate matter ADDITIONAL INFORMATION TO THE TABLE: Data are based on data collected by the Central Statistical Office, the European Social Survey and reports from Transparency International.

The Current state is evaluated on a scale of five as poor – below average – average – above average – good.

Reference point: where an indicator has an optimal level (e.g. fertility rate) in terms of sustainability, the indicator’s present value has been referenced to that level; where there is no such optimal level, EU and V3 averages have been used as reference points. Public debt has been referenced to the 50% target set forth in the Constitution.

Trend is evaluated on a scale of three as declining – no change (or change has no trend pattern) – improving. Firstly, changes in the period between 2012

and 2014 have been reviewed but data from the last decade have also been considered.

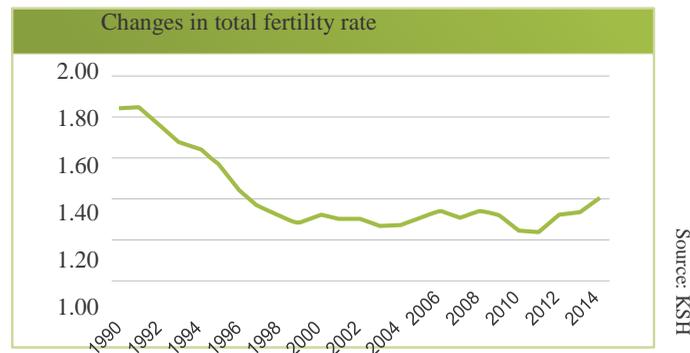
Hungary's progress toward sustainable development

The time since the Framework Strategy's adoption 2 years ago is too limited to identify any major correlations. However, currently available data and processes identified in this Report highlight the progress toward sustainability in Hungary in 2015 based on the values defined in the Framework Strategy.

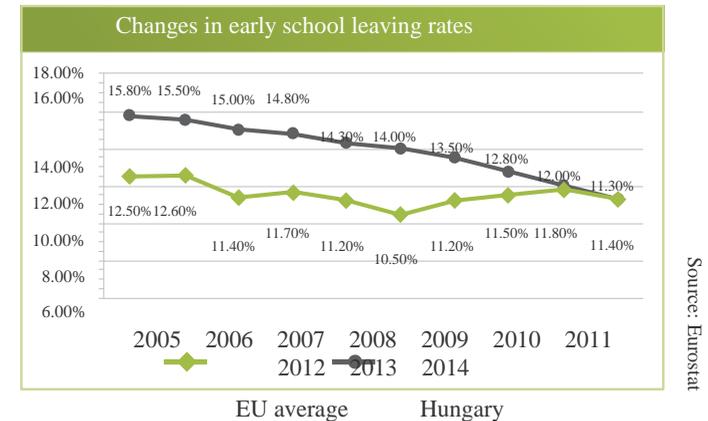
General observations

- As the result of policies pursued in the last decades **not one of our national resources** (compared to the EU average as relative norm or to the desired national optimal level as absolute target) is **in good or above average condition** (with the exception of our old-age dependency ratio that is currently a slightly better than the EU average but faces a clearly negative trend);
 - 2013 and 2014 brought **dominantly improvements in human, social and economic resources** while previously apparent **negative tendencies in natural resources continue to pose challenges** for Hungary. Of the selected 16 key indicators, 8 show a positive and only 3 show a negative trend (the values of 4 indicators only minimally changed while no data was available for 1 indicator);
 - Coordinated actions implemented in some minor areas and the resulting small scale improvements demonstrate that even poor progress of sustainability can be tackled
- and **our national resources can be enhanced through innovative solutions, strong commitment to public good and tireless efforts;**
- Even resources with partially positive developments present **a number of contradictions;** interventions are frequently selective, there is continued lack of high level political commitment and conscious, efficient government coordination, (articles 2 and 3.a of the 18/2013 Resolution of the Parliament are frequently implemented incompletely or only in a formal, unsubstantial manner).

In human resources, the demographic trend is a well-defined sustainability issue. The government has recognized that in addition to financial assistance, the compatibility of work and family and opportunities to return to the labour market are crucially important for fertility. Experts expect the adjusted family support system to have a potential positive impact on fertility.



