National University of Public Service

Good State and Governance Report

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Introduction

The state must be in possession of the organisational and operational capabilities needed to react to the quickly changing challenges of our times while effectively pursuing the national interest in the face of conflicting regional and global agendas. All of this brings *a state-centric approach* to governance to the fore and assumes acceptance of the autonomous nature of the state. The state is in a unique position to institutionalise various regulations and norms within its own territory, as well as, through its centrally controlled bodies, to provide coordination of all areas of society, to supply public goods and services, and to guarantee responsibility and accountability. The financial and economic crisis and how it has been handled have reinforced the paradigm according to which the state must take on *a role of creating and protecting value* in the political, economic and social spheres in order to enforce the abstract system of ethical norms that serve the interests of the common good. This does not demand detachment from society; on the contrary, the state's autonomy promotes socio-economic development on the basis of its broad involvement in society and dialogue with society's various actors and organised interest groups, as well as the authority arising from such.

The *'Good State'* concept, which is closely related to the idea of good governance and good administration that underpins the ethical norms of the common good and good public service, gives expression to this paradigm shift. The ever-increasing responsibility of the state and government, as well as the practice of an integrated approach necessary for performing increasingly multi-layered, often overlapping tasks requires increasingly significant *capacities and institutional and administrative capabilities* the creation, "maintenance" and continuous development of which can be regarded as integral to the exercise of everyday governance. The significance of the problem is demonstrated by the fact that numerous major international organisations (the OECD, UN, World Bank, World Economic Forum and IMD) engage in the complex evaluation of government performance, developing indicator systems necessary for such and preparing and publishing averages, trends and rankings suitable for comparison. The theoretical diversity reflecting the extraordinarily rich scholarly literature of the applied social sciences and the varying methodologies of the measurements and evaluations express government's dilemmas and choices with respect to value, on one hand, while triggering debates and cognitive learning processes that contribute in large measure to the development of the 'goodness' and effectiveness of governance on the other.

Of the widely applied core concepts adopted from international practice, we consider *'state capacity'* to be an explanatory factor referring to what potential capabilities the state possesses to implement and enforce the policies it has undertaken. From these quantitative variables, it is possible to draw conclusions about the development of governance capacities. The concept of '*governance capability*' refers to the instrumental dimension of the exercise of power, or rather its implementation and/or development as part of a means-ends relationship involving the institutional, administrative, legal, financial, infrastructure and defence capabilities required to govern.These categories, however, are strongly context-dependent, that is, their real meaning only really emerges from the practice of governance. It is precisely for this reason that when measuring state capacities and governance capabilities, it is important to determine whether its interpretive frameworks are formed by the concept of a self-limiting state with restricted capability to act or, on the contrary, an *actively engaged state that is capable of action*. The former, in a constitutional sense, pertains to the balance of powers and internal checks, and the latter incorporates the responsibility and performance of a government and its subsystems with executive power.

On the basis of the above, it becomes necessary, in the interests of achieving effective operation, sustainable results and state reform capable of self-reflection, to develop and continuously operate a *measurement and evaluation system* that, by focusing on specific areas influenced by government activities (hereinafter called areas of influence) to provide feedback on substantive elements of and changes to governmental effectiveness.

The *National University of Public Service (NUPS) considers it a task of paramount importance* for its faculties, institutions, doctoral programmes and research sites to *contribute to the development of a system of conditions for the operation of a modern state and effective national public administration* through an interdisciplinary approach and by developing a research-based knowledge base. In relation to individual measures of Government Decree 1602/2014. (XI. 4.), (State Reform II: the programme for reducing bureaucracy"), the Government expressed its agreement with the creation of the National University of Public Service as an institute of higher education dedicated to the sciences of state and governance .In order to carry out this important task, the NUPS Senate established, with Resolution No. 114/2014 (X.15.), the *Institute of the Sciences of State and Governance (ISSG)*, which operates working groups to carry out research in the field of the political sciences and synthesise and integrate both existing and newly generated results. The general aim of the *Good State Research Working Group (GSRWG)* operating within the organisational framework of the ÁTI is to create, in the interests of operating, developing and continuously reforming the Good State and Governance, an autonomous, scientifically grounded measurement and evaluation methodology and database that is specialised

and applicable to the state's relationships, but also comprehensible and acceptable internationally. Its specific aim is to monitor changes in and the development of governmental effectiveness in realising the values of the Good State and Governance, and, founded on methodologically and statistically based indicators, to therefore measure changes in governance capabilities at specified time intervals. The indicators also identify which governmental capabilities are capable of contributing most effectively to realising government aims. All of this also means that the targets developed by the GSRWG and the conceptual frameworks and indicators it uses are based on the assignment of values, and are therefore built on the aforementioned concept of a state and government that is capable of action.

The GSRWG commenced operations on 1 January 2014. During the year and a half that has passed since, the experts at the research working group have established, on the basis of the 'areas of influence' agreed previously, the measurement methodology, and have specified and defined by type the indicators intended to be used subsequently. Since there is an extraordinary variety to the measurement systems developed by domestic and international organisations, and their methodologies and results are subject to constant debate, the GSRWG's activities in this first phase were characterised by research establishing a basis for developing the indicator system. Its results were presented within the framework of workshop debates and academic conferences organised by the National University of Public Service, as well as in the volume of studies entitled "The Measurability of the Good State and Governance". The studies contained in the volume introduce the technical foundation and targets for research related to the individual areas of influence and criteria for the selection and analysis of indicators constituting the basis for the measurability. On this basis, the *Good State and Governance Report 2015 (hereinafter: Report)* was compiled as a product of the operational, measurement and evaluation activity of the ensuing phase.

The Report was not created with the aim of repeating and following the normative perspective of international rankings, and the competitive and comparative approach based on such. As its starting point, the measurement of government performance is inseparable from the given country's socioeconomic position, its special attributes and problems, as well as from the targets set by the government. The *value of the Report stems, first and foremost, from the merging of the specific methodological features of the 'scoreboard' and the 'government dashboard'*. In other words, the Report – as intended – is among the available *tools to support government decisions*, so its primary target audience are the players and professional bodies and workshops involved in evaluating possible decisions. At the same time, allowing feedback from the government and academic research to build on one another creates an opportunity for ongoing development in the technical and methodological elements of the Report, which is to be published annually from 2015, and for the measurements and analyses to be carried out for specific areas of individual industries and sectors.

The *'scoreboard' function is an indicator-based approach* that allows data to be systematically quantified numerically. Government capabilities can be determined on the basis of a set of general yet holistic indicators (e.g. GDP/capita, mortality rate, child mortality, road networks). There are also "one-dimensional" measurements (fiscal policy, the legal system and its enforcement), but the most common solution is to break down capacities and capabilities based on specific criteria. The *goal set by the GSRWG to capture the added value of government capability across various areas of influence is best served by a hierarchically devised, complex index indicator system developed by the GSRWG according to the expert opinions*.

In accordance with this, the measurement structure of the Good State and Governance is formed by four levels layered one over the other. The first level (1) is the *complex phenomenon of the good state*. Defined as being below this uppermost level are the *areas of influence* (2). Areas of influence express the interrelationships between major sectors from the point of view of economics, society and public administration, which can be captured either separately or comprehensively and which together provide a measurable picture of the government capabilities fundamentally determining the functioning of the Good State and Governance. *The indicators formulated by GSRWG measure the strengths and weaknesses of government capabilities across the six areas of influence listed below*:

- Security and trust in government;
- Public well-being;
- Financial stability and economic competitiveness;
- Sustainability;
- Democracy;
- Effective public administration

The *third level (3) is formed by the dimensions*. While each area of influence pertains to a major, general subject area, it is through the dimensions that the strongest specific phenomena are captured within a given area of influence. A dimension can be homogeneous, that is, the indicators used in the system are really different measurements pertaining to the same area and, accordingly, are measured on the same scale. The approach of the Report, in contrast to this, is multi-dimensional (heterogeneous), since according to its starting point, the areas of influence of governance are not units and can thus be broken down into further sub-areas.

In order to measure these sub-areas, *indicators* associated with the individual dimensions are used to make up the *fourth level* (4). The complete set of all associated indicators forms the indicator system.

Arranged into groups, the indicators fit into sub-areas, which go hand in hand with the methodological variegation, in that the indicators measure a variety of scales that cannot be directly compared.

The structure of the indicators that have been selected and defined is also methodologically hierarchical; in other words, the indicator system breaks down into multiple levels. Based on the opinions of the experts and the methodological procedures and international practices analysed, key indicators have been defined in the dimensions specified for the six listed areas of influence. Emphasising *key indicators* separately from other indicators serves the purpose of establishing indicators that are suitable for giving a brief characterisation of the given dimension. Similarly, if a brief glance at the entire area of influence is needed, then the key indicators represent the dimensions. The relationship between the key indicator and the *sub-indicators* can best be captured if the key indicator is first among equals.

On the basis of all of this, the Report's structure forms a 6x5x5 structure: five dimensions for each of the six areas of influence, and five indicators (one key indicator and four sub-indicators) for each dimension.

Generally speaking, the system examined by the governmental performance assessments is extraordinarily complicated, and characterised by multiple interdependencies, reactions, random factors and the results of temporal shifts. The scientific approach is capable of identifying, describing and evaluating only specified parts and different time intervals of this system with "hard" indicators and methodologies in line with official statistical concepts and nomenclatures. This, the *first edition of the Report (the "Good State Report 2015) is still in large measure built on the currently available "hard" indicators and the time series* that have been generated from these, but in the course of new editions, it is an obvious and unavoidable task to undertake continuous, year-on-year review and further development of the current set of indicators and the evaluation of the indicators across a common time-frame. In addition to continuous analysis and adaptive channelling of international research results and methods, as well as the above, the next report, "Good State Report 2016", to appear next year, will include a survey, using complex methods, of the public's opinion, feelings and attitudes, and define a "soft" perception indicator on the basis of these.

The Report's 'governmental dashboard' function is based on a system of indicators whose areas of influence and indicators remain mathematically independent from one another, but nevertheless constitute a unified whole owing to the fit of their content and their structural and formal similarity. Therefore, the GSRWG rejected the possibility of developing a composite indicator summarising the entire Good State indicator system. Although this would make the index quantifiable each year, it would be situated at the top of a highly intricate indicator system and therefore oversimplify what is a remarkably complex calculation. In addition, the numerous elements of the indicator system are substantively independent of each other, so changes within the indicator system complement one another. This, however, raises the question of how change can be technically presented, interpreted, and applied to the observed phenomenon, that is, to the Good State and Governance and to government capabilities.

In order to avoid the above anomalies, the 'dashboard' approach deemed important by the Report is built on *benchmark-based correlation*, which also means that if a basis year is not available, then generating the basis becomes one of the research tasks. The *value factors (positive or negative) assigned for the indicators express the direction of change in the valuation*. The measurements, starting from a base value, receive a positive or negative valuation, and this allows for the evaluation of the changes as positive (improvement) or negative (deterioration). Value-based conclusions can only be drawn on the basis of quantitative variables if the effects against the quantity of the obtained value (low or high), or the result (an increase or decline in the government capability), also become perceptible. From all of this, it follows that the aggregation of governmental aims, results and effects can only be rendered measurable by employing a certain methodological complexity.

We will summarise the results of the Report in an easily reviewable, coloured (pink and grey) table (The Good State and Governance Mosaic) resembling a chessboard. The matrix assesses each dimension of the six areas of influence on a three-degree scale (strengthening, optimistic expectations, requires improvement). The basis for the assessment generated by the GSRWG experts, therefore, is the dimensions, deemed to be of equal importance to one another, as the smallest units of the structural breakdown of the Good State concept subjected to measurement. The Report's additional chapters introducing and analysing the individual areas of influence in detail include their sub-breakdowns by indicator.

The chapters are constructed based on the following uniform structure:

- a brief summary of conclusions regarding the area of influence (positioning of the area of influence, criteria for selecting dimensions and indicators, explanation of the governmental capabilities relating to the given area of influence);
- a list with definitions of the main indicators and secondary indicators associated with the various dimensions of the given area of influence;
- analysis and visual depiction of the individual main and secondary indicators associated with the specific dimension; an inset, graphically highlighted key statement formulates the conclusion drawn based on the analysis of the indicator.

Areas of influence and dimensions of the Good State

Good State and Governance mosaic

Area of influence \ Dimension	1	2	3	4	5
B. SECURITY AND TRUST IN GOVERNMENT	+	++	+	++	+
K. PUBLIC WELL-BEING	++	-	++	++	+
G. FINANCICAL STABILITY AND COMPETITIVENESS	++	-	-	+	-
F. SUSTAINABILITY	+	+	++	-	-
D. DEMOCRACY	+	++	++	+	-
H. EFFECTIVE PUBLIC ADMINISTRATION	+	+	-	++	N/A

Legend:

++	STRENGTHENING	+	OPTIMISTIC EXPECTATIONS	-	REQUIRES IMPROVEMENT

Security and trust in government

Summary

A sense of security is one of the most fundamental requirements for both people and actors in the business and NGO sectors. Creating security and a perception of (public) safety is one of the most important tasks of good governance, and a key factor in the establishment of trust in the government. The existence of trust in the government is itself a security factor, feeding back into the sense of security.

The OECD carries out a public opinion survey measuring trust in government. Its most recent government trust index in the governance panorama (Government at a Glance, GoG 2013) shows a decline in three-quarters of the countries surveyed, which comes to an average drop of five percentage points (from 45% to 40%) across the OECD.

The Good State and Governance Report measures the processes, results and effects of government competence and activity in five dimensions across the topic area of security and trust:

- external security;
- public safety and disaster prevention;
- legal security;
- public trust in government and transparency;
- security of livelihood.

The external security (1) indicators show a government's capability to provide protection against an external attack (violence or aggression) and to prevent, avoid or deter the use of external military force. On the military force side, the quantitative factors show slight fluctuations and a slow decline; according to international measurements, however, Hungary's military force and security potential have not weakened. Defence capabilities have been provided at an unchanged level since 2010. A country's strength with respect to security challenges can no longer be measured by military strength alone.

The comprehensive approach includes military, political, economic, social and ecological security. Used to measure these are complex international indicators such as the Global Firepower index and the security policy measurement system of the European Council of Foreign Relations.

Public safety (2) covers the government capability to prevent and discover phenomena that are hazardous or harmful to public order and meting out punishment for those responsible. This includes the disaster prevention capability, which assures protection against harmful natural and industrial events.

There currently exists in Hungary no regular and statistically verified measurement to track changes in the perception of public safety. The trends in safety indicated in the Social Research Institute (SRI) survey on institutional trust show a significant improvement in public trust in the police between 2009 and 2013.

According to the Central Statistical Office (CSO), nearly two-thirds of those asked reported being satisfied with the public safety in their environment.

A quantifiable improvement in the government's crime prevention and law enforcement capability over the last five years is indicated by a numerical drop in a sample group of reported violent crimes.

Law enforcement capacities have strengthened, state expenditures spent on public order show a positive trend and the number of law enforcement personnel has also increased.

The subject of the legal security (3) area of competence is the government capability to strengthen trust in the legal system and to create security guaranteed by law. The most fundamental aspect of legal security is trust in legislation and due process.

According to the SRI survey, trust in the Hungarian legal system increased from 2009 to 2013 (from 4.0 to 4.78).

Using a different methodology, the 2014 CSO survey shows an average of 5.1 on a scale of 10, which can serve as the base figure for the measurement of trust in future.

The broadening of on-line accessibility to the legislative process and legal statutes, systematic deregulation and the introduction of a mandatory preliminary legislative impact assessment system (2011) all entail improvement in the quality of legislation.

Financial resources for the judicial system have grown. A moderate improvement can be seen in the time required to administer civil lawsuits. The decline in the number of litigated cases related to administrative matters received by courts of first instance points to satisfaction with regard to administrative decisions. Also improved is the acceptance of decisions from first-instance courts in civil suits. However, owing to the constitutional autonomy of the judicial system, these indicators only indirectly reflect government capabilities.

Public trust in government and transparency (4) is a fundamental value of the rule of law and democracy. Transparency indicates governmental capability for openness. Transparency is fundamentally a result, the effect of which is trust. The essence of transparency lies in the availability of governmental public-interest information and the openness of policy analysis and decision-making processes.

The means for strengthening transparency and trust is the government's capability to prevent corruption. Since 2010, growing public trust and political stability has been measurable in governance, with the principal indicator for this being the ratio of parliamentary mandates won at the election as a proportion of all mandates. In a democracy, government stability can only be regarded as a virtue if democratic values are in maximum effect. Public trust in government and transparency of governance coexist in the strongest logical correlation.

The fluctuating growth in the number of public information requests made of the Hungarian National Authority for Data Protection and Freedom of Information (NAIH) that result in findings of illegality is a function of an increase in civil initiatives along with increasing implications of legality in proportion to this.

The primary factor in assessing the quality of governance is social sentiment in relation to government trust and corruption. Transparency is the indicator of government integrity, i.e. resistance to corruption.

The State Audit Office (SAO) operates a system to measure the risk of corruption in public institutions. Since 2012, the number of voluntarily participating budgetary institutions has risen each year. This increase indicates that institutions in the governmental sphere are to an ever-greater degree accepting the objective measurement of transparency, which in turn suggests an increase in integrity and transparency.The Risk Reducing Controls Factors (RRCF) index employed in the SAO audit is reflected in its data for the past two years (2013-2014), which shows a gradual strengthening in the integrity of budgetary institutions.

Government support for non-profit organisations represents an indirect step in the direction of civil control, that is, transparency. The growth in the extent of state support for non-profit organisations reflects the state's efforts to promote open governance.