Another positive trend in human resources is that both life expectancy at birth and the number of healthy life years is constantly, although at a somewhat slow pace, growing both for men and women. It is important to note that there is a solid link between social inequalities and self-reported health status: people with higher income and educational qualifications report better health status.



Life expectancy at birth and the number of healthy life years show steady growth.

Hungary's education system faces serious sustainability challenges. International surveys show a decline in the performance of Hungarian students in all of the key areas assessed. PISA results

reflect that Hungarian students lack competencies required by the modern labour market (problem solving, scientific proficiency). The rate of students lagging behind, underperforming is rising while the rate of early school leavers is not falling leading to increasingly severe problems in trainability and employability. People including unemployed and unskilled people with the most potential benefits from adult training supporting successful employment participate in such programmes in the lowest numbers.

The active population includes a relatively high rate of workers in public employment programmes. Studies suggest that public employment fails to promote reintegration of participants into the labour market in the long term presenting a risk for sustainability but in the meantime it ensures them higher regard within the community (they work instead of living on benefits) supporting social sustainability. Furthermore, the share of public employment programmes in the expansion of employment continues to shrink, i.e. the employment potential of the private sector has significantly grown.

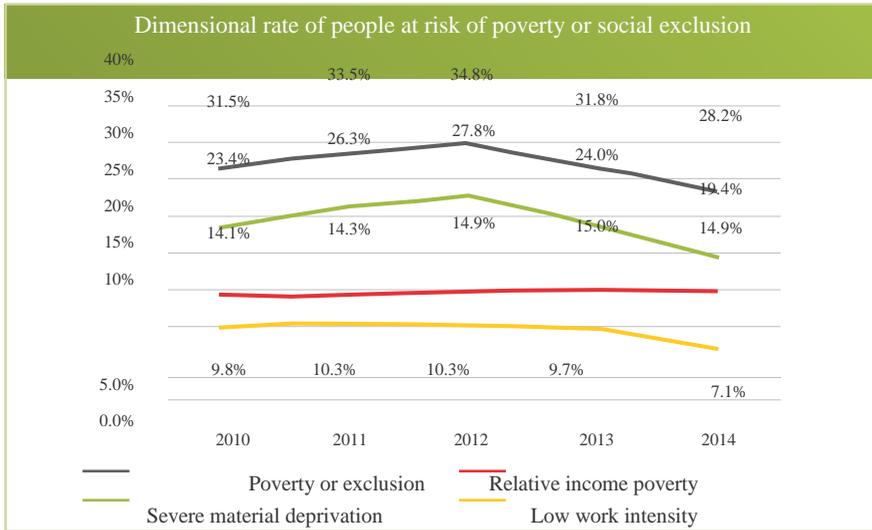
An important fact for social capital is that poverty and social exclusion had been constantly increasing (from 2008) until 2013 but started to decrease in 2014. Nevertheless, severe material deprivation still affected nearly 25% of the population in 2014.

It is a welcome development with view to *social capital* that general trust and confidence in the legal system have risen although its rate is still one of the worst in Europe. The resentment against foreigners wishing to settle in Hungary remains high.

The employment potential of the private sector has significantly grown.

Despite a number of government commitments, law amendments and programmes, international surveys show that corruption in Hungary

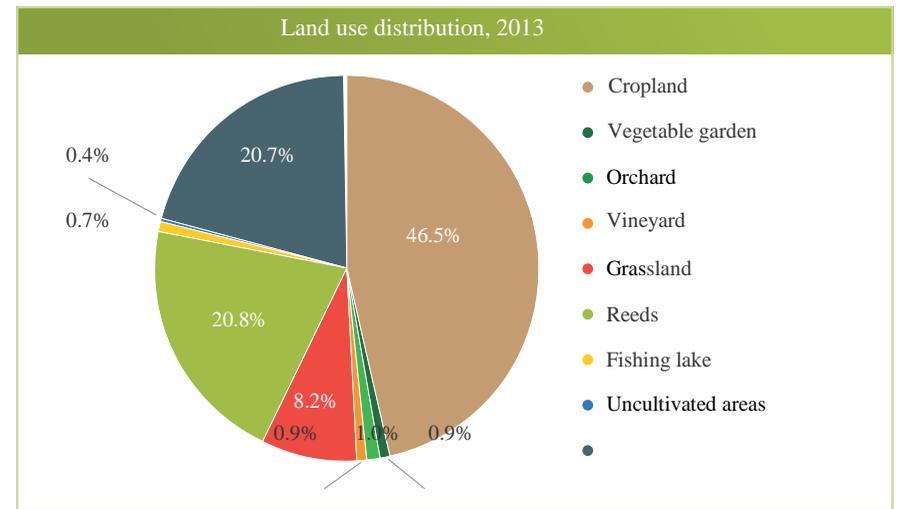
continues to exceed the European average. Massive government intervention into the economy (through regulations or supplying government and EU funds as financial grants) could lead to the emergence of rent seeking behaviour in many areas.



Source: KSH

Hungary's two most important *natural resources* are soil and fresh water supply. The degradation processes affecting both resources have not been effectively addressed since the adoption of the Framework Strategy two years ago. Inappropriate structure of land use has a key impact on both soil and fresh water supply. Positive processes in the area of natural resources are primarily related to forest management and sensible mineral resource management.

The leading challenge for natural resources is the growing rate of built-up areas and ecologically inactive areas. There is a strong negative detachment between the decrease of population and the growth of built-up areas that threatens natural, semi-natural and other green areas leading to shrunken habitats and reduced biodiversity. Cropland composing nearly half of Hungary's territory is also classified as ecologically inactive area – not only in terms of the preservation of biodiversity but also water retention ability linked to the problems of droughts and floods.



Source: KSH

Effective response to the challenges connected to natural resources is prevented by the fragmented structure and inefficiency of the Hungarian institutional system of environmental protection. Environmental issues are managed by various ministries, concerns and criticism about the certification system are expressed by both businesses and non-governmental organizations and the level of horizontal integration

is low.

GDP is rising, employment is growing, investment propensity has improved, savings are increasing while general government deficit steadily remains below 3% and the public debt to GDP ratio is shrinking.

Data from 2013 and 2014 suggest that the Hungarian economy is recovering from the economic crisis of 2008. GDP is rising, employment is growing, investment propensity has improved, savings are increasing while general government deficit steadily remains below 3%

and the public debt to GDP ratio is shrinking although at a slow pace. Meanwhile, the lending market has not yet recovered fully and low domestic productivity needs to be improved in order to increase the rate of economic growth. An increasingly serious challenge for sustainability is migration affecting at least 330 000 people based on officially published figures including Hungarian citizens younger and more qualified than the average population.

An increasingly serious challenge for sustainability is migration.

Positive demographic processes may have a spill-over effect on the sustainability of welfare systems,

in particular the pension and health insurance systems. Meanwhile, as current trends indicate that one retired person was supported by 5 persons of active working age in 1990, that ratio was reduced to 4 to 1 in 2014 and is expected to drop to 2 to 1 by 2050 unless some significant change occurs. In the meantime, the expansion of the economically active population as a result of economic incentives and the improvement of employment rates in recent years enhances the sustainability of the pension scheme to a large

Progress toward achievement of the national sustainability objectives

Indicators of sustainable development offer a general “snapshot“ on Hungary’s progress toward sustainability. A more detailed view is provided by the presentation of key results and challenges for each resource as well as by the assessment of changes for each sustainability objective and the government and public interventions triggering such changes.

Improvements have been dominantly achieved in the following objectives

Preservation of our heritage, strengthening our identity. The number of initiatives and programmes to preserve traditions and to strengthen the Hungarian identity is growing (e.g. Magyarország Háza (House of Hungarians) project, school programmes to connect youth living in and outside of Hungary). As a positive step forward, the institution of minority spokesperson was introduced in the Parliament in 2014. **Dual citizenship has contributed to strengthening national cohesion.**

Reduction of environmental impact on human health. Domestic emission rates of most pollutants having an adverse impact on human health are lower than the EU average. The rate of waste water treatment has considerably improved. Improvement of the vehicles in urban and suburban community transport helps reduce air pollution.

Increase of employment. The employment rate of people aged 20-64 grew significantly between 2010 and 2014 (66.7%) The unemployment rate of young people aged 15-24 years is high (20.4%) but it is below the EU 28 average. The review of eligibility for social benefits and the public employment programme played a key role in improving employment.