The household livelihood security (5) indicators relate to the ability of the government to assure a minimal livelihood. Household livelihood security assesses the governmental capability to guarantee the minimal conditions of existence.

The government resources spent on social protection grew continuously from 2010 until the data measured for 2012. The growth in social expenditures, however, was not able to slow the trend started in 2008, which shows a weakening of the effect of social benefits aimed at poverty-reduction.

According to polls, public optimism regarding household finances started to grow in 2012. The public's perceived financial security was stronger in 2014 than in 2012.

In terms of public policy measures, the security of livelihood criterion is present in the maintenance of income security. As of 2011, the minimum wage is substantially greater than previously.

B.1. External security dimension

Key indicator: ANNUAL DEFENCE SPENDING PER 1000 PERSONS IN NOMINAL TERMS (million HUF)

- Data on total defence expenditures for the subject year collected by the CSO from administrative sources and the Ministry of Defence, divided by the population figure shown for January 1 of the subject year (divided by one thousand persons). The data comes from the basic information in the Hungarian Statistical Yearbook. It includes expenditures for the Hungarian Army, military educational institutions, military health-care institutions, the Ministry of Defence and its organisations, the Military National Security Service, military research and development, as well as international peace-keeping missions. Source: CSO

Sub-indicator 1: POSITION IN THE RANKING OF THE INTERNATIONAL GLOBAL MILITARY POWER INDEX SURVEY

- The Global Firepower (GFP) index is an international measurement system to assess countries' conventional military power through more than 50 indicators. From this, a power index ("Pwrindx") forms an indicator that can be "put in order" to create a generalised list of states' military power. The comparative algorithms are designed to enable the GFP to compare larger, developed countries with smaller, developing countries. Although the military power index measures combat potential across a broad dimension, in the interests of comparability, it also employs corrective factors that make the comparison realistic (for example, comparison of naval powers with landlocked countries). The GFP takes into account all types of combat operation of the armed forces, their human, financial and natural resources, their logistical capabilities, as well as the country's geographical position. Hungary has been included in the measurements since 2013.

Sub-indicator 2: TOTAL NUMBER OF HUNGARIAN COMBAT FORCES (No. of personnel)

- The combat force data recorded by the CSO (which can be broken down into multiple sub-units according to function). The data set obtained from administrative sources and the Ministry of Defence is contained in the basic information of the Hungarian Statistical Yearbook. The data comes from the basic information in the Hungarian Statistical Yearbook. It includes the headcount of the Hungarian Army, military educational institutions, military health-care institutions, the Ministry of Defence and its organisations and the Military National Security Service. Since the abolition of general conscription, rank-and-file troops have been renamed "enlisted personnel". Source: CSO

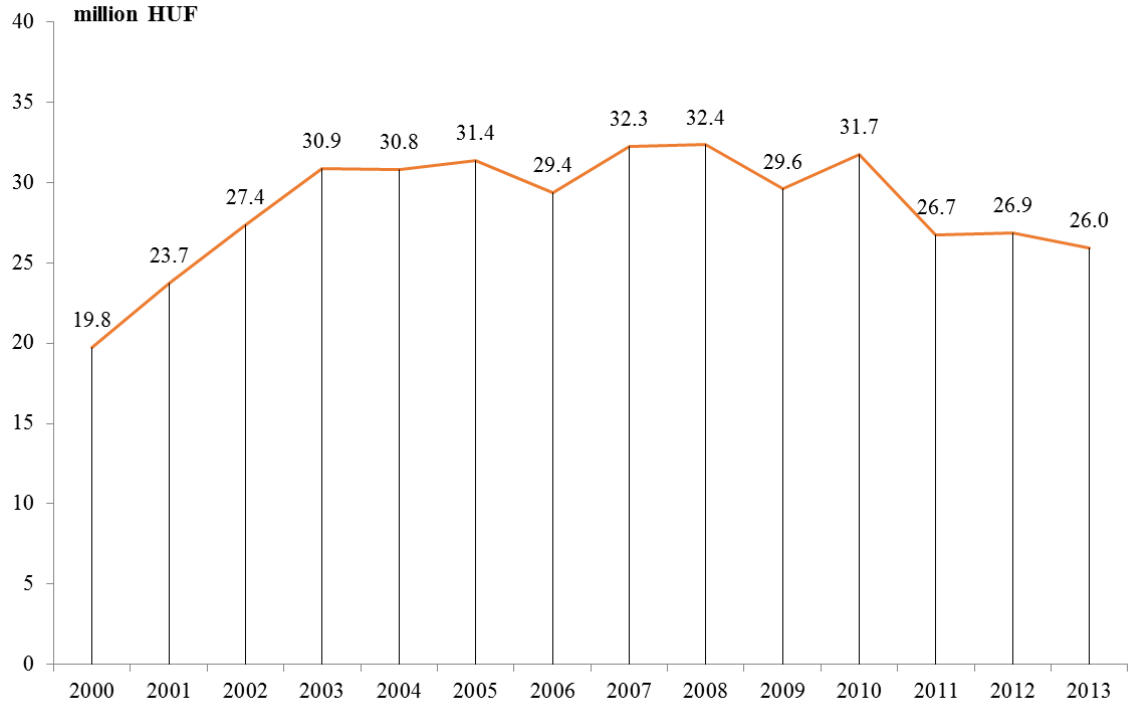
Sub-indicator 3: HUNGARY'S FOREIGN POLICY SCORECARD (ECFR)

- The ECFR's indicator list is the European Union's complex measurement system for foreign policy. Member states are evaluated across 30 indicators for their contribution to Europe's external security in the key areas of the EU's activity. It is upon this basis that member states receive evaluations of "leader" and "slacker". The indicators always measure national support and contributions to issues, matters, initiatives, negotiations and actions that are important from the perspective of the EU's foreign policy, and in the course of which the evaluation examines the extent to which the member state's actions conform with EU goals (unity), the extent of the political and financial resources it devotes to the area, and what the results of its activities are. An increase in the number of "leader" classifications is a positive trend, whereas an increase in the number of "slacker" classifications shows a negative trend. Data has existed for Hungary since 2012.

Sub-indicator 4: ANNUAL FOREIGN MILITARY ASSISTANCE EXPENDITURE PER 1000 POP. (million HUF, in nominal terms)

- To measure government functions, various international institutions have adopted, under UN guidance, the so-called COFOG classification standard. This nomenclature lists the functions typically provided by the state and government, and by classifying government expenditures according to this structure, it allows for the quantification of both the extent of the government sector from a financial perspective and the functions provided. Grouped according to functions, it can therefore show what sums the state devotes to which goals. Starting from reporting year 2010, the CSO has also shown statistical data on government expenditures, based on national accounts, according to the COFOG breakdown. The data contained in COFOG sub-section 2.3.0 accounts for the costs of support for those defence expenditures assigned to military activities taking place in a foreign country. The indicator shows the entire sum per 1000 population, based on population data for January 1. Source: KSH, COFOG

B.1.1. Annual defence spending per 1000 population in nominal terms (million HUF)



The external security (1) indicators show the government's capability to provide protection against an external attack (force or aggression) and to prevent, avoid or deter the use of external military force.

From the (input) resources side, defence expenditures show a change in quantitative factors of capability.

Defence expenditures show a level of variation of 15-20% since 2002, but the level of spending per 1000 of population has never fallen below 26 million HUF during that time, even though a decline in expenditures can be observed since 2010.

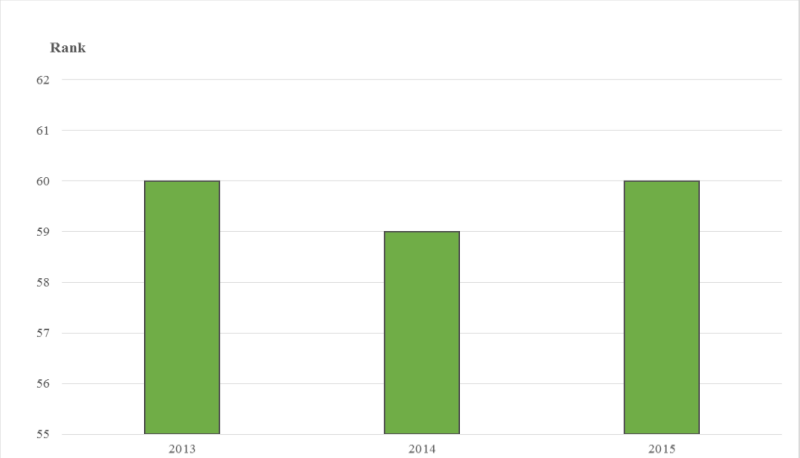
Quantitative factors show slight fluctuation and a slow decline in defence resources; according to international measurements, however, the country's military power and security potential have not weakened. (Global Firepower index).

B.1.2. Ranking in the international Global Firepower index

A country's strength with respect to security challenges can now no longer be measured by military strength alone.

The conceptual approach to comprehensive security includes military, political, economic, societal and ecological security. Used to measure these are complex international indicators such as the Global Firepower index.

Hungary ranked 59th in 2013, 60th in 2014 and 59th in 2015.



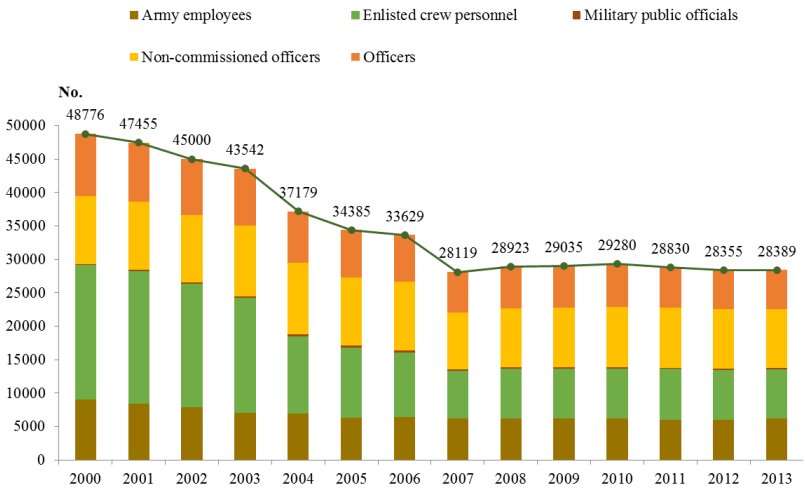
According to the GFP index, the country's defensive military power remained stable between 2013 and 2015.

B.1.3. Total headcount of Hungary's military forces (number of personnel)

The external security (1) indicators show the government's capability to provide protection against an external attack (force or aggression) and to prevent, avoid or deter the use of external military force.

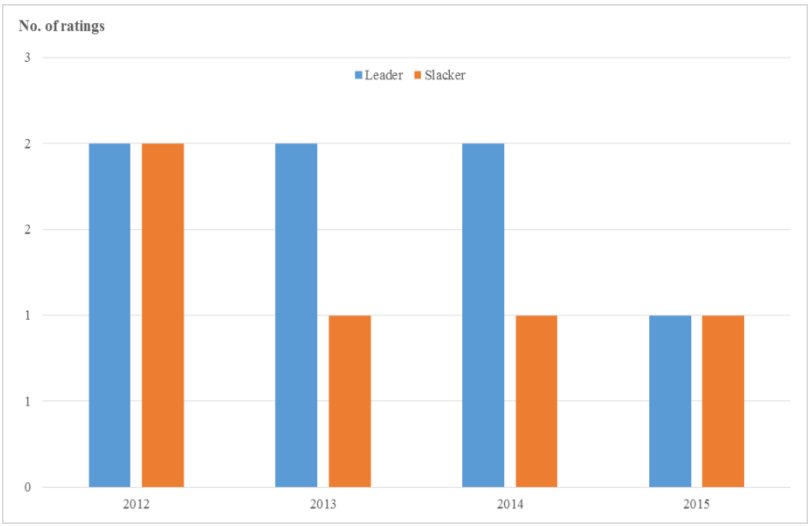
From the (input) resources side, the headcount of Hungary's military personnel shows a change in the capability's quantitative factors.

The number of enlisted crew personnel has fluctuated slightly since 2007, but remains at the same level. The same has been true of the number of officers and warrant officers since 2007.



According to quantitative factors on the resource side, the governmental capability to provide protection against an external attack (force or aggression) has remained unchanged since 2010.

B.1.4. Hungary's foreign policy scorecard (ECFR)



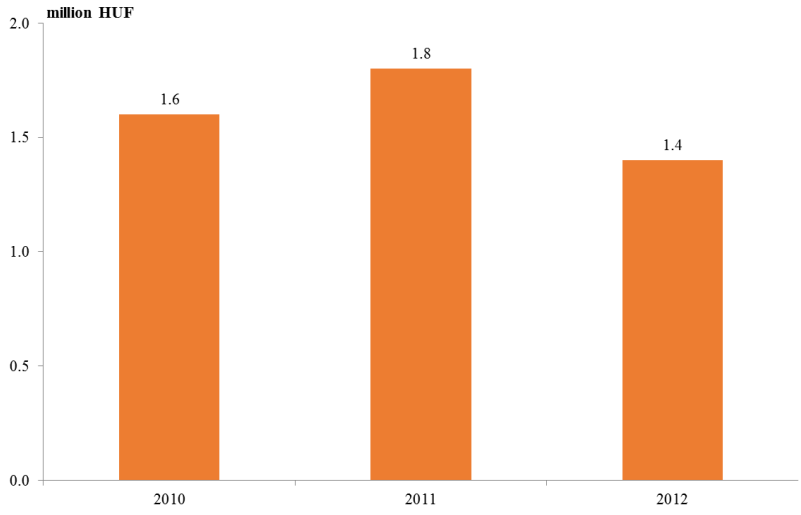
The indicator list put out by the European Council of Foreign Relations (ECFR) is a broadly accepted and complex measurement system for foreign policy. EU member states are evaluated across 30 indicators for their contribution to Europe's external security in the key areas of the EU's activity. It is upon this basis that member stakes receive evaluations of "leader" and "slacker".

The indicators always measure national support for and contributions to questions, issues, initiatives, negotiations and actions that are important from the perspective of the EU's foreign policy, and in the course of which the evaluation examines the extent to which the member state's actions conform with EU goals (unity), the extent of the political and financial resources it devotes to the area, and what the results of its activities are.

The ratio of “leader” to “slacker” ratings earned by Hungary remains unchanged from three years ago. In 2012, the country was rated a “leader”, that is, positively, and a “slacker” in two categories each, and in one each in 2015.

Hungary's EU foreign policy scorecard has been stable relative to 2012, with no weakening taking place.

B.1.5. Annual foreign military assistance expenditure per 1000 population (million HUF, in nominal terms)



Annual expenditures on foreign military assistance indicate the extent of potential military power, and at the same time, their extent depends in large measure on changes in the international environment and the need for Hungary to provide assistance in relation to this.

Annual expenditures on foreign military assistance show a slight fluctuation between 2010 and 2012, indicating that **the country's military power and security potential did not weaken.**

The country's military power and security potential has not weakened.

B.2. Public safety and disaster prevention dimension

Key indicator: THE POPULATION'S PERCEPTION OF SAFETY IN PUBLIC AREAS AND IN THEIR HOME ENVIRONMENT

- The CSO's data is founded on measurements of popular perception, the source for which is the annual survey on Household Budgets and Living Conditions listed under ID no. OSAP 2154 and based on a sample of approximately 13,000 households. The basis for the indicator is the following question on the questionnaire: "How safe do you feel when you walk around your neighbourhood after dark?" The four possible responses are "I feel very safe", "I feel quite safe", "I feel slightly unsafe" and "I feel very unsafe". The answers can be broken down into further groups according to the characteristics of the respondents. In addition to community type, it is also possible to analyse answers by age group and level of education. Source: KSH, SILC SWB

Sub-indicator 1: THE POPULATION'S TRUST IN THE POLICE

- This indicator originates from data collected in the annually conducted OSAP 1968 supplementary module to the Household Budgetary and Living Conditions Survey. The size of the sample is around 13,000 people. The indicator is given by the average of the answers, on a scale of 0-10, of the distribution according to different groups of respondents to the question: "How much do you personally trust the police?" In addition to age group, the distribution can also be shown by gender and level of educational. Source: CSO, SILC SWB

Sub-indicator 2: NUMBER OF REPORTED INTENTIONAL HOMICIDES, INTENTIONAL ASSAULTS AND ROBBERIES PER 100,000 POPULATION

- The three felony types represent the extent of violent crime as a proportion of all crime. The new Penal Code (Act C of 2012) that entered into force on 1 July 2013 did not substantively affect findings regarding intentional homicides (completed homicides, including unpremeditated murders), intentional bodily harm and robbery, and thus also did not affect the chronological comparison of statistical indicators. Source: Unified System of Criminal Statistics of the Investigative Authorities and of Public Prosecution

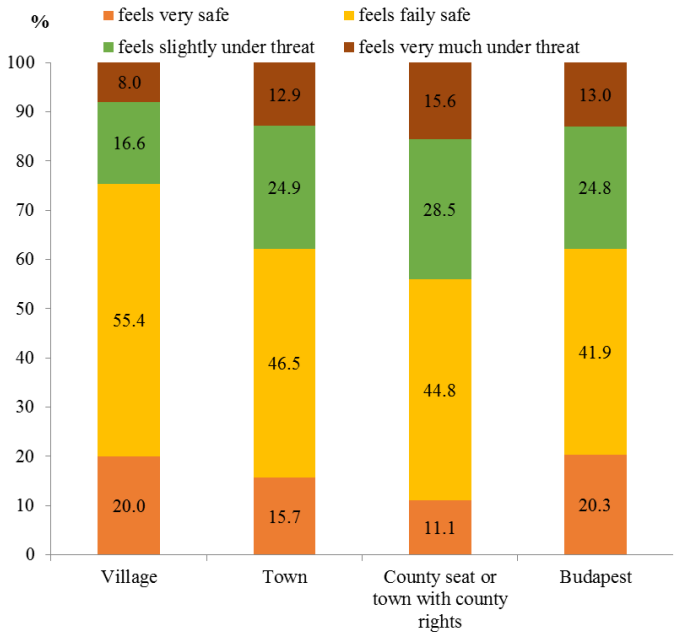
Sub-indicator 3: ANNUAL GOVERNMENT EXPENDITURES ON PUBLIC ORDER, CIVIL DEFENCE, FIRE AND DISASTER PREVENTION PER 1000 POPULATION (in nominal terms, million HUF)