Control of budget deficit. Public debt has been reduced to a sustainable level since 2012. **Hungary's net external debt is shrinking; the budget deficit has remained below 3% every year since 2010.** However, it is partly achieved through extremely high taxes and significant public redistribution. Household foreign currency debt and personal indebtedness in general have been radically reduced. Household savings have been rising while local governments suffer from severe lack of resources.

Rearrangement of social structure. Following an increase between 2010 and 2012, **inequalities slightly decreased between 2012 and 2014.** Poverty and social exclusion rates started to drop partly due to the implementation of the National Social Inclusion Strategy. Higher employment rates helped more people to generate income from work. Funds to support those in need are now better oriented.

Social solidarity, reduction of social exclusion. The Roma population totalling around 7% of Hungary's population remains the poorest, the most excluded, consequently the most vulnerable group within the society. **Public transfers in the meantime are now better targeted.** Positive initiatives: Slum neighbourhood programmes; Micro-regional Work Start model programmes; incorporation of values of Roma history and culture into the National Curriculum; mandatory preschool education; after school development programmes and scholarships; public employment.

Promotion of the infrastructure of trust. Hungary is in the lower middle section among European countries with trust levels below the EU average. General trust and trust in the legal system is improving. **The establishment of 'government windows' has made public administration services more efficient and comfortable for the people contributing to higher trust in the legal system.** On the other hand, hectically changing laws and regulations have decreased investor and business confidence.

Reduction of mortality rates shows a slight progress. Despite a recent positive trend in deaths preventable by timely and effective medical care, Hungary remains the last among OECD countries. Efforts to strengthen primary health care, to improve the efficiency of secondary care, to establish a modern emergency health care system and to develop the rehabilitation system have failed to deliver the expected results. Direct government control has also failed to improve efficiency and quality in health care institutions to the extent expected.

Despite a clearly positive shift in social and government responses, no substantial progress has been made toward sustainability in the following areas

Reduction of rent seeking. **Government actions** to eliminate the grey economy, to fight tax evasion, to expand the tax base and to effectively improve the efficiency of tax collection **clearly show their impacts with an enormous progress made in this area.** Anti-corruption government programmes have been launched and

stricter criminal laws have been introduced. Meanwhile, bid rigging remains a high risk in public procurement. Massive government intervention into the economy could lead to the emergence of rent seeking behaviour in many areas.

Reduction of the rate of population decline. The number of Hungarian people continues to fall, the population is currently 12 million (including Hungarian people living in Hungary, in the Carpathian Basin and in many other places around the world). **If the current trend persists, Hungary's population is expected to shrink to 7.9 million by 2060.** The government has introduced a number of measures to support child rearing in response to this demographic challenge (e.g. Child Care Allowance Extra, increasing capacity of day care facilities for children under 3, tax credits for businesses employing mothers with young children).

Promotion of health consciousness. Smoking and alcohol consumption rates in Hungary are considerably higher than the EU average. Fifty-four percent of Hungary's adult population are overweight or obese and two-thirds of the population do not participate in any physical exercise in their leisure time for at least 10 minutes a day. **The establishment of the Health Communication Centre (EKK) is a positive initiative. Anti-smoking institutions/programmes have been expanded.** Legal restrictions to limit smoking have helped indoor air pollution drop by 90%. Other improvements include the introduction of "Chips tax" on unhealthy food items, new regulations on public food services and daily physical education classes in public education institutions.

Demonstration of good examples for the public and communities. A number of public and non-governmental campaigns have been launched to promote sustainable lifestyle strategies including the programmes 'Bike to Work' or 'Smart Heating'.