- In order to measure government functions, various international institutions have, under the guidance of the UN, implemented the so-called COFOG categorisation standard, which displays, grouped into tasks, what amounts a state spends on what aims. Starting from the year 2010, the CSO has also published statistical data on government expenditures broken down according to COFOG and based on national accounts. COFOG sub-section 2.2.0 comprises state support for the operation of the Civil Guard and stockpiled food and medicine for disaster situations, sub-section 3.1.0 does the same for the operation of the police and border security, and sub-section 3.2.0 assesses both professional and volunteer fire brigades. The indicator reflects total expenditures for all these distributed over the year per 1000 population based on the population figure as of 1 January. Source: CSO, COFOG

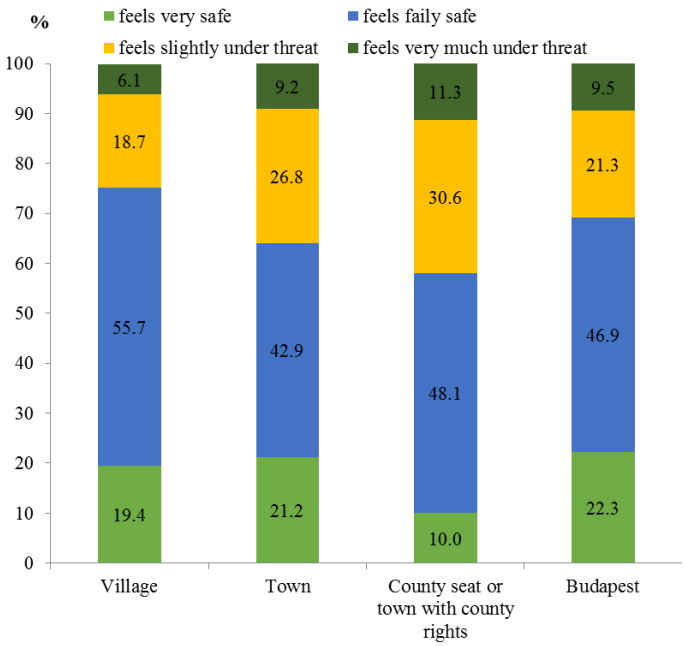
Sub-indicator 4: LAW ENFORCEMENT PERSONNEL RESOURCES (persons)

- Total headcount (which can be broken down) of police personnel, criminal prosecutors, trial judges and correctional personnel. Source: Prosecutor General's summary ("Crime and Justice 2005-2013") based on information provided by the National Police, the Prosecutor General's Office, the National Office for the Judiciary and the Hungarian Prison Service Headquarters.

B.2.1. The population's perception of safety in public areas and in their home environment



2013



2014

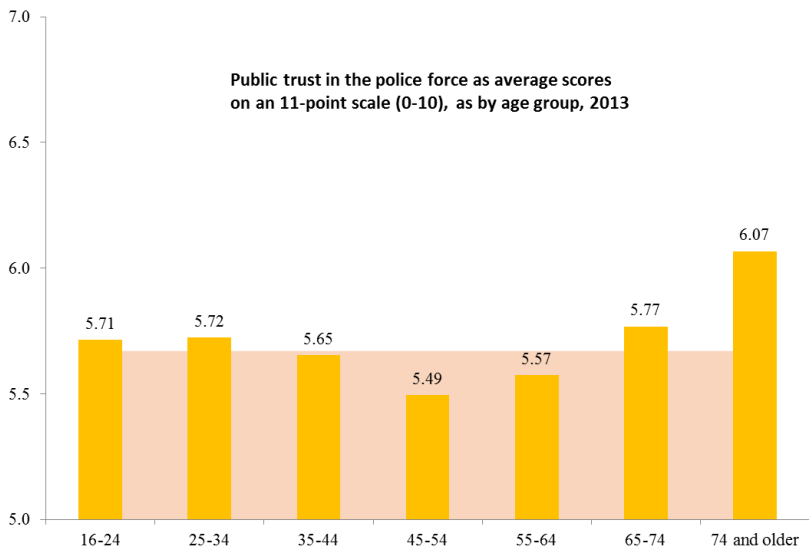
Public safety is founded on the government's ability to prevent and discover acts that are hazardous or harmful to public order (felonies and misdemeanours) and punishing those responsible. This influenced by the public's subjective perception of safety, and also by other objective factors, especially media communications. There is currently no regular, statistically verified measurement to track changes in the perception of public safety in Hungary. The examination of trends surrounding the issue of "the population's perception of safety in public areas and in their home environment" is based on the results of surveys made in the past two years by the CSO. The CSO data for 2013 and 2014 also shows that the population's perception of public safety is improving.

The population's perception of public safety is improving, with an average of nearly two-thirds of respondents reporting being satisfied with public safety in their environment.

B.2.2. Public trust in the police force

Public safety is founded on the government's capability to prevent and discover phenomena that are hazardous or harmful to public order (felonies and misdemeanours) and meting out punishment to those responsible . The government's capacity to prevent and investigate crime is influenced by the public's subjective perception of safety, and also by numerous other objective factors, especially media communications.

There is currently no regular, statistically verified measurement tracking changes in the perception of public safety in Hungary.

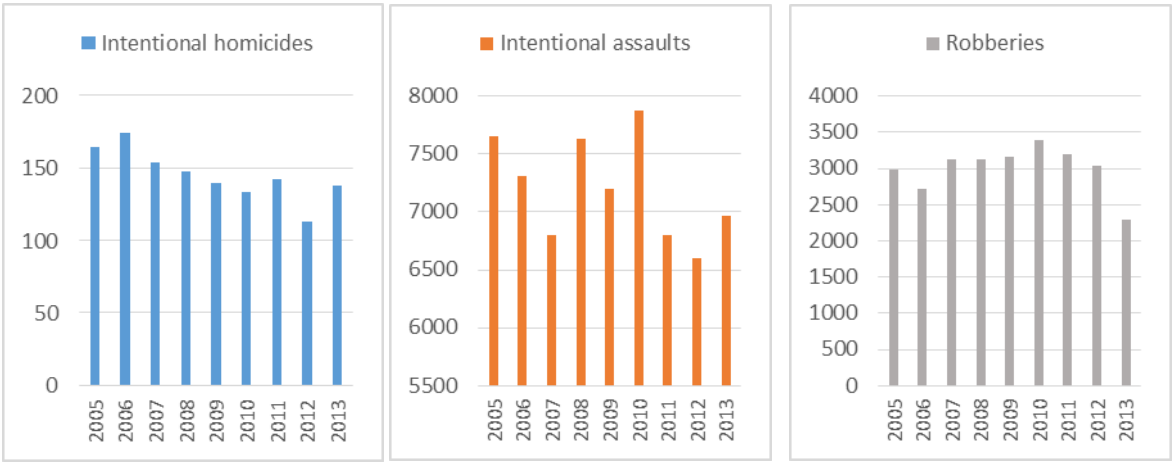


An examination of trends surrounding the issue of "the population's trust in the police" can be based on the results of surveys made in 2013 by the CSO. The trends in trust are also indicated by the SRI survey on institutional trust, which show significant improvement in public trust in the police (an increase of 4.5 points in 2009 to 5.3 points in 2013).

Of the public institutions measured by SRI, the police received the second-highest trust index after the Hungarian Academy of Sciences (surpassing, for example, the parliament, the Hungarian National Bank and the Hungarian State Audit Office.

Public trust in the police is high, with several measurements showing an upward trend.

B.2.3. Number of reported intentional homicides, intentional assaults and robberies per 100,000 population

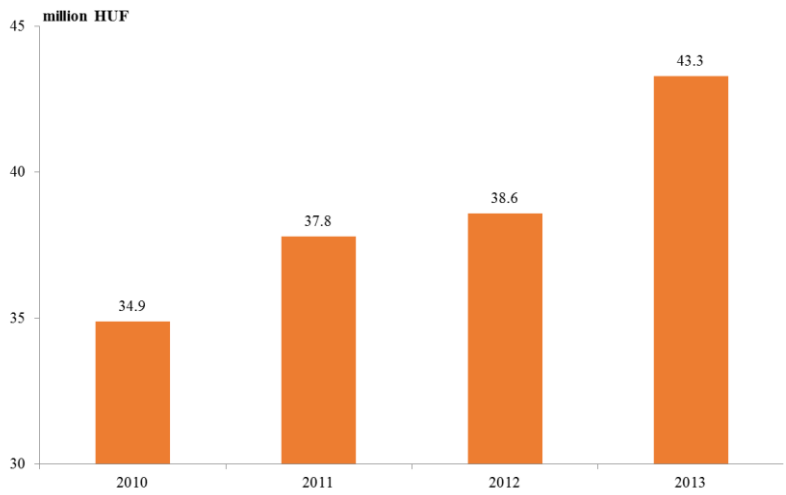


Of the objective indicators, the number of reported criminal offences, and specifically the number of intentional homicides, intentional assaults and robberies represents the amount of violent crime as a share of all crime. The number of reported criminal offences in the three examined categories of criminal offences has showed a significant downward trend over the past three to five years, with minor fluctuations each year. The statistical data points to an improvement in the crime rate, for which a key, although not exclusive, factor is the capability to prevent crime and the improve the deterrent effect of criminal investigations.

The numerical decrease in representative categories of violent criminal offences indicates an improvement in the government capability to prevent and investigate crime over the past five years.

B.2.4. Annual government expenditures on public order, civil defence, fire and disaster prevention per 1000 population (in nominal terms, million HUF)

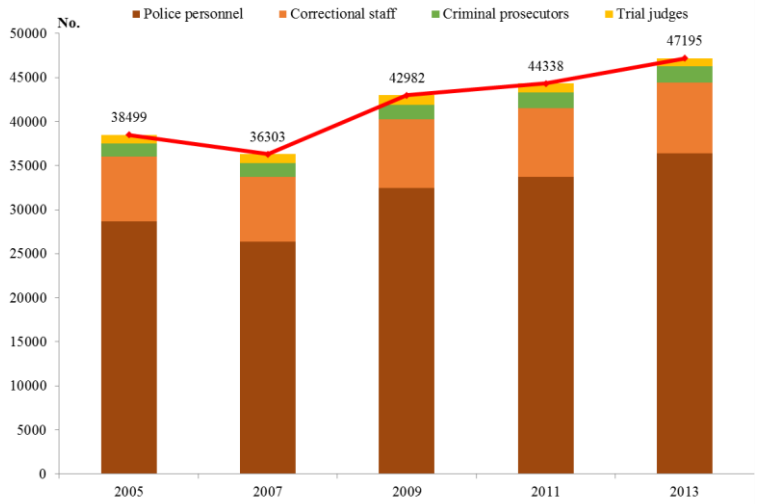
The scale of state public safety resources shows the quantitative side of capacity, and thereby of government capabilities.
State expenditures on public order in proportion to the size of the population showed an upward trend between 2010 and 2013.



Criminal investigation capacities grew, and state expenditures spent on public order showed a growth trend.

B.2.5. Law enforcement personnel resources (No. of personnel)

Law enforcement personnel resources, the number of police personnel, prosecutors and correctional staff, showed an upward trend in 2009 and 2010. The number of criminal judges has declined slightly since 2013.



Criminal investigation capacities have strengthened, and criminal investigation personnel resources have expanded.

B.3. Legal security dimension

Key indicator: THE POPULATION'S CONFIDENCE IN THE LEGAL SYSTEM

- An indicator originating from the data collected in supplementary module OSAP 1968 to the annual survey on Household Budgets and Living Conditions. The size of the sample is approximately 13,000 individuals. The indicator is derived from the average of the answers, on a scale of 0-10, of a distribution of respondents based on different groups to the question, "How much trust do you personally have in the legal system?" In addition to age group, the distribution can also be shown by gender and level of educational. Source: CSO, ILC SWB

Sub-indicator 1: ANNUAL GOVERNMENT EXPENDITURES ON THE JUSTICE SYSTEM AND CORRECTIONS PER 1000 POPULATION (in nominal terms, million HUF)

- In order to measure government functions, various international institutions have, under the guidance of the UN, implemented the so-called COFOG categorisation standard, which displays, grouped into tasks, what amounts a state spends on what aims. Starting from the year 2010, the CSO has also published statistical data on government expenditures broken down according to COFOG and based on national accounts. COFOG sub-section 3.3.0 contains expenses for civil and criminal courts, ombudsmen and public defence lawyers, and sub-section 3.4.0 contains expenses for the operation of gaols and prisons, and other institutions engaging detainees. The indicator reflects total expenditures for all of these distributed over the subject year per 1000 population as shown by the population figure as of 1 January. Source: CSO, COFOG

Sub-indicator 2: NUMBER OF LITIGATED CASES INVOLVING PUBLIC ADMINISTRATION TAKEN TO FIRST-INSTANCE COURTS IN THE SUBJECT YEAR (No.)

- The indicator shows the number of public administrative resolutions taken to court for legal remedy and attempts to portray the change over time in the acceptance of administrative resolutions. The source of the data is the statistics of the Hungarian National Office for the Judiciary (Prior to 2012: the Hungarian Office of the National Council of Justice) recorded by the CSO (Reports on the cases of courts of different levels and jurisdictions under ID numbers OSAP 1305, 1307, 1308, 1856 and 1979).

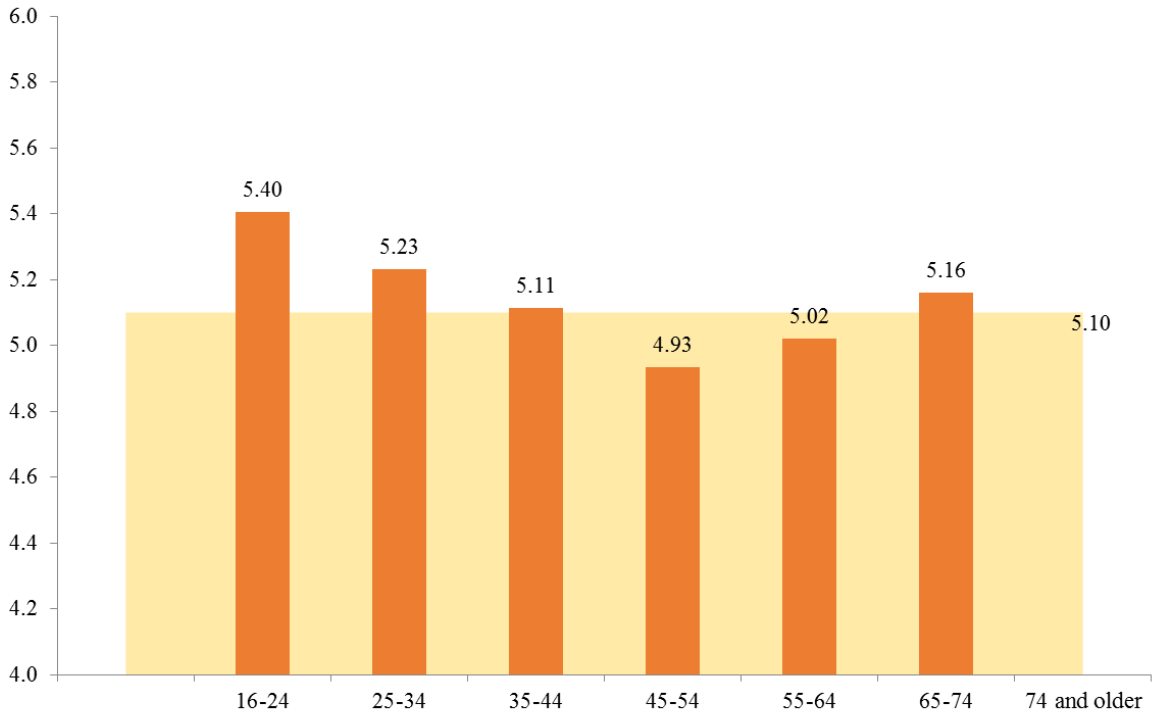
Sub-indicator 3: PROPORTION OF CIVIL LITIGATION CASES IN WHICH FIRST-INSTANCE COURT DECISION IS APPEALED (%)

- This indicator shows the level of acceptance of first-instance decisions in cases of civil litigation through the ratio of the number of cases of civil litigation submitted for appeal in the given year as a share of all cases of first-instance civil litigation submitted in the same subject year. The source of the data is the statistics of the Hungarian National Office for the Judiciary (Prior to 2012: the Hungarian Office of the National Council of Justice) recorded by the CSO (Reports on the cases of courts of different levels and jurisdictions under ID numbers OSAP 1305, 1307, 1308, 1856 and 1979). It should be noted that the CSO data allows for comparison between first- and second-instance submissions of cases in the subject year, but not their completion.

Sub-indicator 4: PERCENTAGE OF PROLONGED FIRST-INSTANCE CIVIL LITIGATION COURT PROCEDURES COMPLETED MORE THAN TWO YEARS AFTER BEING SUBMITTED (%)

- The percentage (%) of first-instance civil litigation procedures which, as prolonged cases, are completed during the subject year after more than two years relative to the number of all first- and second-instance civil litigation cases completed in the given year. The source of the data is the statistics of the Hungarian National Office for the Judiciary (Prior to 2012: the Hungarian Office of the National Council of Justice) taken over by the CSO (Reports on the cases of courts of different levels and jurisdictions under ID numbers OSAP 1305, 1307, 1308, 1856 and 1979).

B.3.1. The population's trust in the legal system (on an 11-point scale of 0-10)



Legal security is subject to the government's ability to engender trust in the legal system and to create sense of security safeguarded by law. The most fundamental aspect of legal security is trust in legislation and in the application of the law.

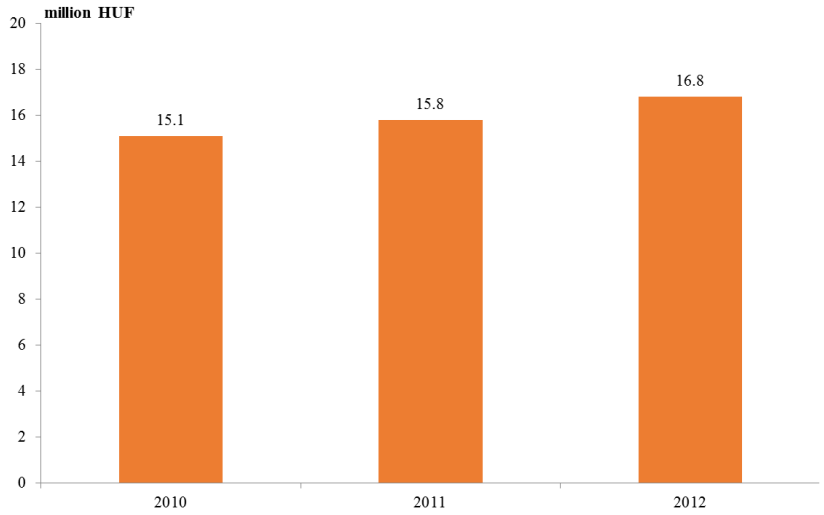
According to an SRI survey, trust in the Hungarian legal system increased between 2009 and 2013 (from 4.0 to 4.78). Using a different methodology, the CSO's 2014 survey measured an average of 5.1 on a 10-point scale, which can be used as a base data point for future measurements of trust.

Measurements show a positive trend in Hungarians' trust in their legal system.

B.3.2. Annual government expenditures on the justice system and corrections per 1000 population (in nominal terms, million HUF)

Trust in the legal system also includes the application of justice and the application of the law in public administration. The application of justice is an independent branch of power in which government interference is restricted by law, which is why influence indicators of the effectiveness of the courts in service of justice only reflect government capabilities indirectly and in exceptional cases.

In 2013, the EU launched a measurement system (Justice Scoreboard) for this area, which builds on the EU data from the European Commission for the Efficiency of Justice (CEPEJ)



The financial resources indicators for the justice system, annual government expenditures on the justice system and corrections per 1000 population, show a growth trend between 2010 and 2012.

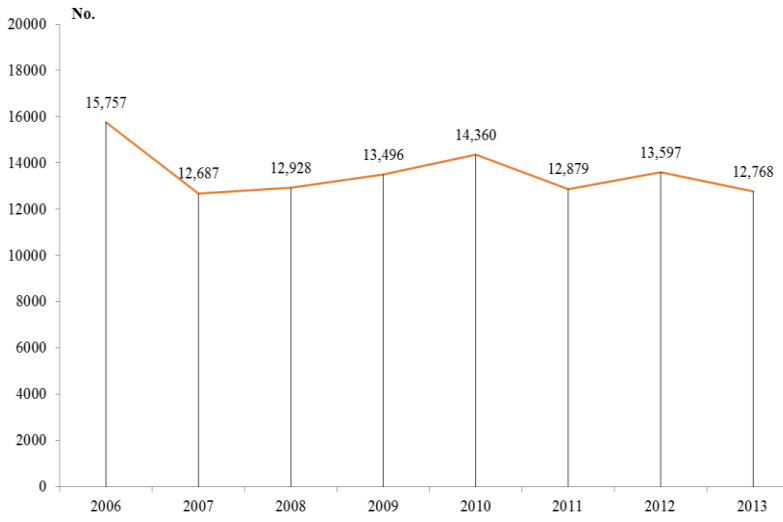
The financial resource indicators for the justice system show improving government capability to strengthen trust in the legal system.

B.3.3. Number of litigated cases involving public administration taken to first-instance courts in the subject year)

The extent to which legal remedy is sought is suitable, with certain conditions, for drawing conclusions in relation to the quality of initial administrative resolutions.

The number of litigated cases involving public administration submitted to courts of first-instance up until 2010 varied between 13,000 and 15,000.

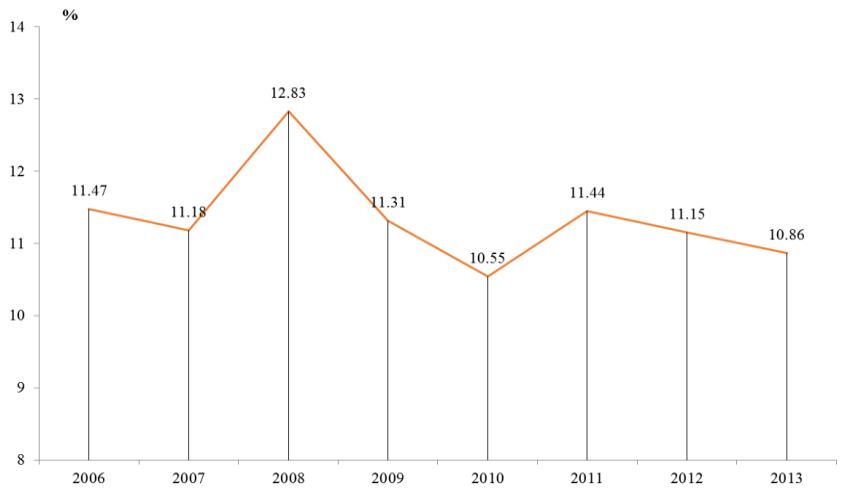
Since 2011, the annual number of cases seeking legal remedy has been below 13,000, revealing strengthening satisfaction with respect to public administrative decisions.



Data on judicial legal remedy shows growing satisfaction on the part of the customers with respect to public administrative decisions.

B.3.4. Percentage of civil litigation cases in which first-instance court decision is appealed

The share of litigated civil court cases submitted to a second-instance court for appeal as a proportion of all first-instance litigated cases in the given year shows the degree to which first-instance decisions are accepted in litigated civil cases. Starting in 2010, the appeal rate stayed under 11%, which indicates an increasing level of acceptance compared to the higher numerical ratios of previous years.

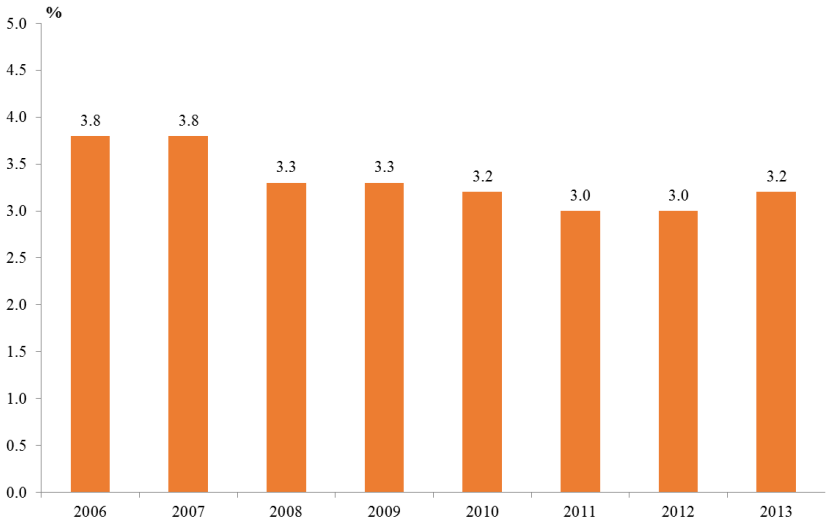


The level of acceptance on the part of concerned parties of judicial decisions passed in civil cases is improving.

B.3.5. Percentage of prolonged first-instance civil litigation court procedures completed more than two years after being submitted

Reducing the reasonable amount of time required for procedures to be completed, and the time required for public administration, is one of the basic indicators for the efficiency of legal administration in the EU CEPEJ measurement system as well.

The proportion (%) of first-instance litigated civil procedures completed, as prolonged cases, after more than two years, has remained at or under 3.2% since 2010, which, compared to the higher numerical ratios of previous years, shows an improvement in the speed of public administration.



The length of time needed for administrating litigated cases has been declining.

B.4. Governmental public confidence and transparency dimension

Key indicator: CONFIDENCE IN THE GOVERNMENT EXPRESSED BY THE POPULATION AT THE PARLIAMENTARY ELECTIONS (%)

- In the given election year, the proportion of parliamentary mandates won by the governing party or by the party coalition or party alliance as a percentage of all mandates (%) in the parliamentary elections for the given year. The source of the data is the official data of the National Election Office

Sub-indicator 1: NUMBER OF PUBLIC INFORMATION INQUIRIES ENDING IN A FINDING OF ILLEGALITY BY THE HUNGARIAN NATIONAL AUTHORITY FOR DATA PROTECTION AND FREEDOM OF INFORMATION (NAIH)

- One of NAIH's tasks is monitoring and promoting the enforcement of the law on the transparency of information of public interest or in the public interest. This is the number of public information inquiries ending in a finding of illegality, based on NAIH data. Source: NAIH

Sub-indicator 2: DATA ON INSTITUTIONS' (VOLUNTARY) PARTICIPATION IN THE STATE AUDIT OFFICE OF HUNGARY'S (THE SAO'S) CORRUPTION RISK MEASUREMENT SYSTEM (number of institutions)

- All financial state support for non-governmental organisations, broken-down by the source of the funding. The data comes in part from governmental financial statistics and in part from the comprehensive data collection performed annually by CSO, such as the OSAP 115 statistical report on the activities of non-profit organisations. The data for the year 2010 was available in a different breakdown, which is why it was not possible to compare this year according to types of support.

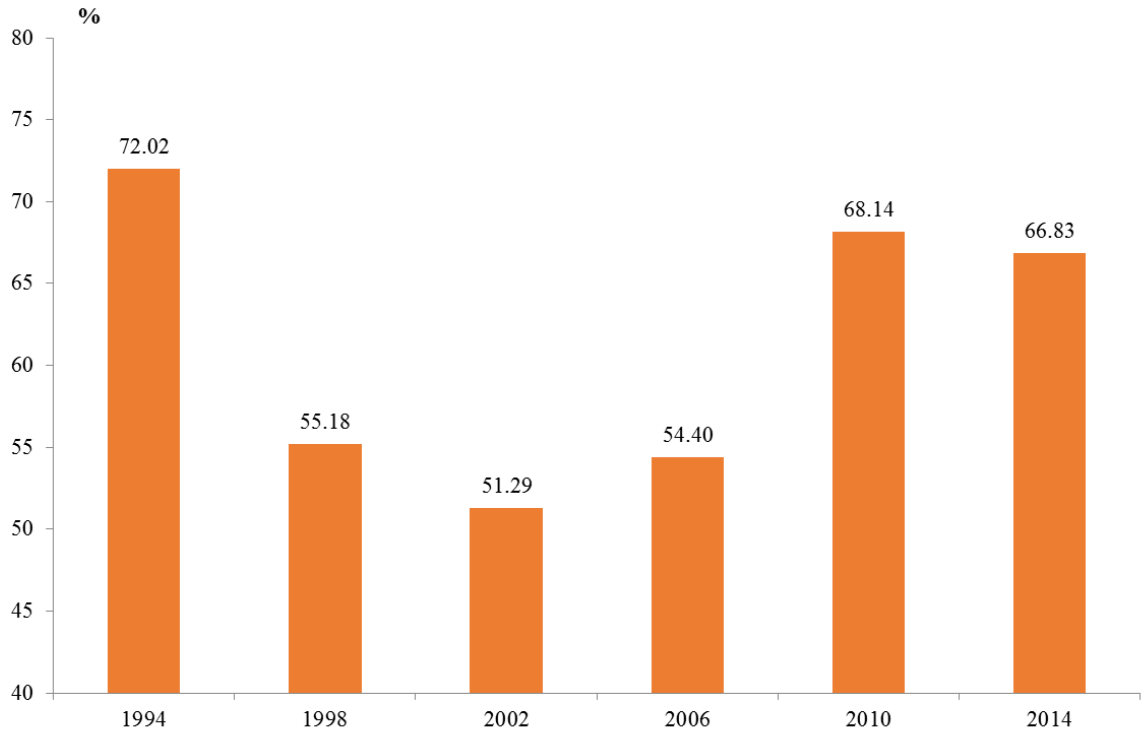
Sub-indicator 3: THE SAO's CONTROLS MITIGATING CORRUPTION RISKS FACTOR (KMKT) INDEX

- The Controls Mitigating Corruption Risks Factor (KMKT) Index reflects whether institutional controls exist at the given organisation and whether these are actually in effect and fulfill their intended purpose. Source: SAO

Sub-indicator 4: STATE SUPPORT FOR NGOS (nominal prices, million HUF)

- All financial state support for non-governmental organisations, broken-down by the source of the funding. The data comes in part from governmental financial statistics and in part from the comprehensive data collection performed annually by CSO, such as the OSAP 115 statistical report on the activities of non-profit organisations. The data for the year 2010 was available in a different breakdown, which is why it was not possible to compare this year according to types of support.

B.4.1. Confidence in government expressed by the population at parliamentary elections (%)

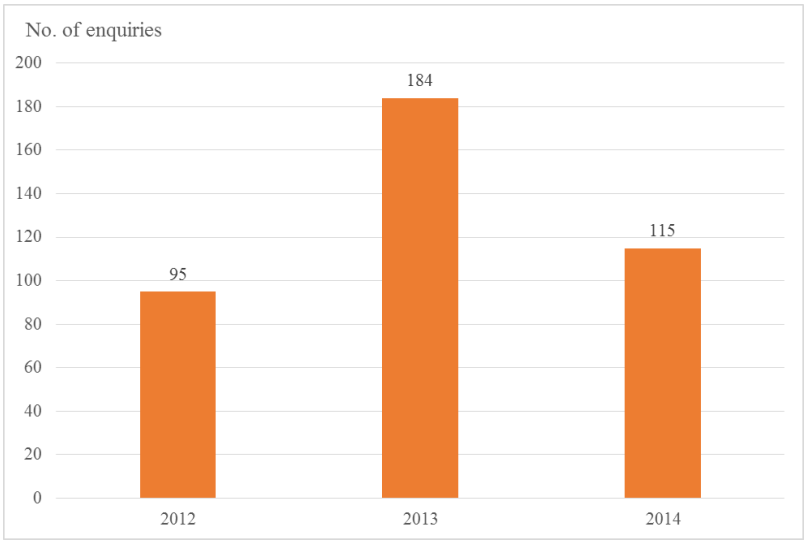


Public trust in the government results in political stability in governance that forms a substantive element of the quality and effectiveness of government. A government's political ability to take action and its stability, as well as a particular government's overall political stability is a sensitive factor in determining security and trust within a party political system.

In a democracy, a government's stability can only be deemed to be of value if the core values of democracy are in full effect. The primary indicator of confidence in the governing party (parties) is the percentage of parliamentary mandates won in the election as a proportion of all mandates. While the government's percentage of mandates remained below 55% in 2002 and 2006, in 2010 and 2014 the percentage of mandates was, and remains, over 66%. This trend is at odds with the OECD Government at a Glance, GoG 2013 index of public confidence in government regarding Hungary, which (between 2007 and 2012) shows a drop from 25% to 21%.

Since 2010, the government's political stability has increased significantly, with the government's ability to take action thereby strengthening.

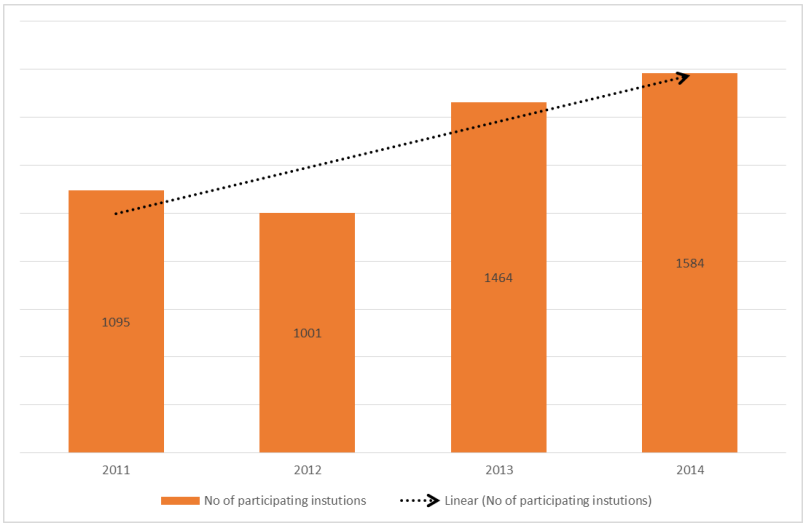
B.4.2. Number of public information inquiries ending in a finding of illegality by the Hungarian National Authority for Data Protection and Freedom of Information (NAIH)



Government transparency is a core value of the rule of law and of democracy. Transparency shows the government capability for openness. Transparency is fundamentally a result, one which has the effect of trust. The essence of transparency is the release of public-interest information by the government, especially policy analysis in advance of decision-making and of the decisions themselves. One of the NAIH's tasks is monitoring and promoting the enforcement of the law regarding the openness of information of public interest or in the public interest. The surging growth in the number of public information inquiries ending in a finding of illegality by the NAIH represents an increase in civil initiatives, and in proportion with these, implications for increasing legality.