Both positive and negative trends have been identified in the following areas

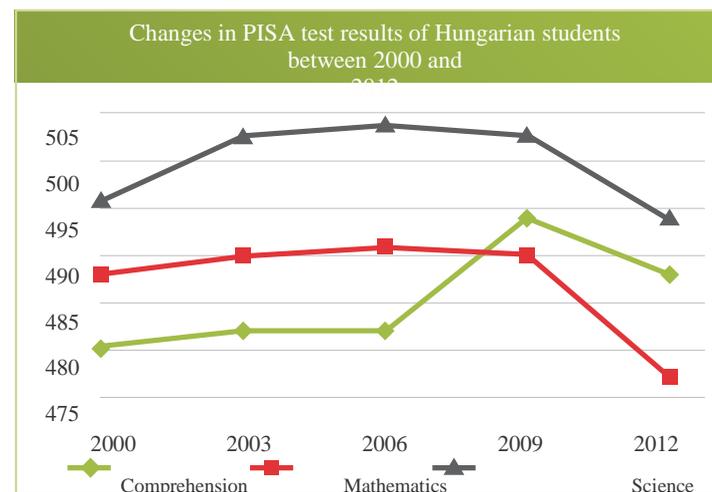
Promotion of family values. Only 50% of the adults of reproductive age are married with 48% of children being born out of wedlock. The number of marriages slightly increased between 2010 and 2013 interrupting a steady decline that started in 1990. The number of abortions has fallen by 20% since 2010. Government has decided to implement a 5-component action programme to support families.

Development of immigration policy. Our net migration rate is negative: the number of Hungarians leaving the country to live elsewhere is higher than that of those foreigners arriving to live in Hungary. In Hungary, 40% oppose immigration without condition with only 10% accepting immigrants without condition and 50% of the population are hesitant. In autumn 2013, the Government adopted a migration strategy but it has only partially

been implemented since then. Migration stress growing since 2014 has shifted the focus on actions related to irregular/illegal migration while other components of the strategy (e.g. reduction of prejudices) have faded.

Improvement of employment of elderly population. The major source of income for the elderly (retired people) is almost exclusively their pension payment (from public transfers), yields from private capital (private savings) and financial support within the family are insignificant. **The pension system does little to support employment of the elderly** while the Employment Protection Programme and funds from the Social Renewal Operational Programme for businesses are designed to promote employment of the elderly.

Quality education. Competencies in reading, mathematics and science in children aged 10-14 are declining. Tertiary graduation rates are below the OECD average. Potentially positive **actions designed to improve the quality of education** include mandatory preschool education, full-day school, the school district system, public education assessment system and higher wages for teachers. **Factors not in favour of sustainability transition include the sustained and steady decrease of expenditure on education** for a decade (-28%/10 years) [2003-2012] resulting in Hungary having the lowest education budget in the EU. A negative trend in education is the reduction of programmes providing general certificate of secondary education and reduction of development of general competencies in dual vocational education.



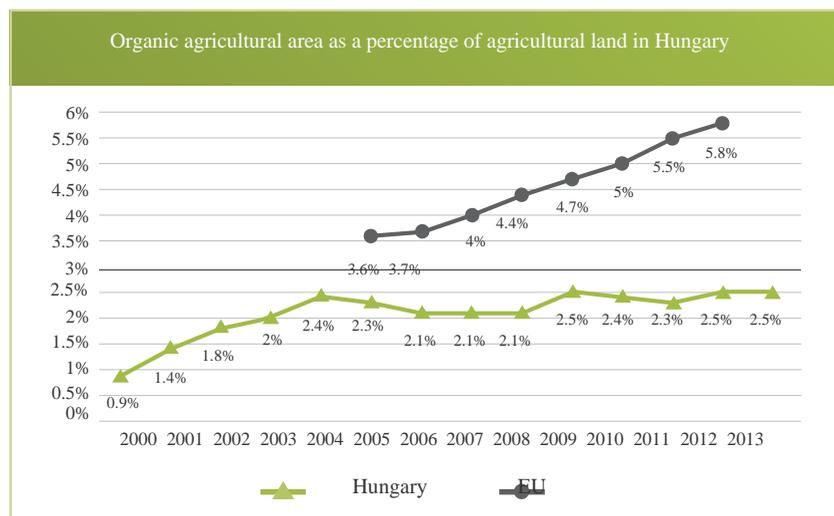
Source: OECD

Increase of period of formal learning. The action making the payment of family allowance subject to school attendance (introduced in 2010) has contributed to decreasing unexcused absence by students but failed to improve the early school leaving rate. The decrease of the school leaving age may result in shorter time spent in education.