Government transparency has been strengthened by the number of public information inquiries held since 2012.

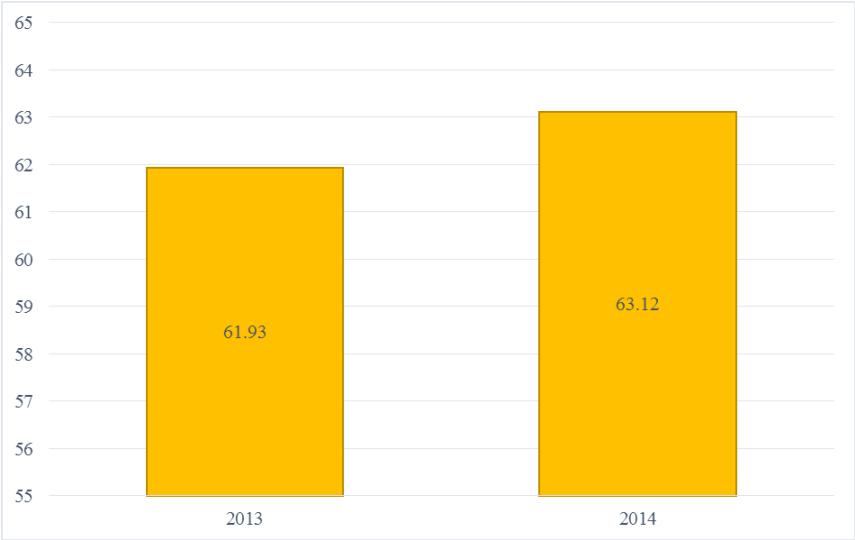
B.4.3. Data on institutions' (voluntary) participation in the State Audit Office of Hungary's (SAO's) corruption risk measurement system (No. of institutions)



The primary factor in determining quality of governance is social sentiment regarding trust in government and government corruption. Transparency is the indicator of the government's integrity, or in other words, of resistance to corruption. The State Audit Office of Hungary (SAO) runs an integrity project aimed at measuring corruption risks. The intention of the measurement was to assess, based on self-reporting responses to data requests, the exposure to corruption risks of institutions in the public sphere, and to mitigate their level of so-called integrity controls. The budgetary entities participate in the survey voluntarily.The number of volunteering institutions has risen each year since 2012.

The institutions in the orbit of government are submitting to objective measurement of transparency in greater numbers, which points to a strengthening of integrity and transparency.

B.4.4. The SAO's controls mitigating corruption risks factor (KMKT)



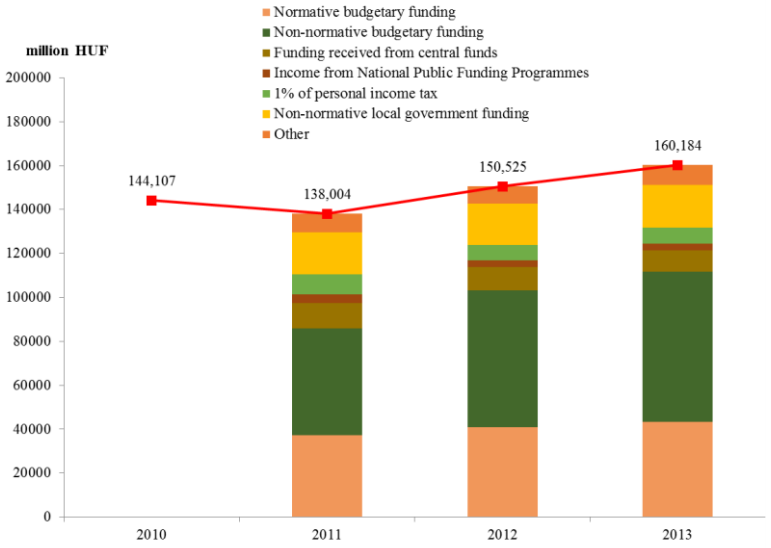
The Controls Mitigating Corruption Risks Factor (KMKT) Index reflects whether institutional controls exist at the given organisation and whether these are actually in effect and fulfill their intended purpose. Source: SAO

The Hugarian State Audit Office (SAO) runs the integrity project aimed at measuring corruption risks. The aim of the measurements is to assess, based on self-reported data requests, exposure to corruption risks in the public sphere and the level of so-called integrity controls used to reduce them.
The Controls Mitigating Risk Factors (KMKT) index reflects whether or not institutionalised controls exist at the given organisation and whether they actually are in operation and are filling their intended purpose.
From the data for the past two years (2013-2014), one can conclude that there has been a gradual increase in the integrity of budgetary institutions.

The number of anti-corruption controls at budgetary institutions has been growing.

B.4.5. State support for NGOs (nominal prices, million HUF)

Government support for NGOs is an indirect step in the direction of civil control, which is to say, in the direction of transparency. The growth in the extent of support reflects efforts being made to promote open governance.



The growth of state support for the NGO sector points toward more open governance.

B.5. Secure livelihood dimension

Key indicator: GOVERNMENT EXPENDITURES ON SOCIAL PROTECTION PER 1000 POPULATION (nominal prices, million HUF)

- To measure government functions, various international institutions have adopted, under UN guidance, the so-called COFOG classification standard. This nomenclature lists the functions typically provided by the state and government, and by classifying government expenditures according to this structure, it allows for the quantification of both the extent of the governmental sector from a financial perspective and the functions provided. Grouped according to functions, it can therefore show what sums the state devotes to which goals. As of reporting year 2010, the CSO has also published statistical data on government expenditures, based on national accounts, according to the COFOG breakdown. COFOG chapter 10 totals state state financial and in-kind expenditures on social protection and social benefits for those in need of assistance. The indicator gives the data in this chapter divided by the census figure as at January 1, calculated per 1000 population, in nominal amounts. Source: CSO, COFOG

Sub-indicator 1: THE POVERTY-REDUCTION IMPACT OF SOCIAL BENEFITS (%)

- At its Laeken summit in December 2001, the European Commission introduced 18 common shared statistical indicators for measuring poverty and exclusion (Laeken indicators). Of these, the proportion of relative income poverty (%) reflects the percentage of the country's population that lives in a household where the household's income does not reach 60% of median equivalent income (the relative poverty threshold). Social benefits covered by the state to a large extent determine what proportion of the population's income exceeds this poverty threshold. The indicator is based on the difference between the values for people receiving social benefits and those for people not receiving them (with pensions considered to be income), expressed as a percentage. As an interpretation: this is the extent to which the the state's social benefits reduce the proportion of the population who is impoverished. The base data is derived from the annual OSAP 2015 Household Budget and Living Conditions Survey interview and the OSAP 1968 supplementary module to the Household Budget and Living Conditions Survey. Source: CSO, SILC

Sub-indicator 2: EXPECTATIONS REGARDING THE POPULATION'S FINANCIAL SITUATION

- The CSO's data is based on a measurement of public perception, the source for which is the OSAP 2154 Household Budget and Living Conditions survey, with approximately 13,000 households participating as a national sample. The basis of the indicator is the following question on the questionnaire: "How do you think your household's financial situation is likely to change over the next 12 months? Will it improve, remain unchanged, grow worse, or don't you know?" The possible answers are available in various breakdowns (according to age of the primary wage earner, community type, level of education of the primary wage earner, and the composition of the household in terms of individuals). Source: CSO, SILC

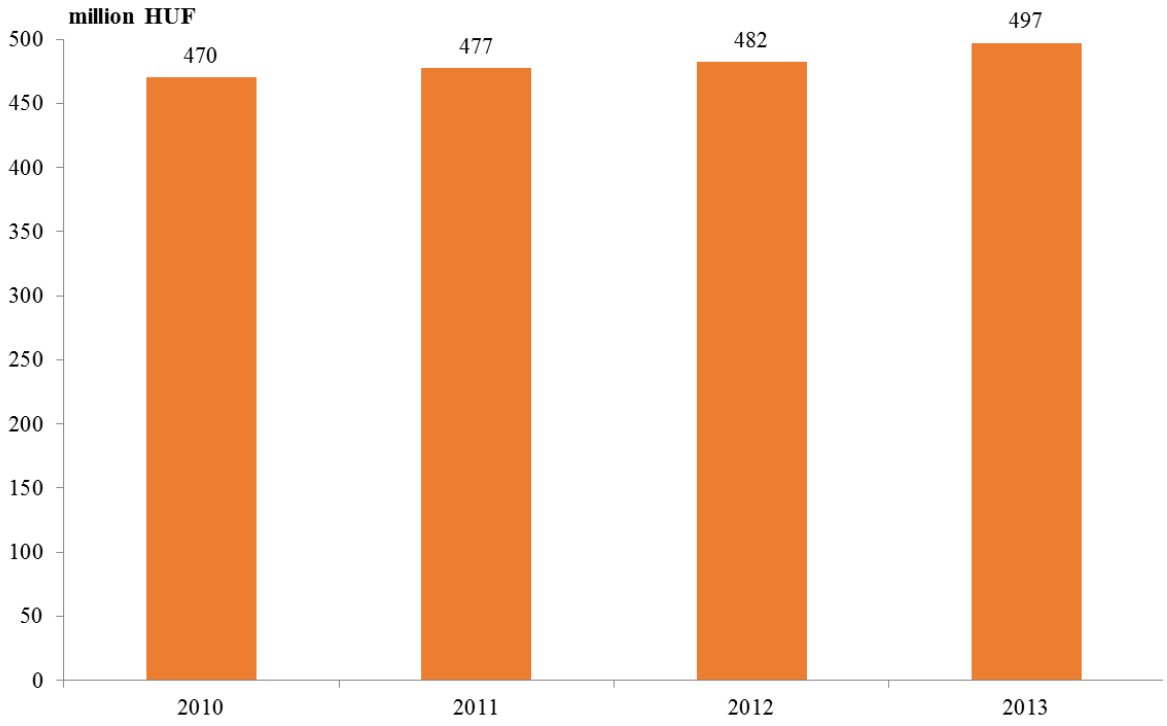
Sub-indicator 3: THE POPULATION'S SENSE OF FINANCIAL SECURITY

- The CSO's data is based on a measurement of public perception, whose source is the OSAP 2154 Household Budget and Living Conditions survey, with approximately 13,000 households participating as a national sample. The basis of the indicator is the following question on the questionnaire: "Would your household be able cover a major unexpected expense from its own funds?" The yes-or-no answer is also available in various breakdowns (according to age of the primary wage earner, community type, level of educational attainment of the primary wage earner, and the composition of the household in terms of individuals). Source: CSO, SILC

Sub-indicator 2: CHANGE IN REAL VALUE OF THE MINIMUM WAGE (előző év = 100%)

- The difference in a given year between the nominal rise in the minimum wage (expressed as a percentage relative to the previous year) and the level of inflation. The minimum wage is fixed by government decree for each year, and the annual consumer price index is calculated and published by the CSO. (The data shows the degree to which the rise in the value of the minimum wage relative to the previous year was greater or lower than the general consumer price index. A positive value means that the real value of the minimum wage grew, since it grew more than the change in the consumer price index, while a negative value means that the real value of the minimum wage declined, since its rise remained lower than the increase in inflation in the same year.) Source: CSO

B.5.1. Government expenditures on social protection per 1000 population (nominal prices, million HUF)



Security of livelihood indicators relate to the government's capability to assure a minimum living standard. This individual security must be valued according to different criteria (public safety, legal security) of equal importance. security of livelihood assesses the government's capability to guarantee minimum living conditions.

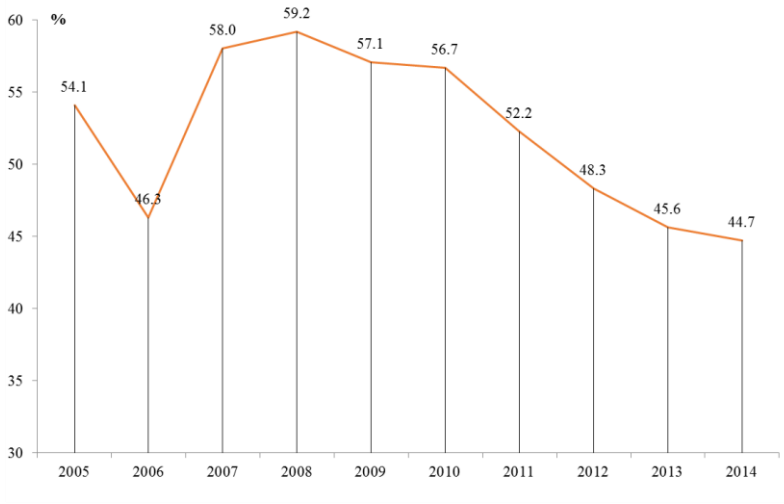
The value of the "Government expenditures on social protection per 1000 population" indicator shows the financial and in-kind state expenditures on social benefits for those requiring aid. The government resources for social protection grew continuously from 2010 through the data measured for 2013.

The amount of state-provided social protection is growing.

B.5.2. The poverty-reduction impact of social benefits (%)

Increased social expenditures have not been able to slow down the trend, started in 2009, that shows social benefits having a weakening impact on poverty-reduction.

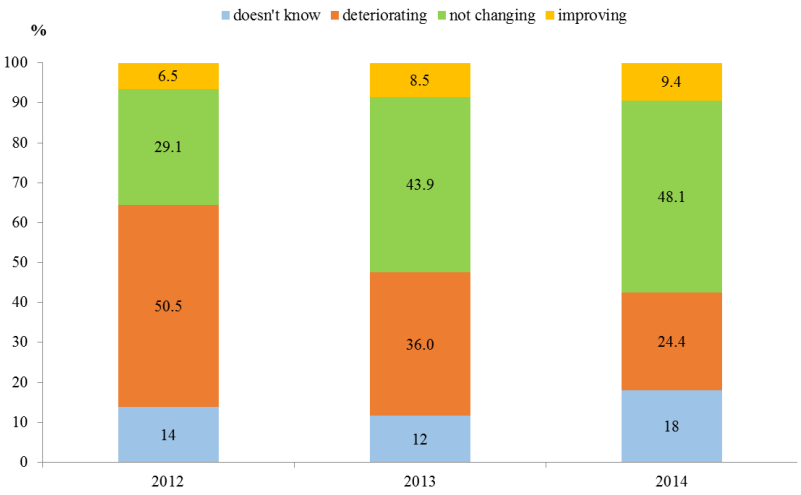
Social benefits, also known as social transfers, play a major role in reducing poverty in Hungary. Pensions make up the bulk of all social transfers, since the over-65 age group relies almost exclusively on pensions for income. The family support system also contributes significantly to poverty reduction, since the poverty rate of especially at-risk single-parent and large families would be more than 50% higher without social benefits.



Social benefits continue to significantly reduce the poverty rate, albeit to a declining extent.

B.5.3. Expectations regarding the population's financial situation

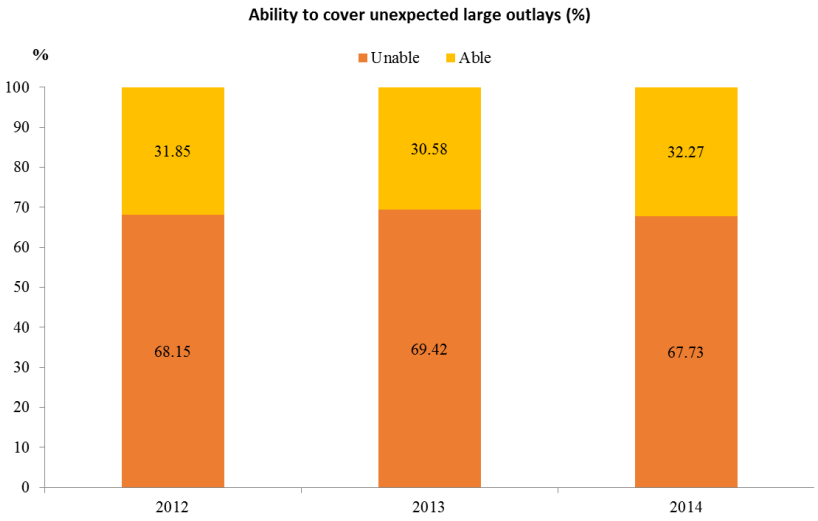
According to measurements first taken in 2012, the population's optimism with regard to the overall financial situation has been improving.



Optimism regarding the overall financial situation has increased measurably since 2012.

B.5.4. The population's sense of financial security

The population's sense of financial security was stronger in 2014 than in 2012.



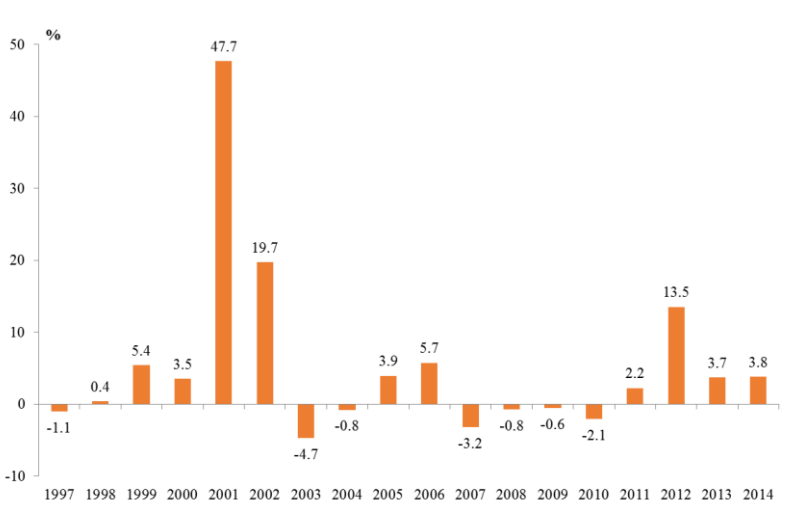
The population's sense of financial security was stronger in 2014 than in 2012.

B.5.5. Change in the real value of the minimum wage (previous year = 100%)

In public policy measures, maintaining income security constitutes an aspect of security of livelihood.

The minimum wage is one of the government's most important tools for guaranteeing a secure livelihood.

The indicators of the real value of the minimum wage have shown a relatively high positive level since 2011, in contrast to the 2007-2010 period, when the value fell.



The value of the minimum wage has been substantially greater since 2011 than it had been previously.

Public well-being

Summary

The improvement of public well-being, as a top social and economic aim, is an area of influence belonging to the category of *target-type areas of influence*, and is closely linked to the areas of influence associated with security and trust, as well as democracy. On the other hand, the asset-type areas of influence that are of great significance to it are those of economic competitiveness and financial stability, as well as of sustainability and effective administration.

Our analysis took the approach of moving away from the economic-type evaluation of public well-being prevalent previously and shifting towards a broader examination of quality of life. Rejecting the expediency of using a single indicator, we have selected and employed indicators belonging to the three pillars that make up the "dashboard" of public well-being: material well-being, quality of life and sustainability.

It was not through GDP or indicators originating from GDP that we analysed the make-up of material well-being; we instead defined it through indicators relating to the dimensions of disposable household income, poverty, social exclusion, employment and education. A prime aim of analysing this important dimension is to show how the position of the household, or within that, the individual, exerts a many-folded influence on people's well-being, and collectively do the same for the state of society and public well-being.

When it came to selecting indicators to measure social exclusion, in addition to objectively capturing the circumstances of those in poverty, and expressing inequality, an important criterion was also to include the indicators used to formulate both domestic and international development goals. We have described changes in the quality of life with indicators relating to healthcare and the social safety net, as well as to dimensions of the individual in society (mental well-being). In doing so, we have examined the possibility and expediency of both the "top-down" and the "bottom-up" structure. Although in the former case, quality of life can be approached starting from the available possibilities (income, services, etc.), practical perspectives and international experience led us to prioritise the second approach in defining the indicators, starting from the individual's subjective opinions (preferences).

By including the sustainability pillar, we show the need for the level of public well-being currently achieved for the short term to also be sustainable for a longer period, or at least in the medium term. The examination of this, however, falls primarily under the scope of studying the areas of influence of economic competitiveness and financial stability, as well as sustainability.

While the dimensions selected for the purposes of research and practical application broadly span the areas of public well-being, a few important dimensions have thus far been omitted from the study. These include composition of the family and household, the level and structure of consumption, the situation of youth and the elderly, the quality dimension of work, culture and sport, and use of time (work-life balance).

In analysing the indicators describing the dimensions of public well-being, we paid special attention to the change in governmental capabilities in relation to public well-being; meaning, on the one hand, the general direction and character of economic and social policy, and on the other, its role in influencing public policy measures taken during the given time period. The results of this are reflected in the key findings and conclusions shown in presenting the achievements signified by the individual indicators.

The main characteristics of the income situation.

According to the main indicator measuring total corrected disposable income for the household sector, the improving financial situation of households is exerting an increasingly positive influence on the development of objective factors related to quality of life, and, through income earned from work, on improved public well-being on the part of both the individual and society as a whole, as well as – from the demand side – on economic growth. The secondary indicator of the average net salary of employees provides a picture of the income circumstances of active wage earners, and, with the exceptions of 2009 and 2012, it can be concluded that income from employment has improved appreciably each year. The start of growth in real disposable household income and the improvement in the employment situation are facilitating a further slowing of the household savings rate and, thereby, the achievement of a higher level of household consumption, as well as a higher level of economic growth. The revival of the housing market and housing construction, however, brings with it an increase in the savings rate. In spite of this fact, the ratio will not reach the high pre-crisis levels any time in the near future. The high rate of household foreign-currency debt has been successfully reduced in a manner balanced with the start and accelerating pace of economic growth. Income inequality has grown somewhat over the last three years in Hungary. The bulk of high-income citizens live in Budapest, where inequality is the greatest, while it is

lowest in towns with county rights, owing to the high proportion of middle-class inhabitants.

The main characteristics of poverty and social exclusion.
The risk of poverty and social inclusion decreased perceptibly in 2014. In order to reduce it further, intense focus on the 18-24 age group is warranted, alongside the central focus on reducing child poverty. Although the risk of social exclusion decreases with age, decreasing it even in the case of the over-65 age group constitutes a major undertaking. The risk of income poverty is somewhat greater in the case of men. In terms of age and education, it is greatest for people aged 18-64 who have only completed primary schooling. The high ratio of those at risk of severe material deprivation declined significantly in 2014, which held true for both genders and each of the three age groups that were examined. In 2014, a smaller proportion of the overall population lived in households with a very low level of work intensity than in 2012 or 2013. The greatest ratio in terms of age groups living in low-intensity households was among those aged 0-17. Poverty affecting children grew in the period between 2005 and 2014. Every fourth person aged 0-17 falls into the "impoverished" category. Child poverty affects two-thirds of children whose parents have only completed primary education.

The main characteristics of the health-care and social safety net.
The increase in the number of years spent in good health means that, in terms of health-care, Hungary has caught up with the average position of EU member countries. In order to continue this trend, the range of influencing factors requires expansion and better coordination. The somewhat accelerating increase in expected life expectancy at birth for males has not resulted in a reduction in the gender imbalance. Depending on economic conditions, it appears justified to increase the value of social benefits per person. Rapidly increasing the number of available places at nurseries is a task of special priority from both a social and demographic point of view. The change in pension replacement rates observed over the long term and the rise in 2013 were in line with the increases in performance and competitiveness in the national economy.

Main characteristics of employment and education.
Following the decline that lasted until 2000 and the stagnation of 2011, the number of economically active members of the population has increased and, by the end of 2013, was approaching 4 million individuals, which is the highest employment rate seen in the past two decades. The employment rate for 2013 was 60.4%, which would have come to 59.4% without public workers, and to which the expansion of the public work programme contributed 2.1%. The ratio of early school leavers for 2014 was to all intents and purposes in line with the national target value undertaken with respect to the European Union. The proportion of people with higher-level education more than doubled (to 32.4%) in Hungary in the period between 1997 and 2014. PISA Survey results underscore the improvement in the quality of the public education system.

Main characteristics of the individual in society.
Two-thirds (62%) of the adult population of Hungary were largely satisfied (6-10 points out of 10) with their lives in 2013. With regard to the meaningfulness of individual activity in 2013, the average value of answers from the overall population came to 7.08, which was greater than that for general satisfaction with life (6.15). The growth in the number of taxpaying private individuals reduced the amount of tax payable by a single taxpayer. It was the start of economic growth that created the basis for the reduction, which was warranted by a tax burden (the percentage of tax revenues relative to GDP) slightly exceeding the EU average. With regard to net migration, Hungary is to a greater extent a net receiving country than most of its neighbours.

K.1. Income position dimension

Key indicator: HOUSEHOLD SECTOR TOTAL ADJUSTED DISPOSABLE INCOME (billion HUF)

- The key indicator shows, in a timeline, the household sector's (private households) total adjusted disposable income based on the CSO's national accounts. By the balance of private households' primary incomes, which is the income-side operating result, we mean employee incomes and incomes originating from assets minus asset-related payments, as well as revenues received in cash redistributions of incomes. In-kind social benefits are not included. Originating from the CSO's statistics, it comprises comprehensive macro data. The timeline is available starting from 1995.

Sub-indicator 1: AVERAGE MONTHLY NET EARNINGS OF EMPLOYEES (HUF)

- This indicator shows changes over time in the average earnings of employees working in the national economy, in a timeline. The data originates from the CSO's household data collection for the period 2008-2014.

Sub-indicator 2: HOUSEHOLD SAVINGS RATE

- The ratio of annual household savings for a given year as a share of disposable income. The disposable income – supplemented with the correction for net changes in wealth from private pension funds – is the income amount that the households can use for consumption and accumulation. Savings are the amount remaining from disposable income after financing final consumption expenditures and which can be used for accumulation, partly in the form of capital accumulation (fixed assets and accumulated inventories), and partly for acquiring financial assets (e.g. securities, bank deposits and loans). The data, based on the calculations of the CSO national accounts, is shown for the period 2003-2013.

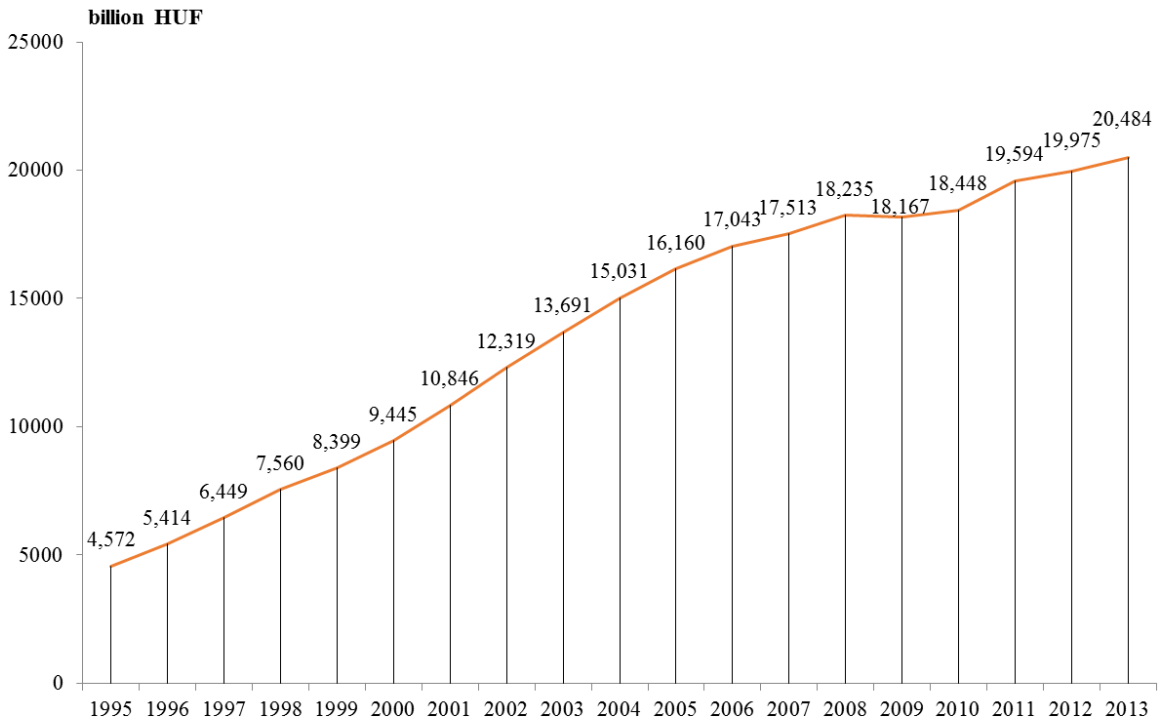
Sub-indicator 3: HOUSEHOLD DEBT (%)

- This indicator shows the loan portfolio of the household sector (households, non-profit institutes assisting households and non-financial organisations) as a percentage of GDP. The data is shown for the years 1995-2013 and is based on data from the CSO's national accounts.

Sub-indicator 4: INCOME SHARE OF THE TOP AND BOTTOM QUINTILES (%)

- This indicator focuses on the income inequality between the upper and lower extremes. It shows the distribution of equivalent income of the top 20% (those with the most income) as a ratio compared to that of the bottom 20% (those with the lowest income). The higher the indicator's value, the greater the inequality it shows. The data, based on the income data from the CSO's survey of sample households, is shown for the years 2005-2013.

K.1.1. Household sector total adjusted disposable income (billion HUF)

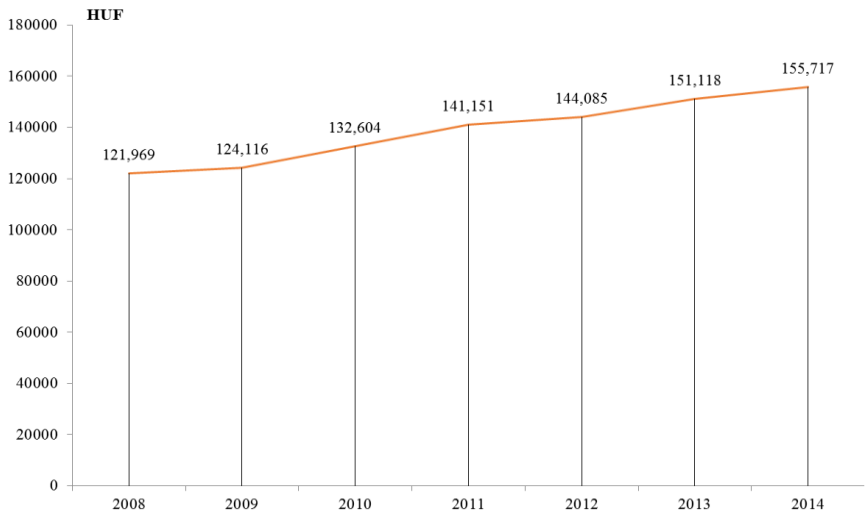


The development of the income available to households depends on the performance capacity of the national economy and on economic and social policy measures. The rapid economic growth (3-5%) of the first half of the past decade resulted in relatively rapid and steady improvement of the income situation. This was followed in 2007-2008 by a slowdown, and then in 2009 – as a result of the crisis – by stagnation, with an improvement noticeable again as growth quickened from 2010 onwards. In 2013, income available to households stood at 20,484 billion HUF, as opposed to 18,448 billion HUF for 2010. Gross annual household income per capita, including taxes and social security contributions was 1,287,000 HUF, exceeding the previous year by 4.3%. In 2013, the value of annual net income per person also grew compared to 2012. The ratio of net income to gross income came to 79.5%, and therefore the annual average value of net income per person in 2013 was 1,023,000 HUF, 2.9% greater than in 2012. In light of the fact that consumer prices increased by 1.7%, the real income of households grew 1.2% in 2013. (Real income also rose to a slight extent in 2011, but in 2012 – as a result of the drop in economic growth – real household income fell by 4.8%.) The household sector's gross income consists of earned income (employee compensation, income gained from business enterprises, etc.), social transfers (pensions, unemployment benefits, family allowances, etc.) and other income.

Of total gross household income for 2013, 67.8% was earned income, 30.2% was in social transfers and 2.0% was other income, in comparison to the figures of 65.9%, 32.0% and 2.1% respectively for 2010. The change in distribution indicates an increase in the ratio of earned income and a decrease in the ratio of social transfers. Regional differences play a significant role in shaping household income trends. In Budapest, the average net income per capita for 2013 was 1,341,000 HUF. In the other major cities, the figure was 1,380,000. However, in rural areas the average net income per capita was only 863,000 HUF. In Central Hungary, with Budapest's dominant role a factor, net income per capita was 1,181,000, while in the Northern Great Plains and Northern Hungary, the figure was only 849,000 HUF and 892,000 HUF respectively.

The improving financial situation of households exerts a positive influence on changing trends in the objective factors related to quality of life and, by means of the income earned through work, on improving public sentiment among individuals, and therefore across society as a whole, as well as – on the demand side – economic growth.

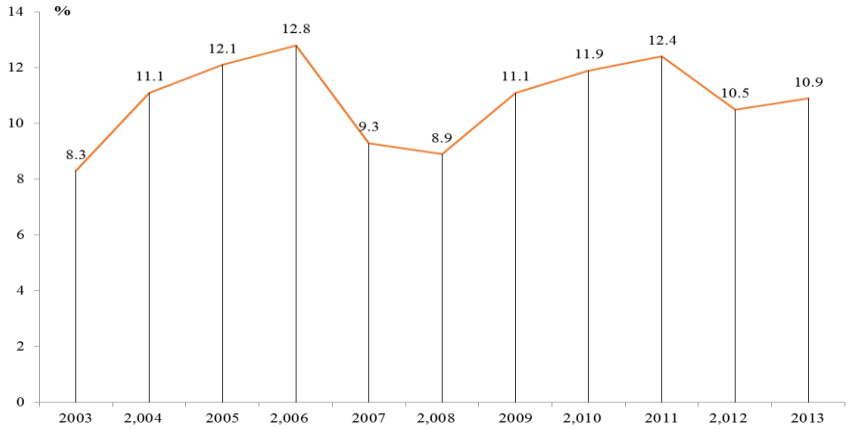
K.1.2. Average monthly net earnings of employed persons (HUF)



This indicator has grown in value every year, especially in 2010 (by 6.8%), in 2011 (by 6.4%), in 2013 (by 4.9%) and in 2014 (by 3.0%). In 2013, the growth in monthly net average earnings exceeded that of monthly gross average earnings (3.4%), while net and gross average earnings each rose by 3% in 2014, as social security contributions on earnings and income tax regulations remained unchanged. Average monthly gross earnings for those employed for all of 2014 was 237,700, of which the net amount – calculated with a family allowance – was 157,700 HUF. In that year, the net earnings from companies rose by 4.3%, also rising by 5.9% in the public sector and by 6.7% in the non-profit sector, not counting public workers in either case. (In the case of budgetary institutions and non-profit organisations, removing public workers is warranted by the fact that 93% of public workers are employed in these two sectors.)