Sustainability introduced in lifelong learning. Very few people participate in lifelong learning (fifth worst score in Europe) and very few people speak foreign languages (worst score in Europe). Learning related services of cultural institutions, multifunctional community centres have been expanded. Lifelong and quality learning are also included in BCSDH's Action 2020 programme.

Reduction of stress at work. The award Family Friendly Workplace is given by the government to recognize companies where modern and innovative policies are introduced to promote a healthy work-life balance.

Regard for ecological limits. Hungary uses more ecosystem services than what our available natural capital is able to yield although our ecological footprint is smaller than the global or the European average. Positive initiatives in this area include review of catchment management plans, development of maintenance plans for Natura 2000 sites, fulfilment of objectives in the National Forest Programme, development of National Biodiversity Strategy. The promotion of widespread use of low-carbon and water efficient technologies is included in BCSDH's Action 2020 programme.



Promotion of sustainable production technologies. Typical sustainable technologies (ecological farming, use of renewable energies) are applied in Hungary at a rate lower than the European average. To promote these technologies, the government has adopted the National Action Plan for the Development of Ecological Farming (2014-2020) and the National Environmental Technology Innovation Strategy is in the process of implementation. Increased supply of products manufactured using sustainable methods and promotion of sustainable consumption patterns is included in BCSDH's Action 2020 programme as an objective.

Balance of localization and international cooperation. Foreign direct investment shows a decline. Development capacities of Hungarian businesses are moderate; they are lagging behind bank lending capacities (one-sixth of the business loans are non-performing). The quantity of services available in small villages is decreasing.

Promotion of local economic relations. Hungary's remains a largely open economy with significant export and import activities. The development of local economic relations – despite the realization of some good local practices – remains moderate. Investments have risen in 90% of the sectors but such activity is lower in small businesses.

Reduction of business burdens, barriers. In the World Bank's Doing Business ranking, all the other V4 countries are ahead of Hungary. Hungary's legal environment promoting starting a business and enforcing contracts is better than average. Taxes are relatively high and tax administration is very costly. Positive government responses include the implementation of Simple State Programme (to reduce red tape) and the expansion of electronic public administration. In addition, business friendly changes have been made in the Labour Code, in the definition of accreditation criteria.

Promotion of innovation. The number of patents is highly variable. Compared to the EU average, public-sector research is considerably smaller than business research and the gap continues to grow. Innovation may not be strengthened in the long term if public education continues to perform below the average. A National Research, Development and Innovation Strategy has been adopted that could promote R&D activities of innovative SMEs.

Gradual restoration of generational balance. While 5 working age persons supported 1 retired person in 1990, this ratio is expected to be around 2 to 1 by 2050. Today's balanced pension scheme will face a 45% deficit based on expected population structures in 2050. Taxation adjustments, tax levied on consumption instead of labour help maintain the sustainability of the public spending system. Meanwhile, further pension scheme reforms based on social consensus will be required in the long term.

Signs of obvious negative tendencies have been identified in the following areas

Reduction of migration from Hungary. Migration continues with dominantly young graduates leaving Hungary. Wages in occupations affected by migration continue to vary largely between the EU's western part and Hungary. Despite some partial results (e.g. Momentum Programme of the Hungarian Academy of Sciences), an overall successful response has not yet been found. The business sector has also set out to increase workers' income: in BCSDH's Action 2020 programme.

Reduction of selectivity within the education system. In European perspective, Hungary has an extremely selective education system where original differences in social background and income levels between students are preserved until the end of education to the largest extent.

More efficient use of knowledge within the society. Among the OECD countries, the rate of students with outstanding competencies continues to fall in Hungary leading to lower numbers of highly qualified workers to be engaged in high level R&D activities. The BCSDH Action 2020 programme is intended to improve the efficiency of transition from school to work.

Reduction of chronic disease rates. The relevant indicators reflected the previous negative trend and the lack of interventions into the health care system is expected to further lower the chances to meet the desired targets.

Support to intermediate institutions promoting sustainability. In Hungary, civil society participation is below the EU average, people typically expect the state or the market to solve their problems. Nationalization and centralization actions in various areas have further strengthened market or state dichotomy.

Optimal value of natural capital use. At present, natural resources are available for use at a cost lower than optimal for social welfare. Changes in waste management regulations have had a negative impact on the efficient use of natural resources.