The average net income of employed persons sub-indicator gives a picture of the income situations of active wage-earners, and it can be established that the income conditions of employment have each year – with the exception of 2009 and 2012 – improved perceptibly.

K.1.3. Household savings rate (%)

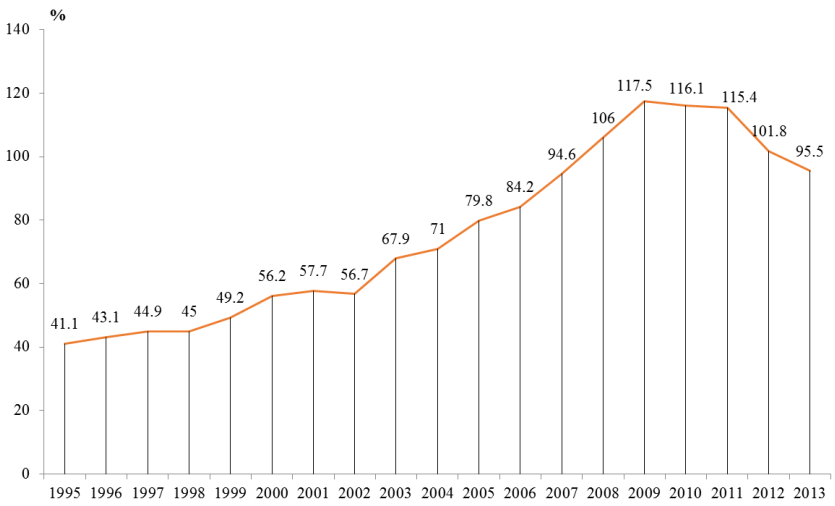


During the assessed period, the trend that characterised the household savings rate was one of fluctuation: starting in 2008, the crisis, growth in unemployment and precautionary measures in reaction to these on the part of households were responsible for the rate's accelerating growth, which reached 12.4% in 2011. In 2012 and 2013, the improving situation in the labour market coupled with low inflation enabled real household income to grow, and the savings rate to shrink in turn. In those two years, the rate was relatively high, with its level of 10-11% closely linked to factors such as households' efforts to reduce accumulated debt, strict lending conditions from banks, and lingering cautious behaviour on the part of households.

The upward trend in real household disposable income that has started coupled with the improved employment situation is allowing the household savings rate to continue to decline slowly, thereby permitting household consumption and economic growth to reach a higher level. The upswing in the housing market and home construction, on the other hand, is also bringing about a rise in the rate. Despite this fact, the rate will not reach the high levels seen before the crisis in the short term.

K.1.4. Household debt (%)

The growth in household debt that started in 1995 continued at a slow, steady pace until 2002, accelerated during the period 2003-2008, and then reached an extremely high level of 117.5% of GDP in 2009. Thanks to economic policy measures on multiple fronts, it started to decline in 2010, with the process accelerating in 2012, as household debt reached a level of 95.5% of GDP.

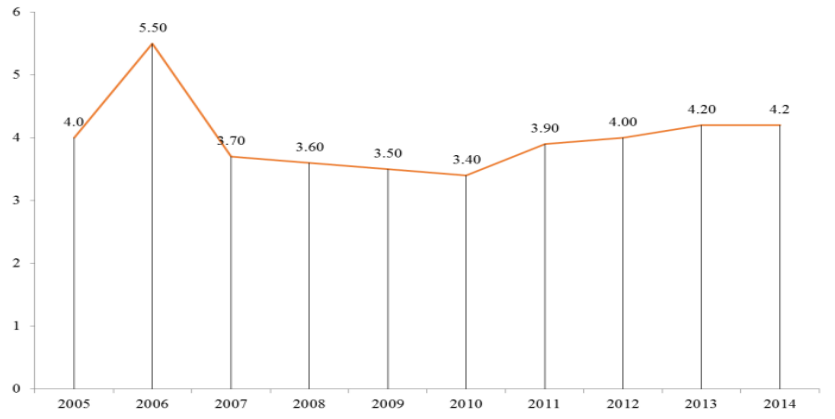


This favourable change contributed to a decrease in households' propensity to save, and through the rise in household propensity to consume appreciably helped the transition to consumption and growth get started. For a significant portion of the indebted households, however, the pressing requirement to adapt to new circumstances still remained in 2014, which strengthened those households' sense of the need for precaution.

Large-scale household foreign-currency debt has been successfully reduced in a balanced manner that has simultaneously allowed for economic growth to commence and its tempo to accelerate.

K.1.5. Income share of the top and bottom quintiles

The ratio of the income of the top and bottom quintiles, which expresses trends in the inequality of income distribution, decreased slightly from the extremely high inequality (a ratio of 5.50) shown for 2006 every year between 2007 and 2010, from a ratio of 3.70 in 2007 to 3.40 in 2010. Later on, the ratio shows a growth in inequality: in 2011, it stood at 3.90, in 2012 at 4.00, and in both 2013 and 2014 at 4.20. In 2011, the top fifth's share of total income was 36.3%, which grew to 37.1% and 37.2% in 2012 and 2013, in contrast to the share of total income of the bottom fifth, which shrank from 9.2% in 2011 to 8.9% in 2012 and 8.6% in 2013. Looking at the types of communities, in terms of population, that the different income classes live in, we can see that Budapest accounts for the highest proportion of the uppermost group with the best income situation (8.1% of the total population are both in the top quintile and live in Budapest), and the other cities and cities with county rights account for the lowest proportions of people in the top quintile (5.2% and 5.6% of the total population respectively).



It can be concluded that in the last three years, which have been analysed in detail, income inequality has increased somewhat in Hungary. The greatest number of high-income citizens lives in Budapest, which has the highest degree of inequality, while towns with county rights – owing to their large proportion of middle-class residents – have the lowest degree.

K.2. Social exclusion dimension

Key indicator: RISK OF POVERTY OR SOCIAL EXCLUSION (%)

- The key indicator shows the percentage of people in the overall population who are affected by income poverty, severe financial deprivation and/or very low work intensity. The data originates from the CSO's survey of sample households, which follows European Union methodology and has been in conducted in Hungary since 2005. The related figure shows the data broken down chronologically and by age group.

Sub-indicator 1: RISK OF INCOME POVERTY (%)

- This indicator shows the percentage of people living in households with income less than 60% of median equivalent income. The data originates from the CSO's survey of sample households, which follows European Union methodology and has been in conducted in Hungary since 2005.

Sub-indicator 2: RISK OF SEVERE FINANCIAL DEPRIVATION (%)

- This indicator shows the percentage of people affected by severe financial deprivation. The term "severe financial deprivation" is used to refer to when a person, for financial reasons, is affected by at least four of the following nine problems: 1) they are in arrears with mortgage or rental payments; 2) their home lacks adequate heating; 3) they lack the ability to cover unexpected expenses; 4) they lack meat, fish or equivalent foodstuffs for consumption at least every other day; 5) they are unable to take a one-week holiday away from home at least once a year; 6) they do not own a car for financial reasons; 7) they do not own a washing machine for financial reasons; 8) they do not own a colour television for financial reasons; 9) they do not own a telephone for financial reason. The data originates from the CSO's survey of sample households, which follows European Union methodology and has been in conducted in Hungary since 2005.

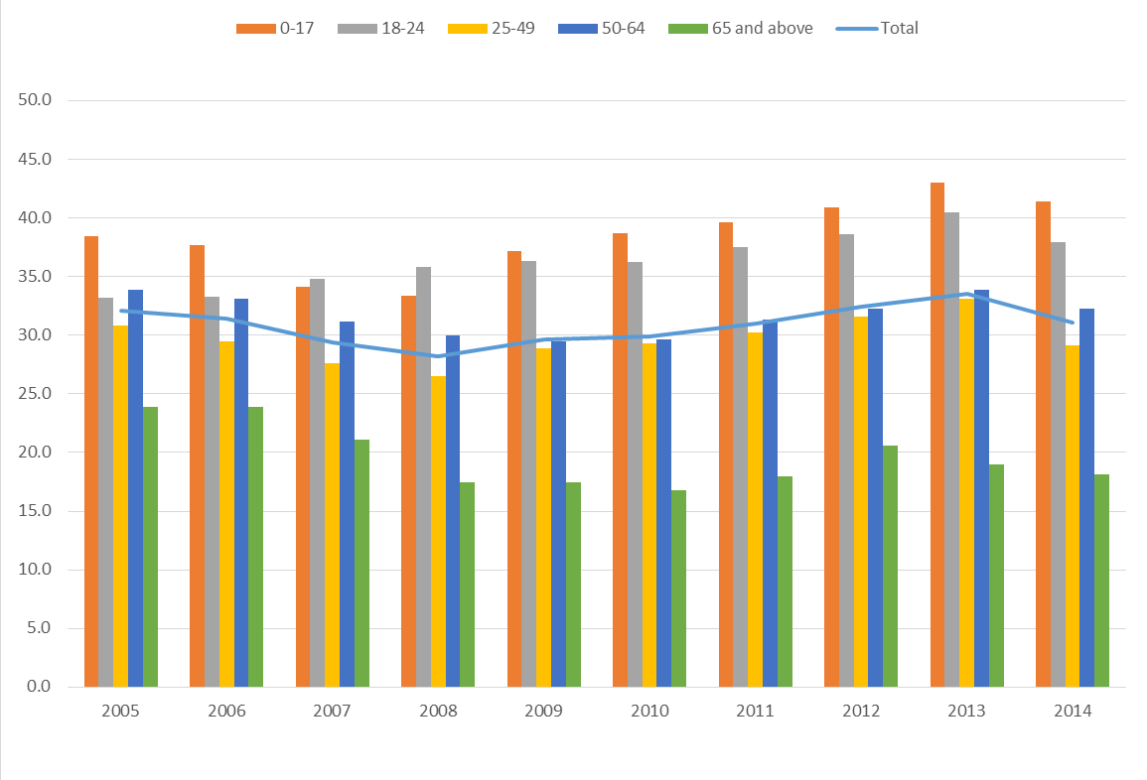
Sub-indicator 3: PERCENTAGE OF PEOPLE LIVING IN HOUSEHOLDS WITH VERY LOW WORK INTENSITY

- This indicator shows the percentage of persons of working age (persons 16-64 years old who are not students) who live in households with a work intensity lower than 0.2. Work intensity: the ratio of the time spent working during the given year by all persons of working age in the household in relation to how much time they theoretically could have spent working. Its value can fall between 0 and 1 (0 means that no-one works at all, 1 means that everyone works full-time, all year long). The data originates from the CSO's survey of sample households, which follows European Union methodology and has been conducted in Hungary since 2005.

Sub-indicator 4: RISK OF INCOME POVERTY AMONG CHILDREN (%)

- This indicator is the ratio of persons aged 0-17 years with income less than 60% of the median equivalent income. In light of the fact that persons aged 0-17 do not have income, their income situations are determined essentially by the income situations of their parents. This is why we show the data broken down by the level of educational attainment of the children's parents. The data originates from the CSO's survey of sample households, which follows European Union methodology and has been in conducted in Hungary since 2005.

K.2.1. Risk of poverty or social exclusion by age (%)



According to the key indicator, which uses Eurostat's AROPE methodology, 33.5% of the entire population (or 3,044,000 people) was at risk of social exclusion in 2013. This ratio was 2.4 percentage points (accounting for 240,000 people) more favourable than the value for 2012. By 2013, the ratio had declined significantly, to 31.1%.

With respect to each of the three dimensions of the Key indicator, the risk of exclusion affected:

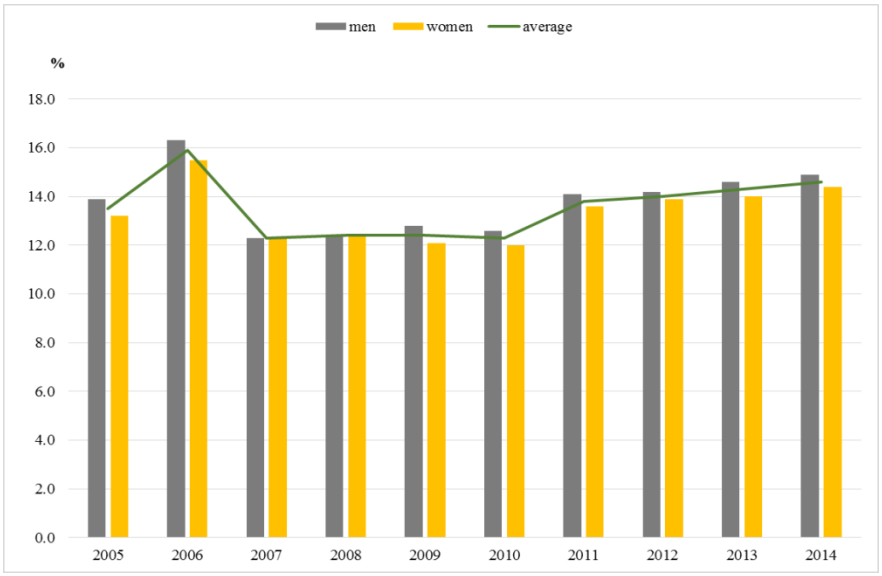
- In terms of relative income poverty, 14.3% of the overall population in 2013, and 14.6% in 2014;
- in terms of severe financial deprivation, 26.8% of the overall population in 2013, and 23.9% in 2014;
- in terms of low work intensity, 9.5% of the overall population in 2013, and 9.3% in 2014.

Therefore, the rate of relative income poverty grew by 0.3%, while the rate of low work intensity dropped by 0.3% and the rate of those living in severe financial deprivation by 2.9%. The differences in magnitude between the three main poverty dimensions differs from the European Union average in that Hungary's ratio of the severely deprived is 1.7 time greater than the number for those living in relative income poverty. In light of the fact that the measured level of relative income poverty and low work intensity would not lead to such a high level of financial deprivation, pessimistic answers given as part of the self-reporting might have played a role in the discrepancy. Examining the rate of exclusion by age group confirms that in terms of the three poverty dimensions, persons aged 0-17 comprise the most at-risk age group. The exclusion rate of this age group was 10 percentage points greater in 2014 (41.4%) than the national average (31.1%), although it is a positive change that this ratio was 1.6 percentage points lower in 2013 than in 2014.

The 18-24 age group lagged only slightly behind the younger age group with ratios of 40.5% in 2013 and 37.9% in 2014. The rate of exclusion was also relatively high in the cases of the 25-49 and 50-64 age groups (33.1% and 33.9 respectively in 2013), which decreased in 2014 to 29.1% in the former case and 32.3% in the latter.

The risk of poverty and/or social exclusion declined perceptibly in 2014. In order to assure continuing decreases, it would be warranted to focus a great deal of attention on the 18-24 age group, alongside the principal focus of reducing child poverty. The risk of exclusion decreases with age, but reducing it for the over-65 age group is also a major undertaking.

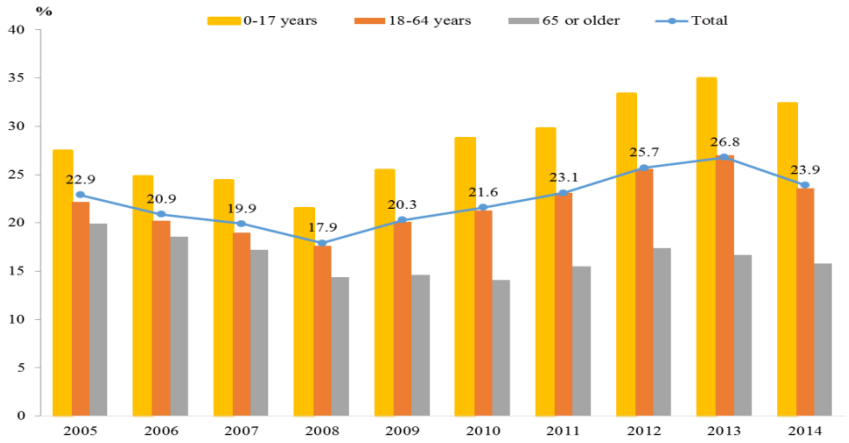
K.2.2. Risk of income poverty by gender(%)



This indicator – as a key dimension of the Key indicator – shows the poverty rate broken down by gender in relation to a specific value expressed in forints. It shows that in every year of the evaluated time period, with the exceptions of 2007 and 2008, the risk of relative income poverty was slightly (0.6-0.8%) greater for men than for women, and after the high points of 2006 both of their rates declined until 2010, whereupon they started to rise (with the increase in 2011 being quite large). In 2014, this risk ratio was 14.9% for men and 14.4% for women. In terms of age and level of education, the risk of relative income poverty was greatest for the part of the population aged 18-64 and with only primary education. In 2014, the figure for them was 38.2%, and was 11.3% for those in the same age group with middle-level education, 2.1% for their contemporaries with higher education, 7.4% for the 65 and older age group with only primary education, 2.3% for members of that age group with middle-level education and 1.2% for those 65 and older with higher education.

The risk of income poverty is somewhat higher in the case of men. In terms of age and level of education, this risk is greatest among those aged 18-64 with only primary education.