Sustainable land use. The present forms of land use prevent successful adaptation to the impacts of climate change. The fragmentation of biologically active surfaces is rising. Land use and ecological aspects lack the necessary focus in urban planning, in the construction of linear infrastructure, in agriculture and in rural development.

Conservation of biodiversity. Biodiversity in the Carpathian Basin is substantially higher than the EU average but the majority of natural habitats are at risk; biodiversity is expected to decrease. Funding for the national park system is not adequately resolved. The need for action is articulated in many government strategies (e.g. National Biodiversity Strategy) but it is disregarded in actual investment decisions or agricultural regulations.

Recommendations to strengthen the sustainability transition

Based on the assessments of the Monitoring Report, the following recommendations are made to promote the sustainable development transition and to support the achievement of NSSD's objectives:

- **The promotion of** and support of implementation of **values and moral norms facilitating the sustainability transition remains a priority.** The dissemination and implementation of holistic thinking and knowledge in social networks should be strengthened.
- **The transformation of the education system should include** not only the regulation of the administration system but also **efficiency improvements.** To enhance employment prospects, the development of problem solving skills is indispensable.
- Public education, higher education, **training** and retraining are **particularly important to promote successful labour market participation of social groups facing exclusion and segregation and to prevent the regeneration of extreme poverty.** Public employment programmes offer only partial response to and fail to address the employment problems of low-skilled workers in the long term.
- Promotion of **research and development** contributes to improving the quality of human resources and to boosting economic productivity. In addition to enhancing the quality of public education, **the improvement of the quality and quantity of domestic R&D activities represents significant added value as the basis of the development of the Hungarian society.**
- Despite a slow improvement in demographics, Hungary's population continues to decrease. **Further actions are required to improve our negative migration balance.**
- Smoking and alcohol related diseases remain one of the leading causes of mortality in Hungary. **Further campaigns and programmes are required to promote more sustainable lifestyle strategies.**

- **To preserve our biodiversity and to mitigate the adverse impacts of climate change** including damage caused by droughts and floods, **much greater focus should be placed on sensible approaches to and transformation of land use** as well as on prohibition of the alteration of biologically active areas. This should include a reduced pace of soil sealing (sound infrastructure investments, preference of brown field investments), the adjustment of land use rates shared among the various divisions of agriculture and also strengthened soil protection. The potential offered by **ecological farming presently unused should also be exploited. The means of regulation and assistance in agriculture and rural development should be revised** in order to ensure they more efficiently promote the protection of biodiversity and soil as well as small scale sustainable local production and consumption.
- In order to restore the good ecological condition of water, **more efforts should be made to implement the EU's water framework directive.**
- In order to achieve a fair balance between local and global economic relations, **the autonomy of local communities with regard to decisions related to food, energy and to social and economic issues in general should be increased.** To that end, the development of the relevant competences of the local communities should be promoted. Local communities should be given better access to local ecosystem services.
- **The aspects to reduce material and energy use should be strengthened** in public policies. One key method supporting that is the correct definition of the value of the use of natural resources that could stimulate a shift toward more resource efficient and environmentally sound structures and patterns in production and consumption. Due to the conditionally renewable nature of biomass, **fully renewable energy sources are recommended to be disseminated on a wider scale. A method needs to be developed** to assess Hungary's total primary material consumption, the geographic distribution of the relevant emissions and the quantity of impact of the use on other countries.
- Stronger trust in communities could promote both social cohesion and the business environment. **Reduction of corruption and possibilities for rent seeking remains a priority.**
- In general, **awareness about the definition of sustainability agreed to in the Framework Strategy needs to be further raised and the application of this definition in public administration should be improved.** The commitment of high level political leaders toward the promotion of sustainability should be strengthened and the coordination of policies on ministerial level should assume a real, functional role in the implementation of NSSD. **Sectoral policies should be constantly revised** in order to promote the objectives and the philosophy of the Framework Strategy. **In order to improve the long term impacts of public policy decisions, the institution of preliminary sustainability studies should be introduced** for which a professional approach has been elaborated by NCSO.
- **Education and visitors' centres on sustainable development should be established** that help people understand the practices of a sustainable lifestyle, **provide guidance and make plans** supporting people to use available options.