K.2.3. Risk of severe financial deprivation (%)

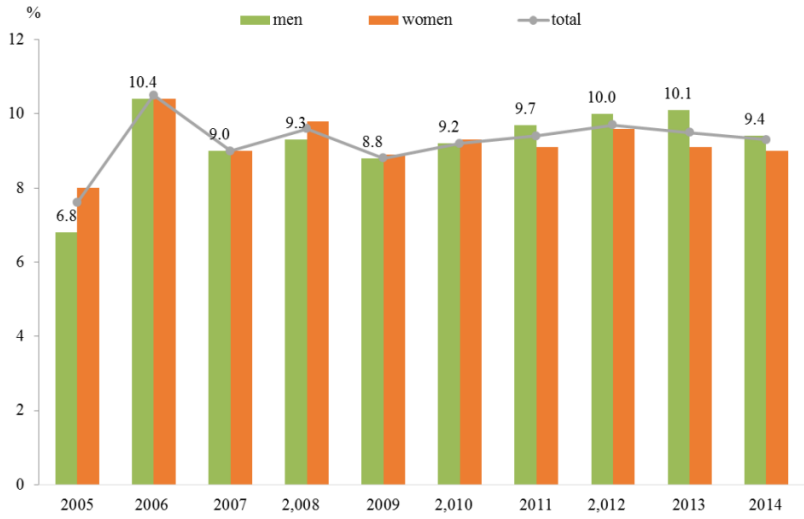


According to this indicator, in 2014 the risk rate for men (23.5%) was slightly lower than the national average of 23.9%, while the risk rate for women, at 24.3%, was slightly higher than the national average. In 2012 and 2013, the ratio of those at risk of deprivation had been greater in the case of both men and women. Looking at the nine criteria – based on the CSO survey – constituting the deprivation indicator, it can be ascertained that the greatest number of respondents reported that they would be unable to cover unexpected expenses, that they are unable to travel away for a week and that they do not eat meat every other day. Nearly three-quarters of households cited the problem of dealing with unexpected expenses. This risk ratio was the greatest among the 0-17 age group in 2014, standing at at 32.4%, as opposed to 35% in 2013, followed by the 18-64 age group, among whom it stood at 23.6% in 2014, as opposed to 27% in 2013, and then by the 65 and older age group, 9.3% of whom were at risk in 2014, down from 15.8% in 2013.

The high proportion of those under risk of severe financial deprivation fell significantly in 2014, for both genders and all three age groups surveyed.

K.2.4. Percentage of people living in households with very low work intensity (%)

The rate of the third dimension of poverty and social exclusion, low work intensity, which properly speaking means exclusion from the labour market, remained relatively even from 2007 to 2014, reaching its lowest value of 8.8% in 2009 and highest value of 9.7% in 2012. Over the past three years, the rate for men has slightly exceeded that for women. A positive change is that the rate declined in 2014, to a larger extent among men. The rate of those living in low-work-intensity households is distributed across age groups such that:



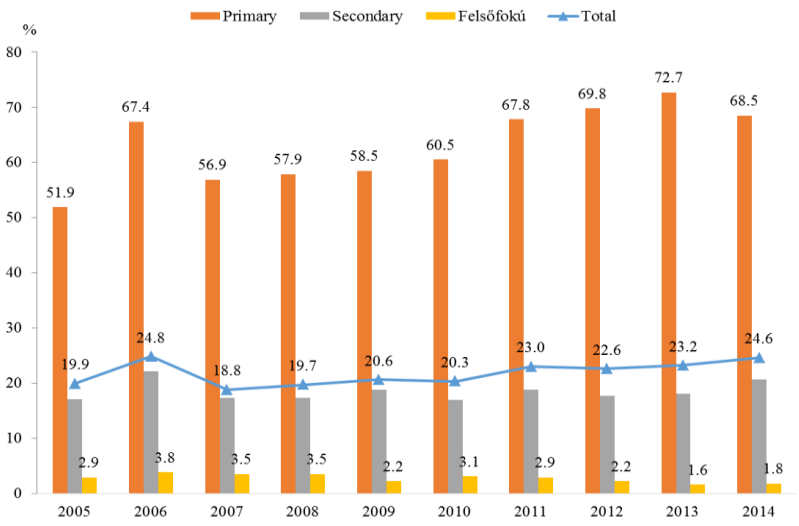
- it is greatest among those aged 0-17 (14.4% in 2012 and 14.7% in 2013),
- reaches a moderate level among the entire population under the age of 60 (12.6% in 2012 and 12.2% in 2013), and
- is at its most favourable level among the 18-56 age group (12.0% in 2012 and 11.4% in 2013).

In 2014, a smaller proportion of the overall population lived in households with very low work intensity than in 2012 or 2013. In terms of age groups, those aged 0-17 were most likely to live in households with low rates of work intensity

K.2.5. Risk of income poverty among children (%)

This sub-indicator reveals that – with the exception of three years – 2007, 2010 and 2012 – the rate of child poverty has been growing, reaching 23.2% in 2013 and 24.6% in 2014.

By analysing the poverty rate on the basis of the children's parents' level of educational attainment, it could be concluded that quite widely differing rates were evident:



- The poverty rate among children of parents with only primary education was high in 2013, when it stood at 72.7%, and was 68.5% in 2014, as opposed to 60.5% and 67.8% in 2010 and 2011 respectively;
- In the case of children of parents with a middle-level education, the rate stood at 18.1% in 2013, although, at 20.6%, it was significantly higher in 2014;
- The rate for children of parents with higher education only reached 1.6% and 1.8% for the last two years of the examined period.

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It can be concluded, therefore, that poverty affecting children has grown during the examine time period. Every fourth person age 0-17 falls under the impoverished category, and two-thirds of children of parents with only a primary education are affected by child poverty.

K.3. Health care and social safety net dimension

Key indicator: NUMBER OF YEARS SPENT IN GOOD HEALTH

- This indicator expresses the number of years that an average newborn born in a given year can expect to live in good health, with the likelihood of age-specific causes of mortality factored into the calculation. It is calculated based on the CSO's demographic data for the entire population and the results of a sample survey on health status. We show the data in a timeline starting in 2005, broken down by gender.

Sub-indicator 1: LIFE EXPECTANCY AT BIRTH (years)

- This indicator expresses the number of years that an average newborn born in a given year can expect to live in good health, with the likelihood of age-specific causes of mortality factored into the calculation. The data is generated based on the CSO's demographic data covering the entire population, broken down by gender. We show the data as a timeline starting from 2003.

Sub-indicator 2: PER CAPITA VALUE OF SOCIAL BENEFITS (HUF)

- The data shows the amount of expenditures, calculated on a per capita basis, spent on social protection (for illness, disability, senior citizens, survivors, family and children, unemployment, housing, etc.) as a timeline starting from 2005, based on the CSO's data covering the entire national economy..

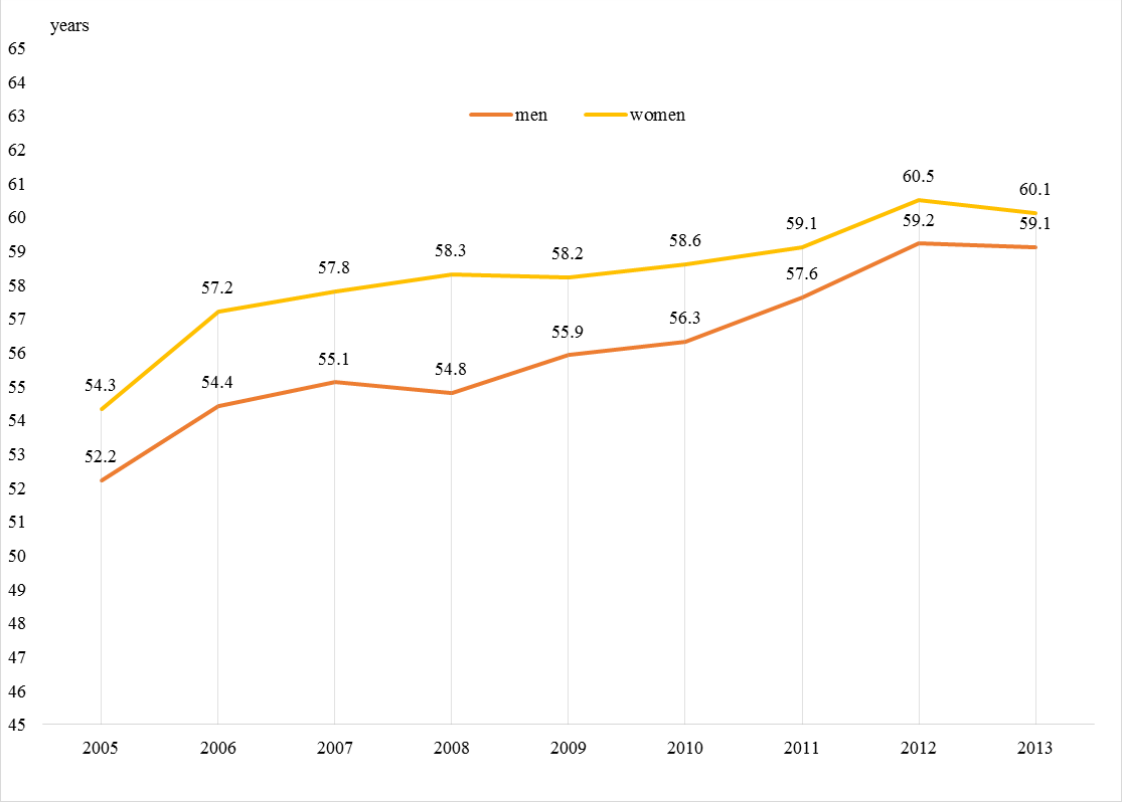
Sub-indicator 3: NUMBER OF PLACES AT NURSERIES

- This indicator provides information on the number of places at operational nurseries, based on comprehensive data from the CSO, starting from 2000.

Sub-indicator 4: PENSION REPLACEMENT RATE (%)

- This indicator shows the the average levels of pensions for persons aged 64-74 in relation to the average earned income of persons aged 50-59 based on data originating from the CSO's survey of a sample population, as a timeline starting from 2005.

K.3.1. Number of years spent in good health



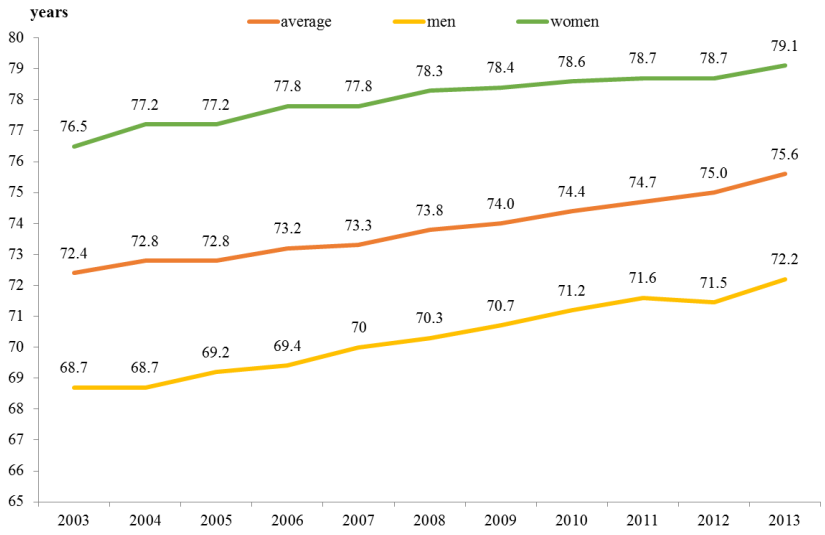
The value of this indicator, which also function as an indicator of quality of life, depends heavily on the level of social and economic development. Its importance is also highlighted by the fact that its meaning is highly relevant from the points of view of both individual quality of life and the functioning of, and load on, the health care system.

During the examined time period in Hungary, the number of years spent in good health rose rapidly for both genders: although it rose less rapidly for men, the figure still grew from 52.2 years in 2002 to 59.2 years in 2012, and for women grew from 54.3 years to 60.5 years. Playing a significant role in this positive change, alongside the improving income situation of both individuals and households, were the operation of the health care system, the strength of the social safety net as well as a trend of people following a more health-conscious lifestyle. High in significance among the chief factors influencing this was government intervention with respect to the operation of the health care system, especially the amount of health-care expenditures relative to GDP, which can be statistically proven to be interrelated with the state of health care. In recent years, increasing attention has been directed towards measuring the operational quality of the systems that provide health care and towards evaluating and reducing differences affecting access to health-care services. To a significant and growing degree, the state of the population's health care is influenced by the amount and proportion of private health-care expenditures. The low ratio in this respect makes it necessary to provide a higher level of financial protection against unexpected health-care expenditures, or in other words, it becomes necessary for the state to play a greater role. At present, the ratio of private expenditures in Hungary is higher than the average for OECD countries.

In spite of this change, the state of the Hungarian population's health was slightly worse than the EU average in 2012, although the shortfall of eight or nine years from a decade earlier has decreased to a difference of a year and a half or two years, and this trend can be expected to continue. This successful narrowing of the gap allows for pre-estimates to be made that women born in 2005 will spend 70.3% of their lifespans in a state of good health, with the figure standing at 76.9% for men. (The ratio is greater for men because their life expectancy is shorter.) By 2012, these values had risen to 76% for women and to 82.6% for men.

The increase in the number of years spent in good health has resulted in Hungary narrowing the gap, relative to the average of EU member countries, in the state of health care. In order for this trend to continue, expanding the range of influencing factors and better coordination are both needed.

K.3.2. Life expectancy at birth (years)



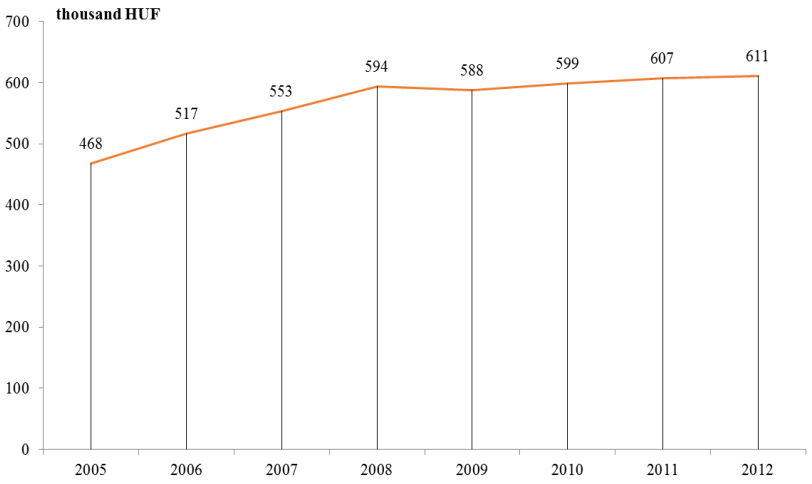
The deficiency of this, the most commonly applied indicator of the state of health care, is that unlike the indicator of the number of years spent in good health, it does not take into account quality of life, and in the case of years of a life spent with disabilities arising for any reasons (such as physical disability or confinement to a sickbed), ascribes to these the same value as time spent in total health.

This indicator shows slow and steady growth in the life expectancy of the entire population, with an increase from 72.4 years in 2003 to 75.6 years in 2013. The shorter average life expectancy for men showed a similar rate of increase, increasing from 68.7 years in 2003 to 72.2 years in 2013. The substantially higher life expectancy for women rose from 76.5 years in 2003 to 79.1 years in 2013.

Despite the great gap between men and women in terms of life expectancy at birth, results of (subjective) self-reporting show that, of the two genders, men (62.2%) consider their state of health to be "good", as opposed to 54.1% of women.

The somewhat more rapid increase in men's life expectancies has not resulted in a reduction of the difference between the genders.

K.3.3. Per capital value of social benefits (HUF)



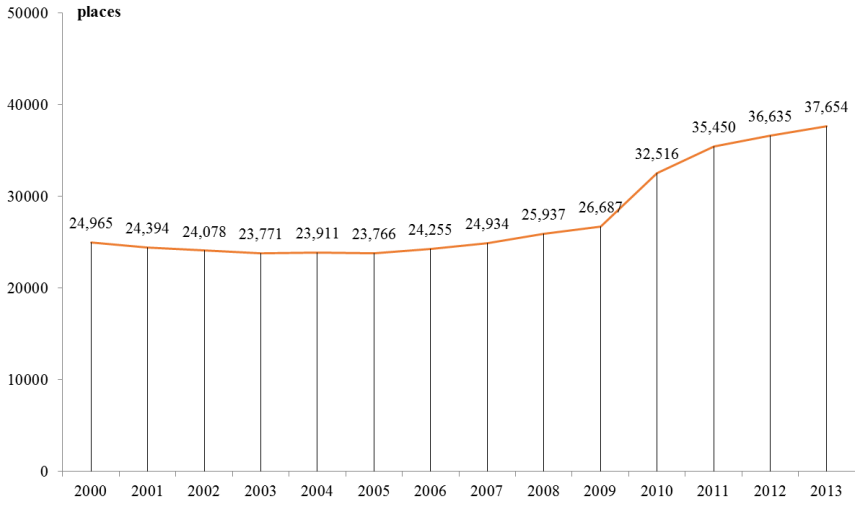
With the exception of the year 2009, the per capita value of social benefits provided to mitigate risks and deprivations with respect to both households and individuals rose, to varying degrees, in the period between 2005 and 2012, increasing rapidly from 2005 to 2008, stagnating in 2009, and then rising again slightly starting from 2010. Its total amount stood at HUF 468,300 in 2005 and at 611,500 HUF in 2012.

This amount depends on what the level of economic growth and the state budget make feasible. Total expenditures on social benefits comprised 23.1% of GDP in 2010, 22.1% in 2011 and 21.8% in 2012, a ratio that trailed the EU-28 average of 29% by six or seven percentage points during those years.

With respect to the structure of social benefits according to function in Hungary, in 2011 the greatest share was taken up by pensions (40.6%), health care (27.8%) and aid for families and children (12.5%). The ratios for pensions and health care were close to the averages for the entire European Union, while the ratio for aid for families and children exceeded the EU average by four or five percentage points.

It seems warranted, based on economic conditions, to raise the amount of social benefits.

K.3.4. Number of places at nurseries



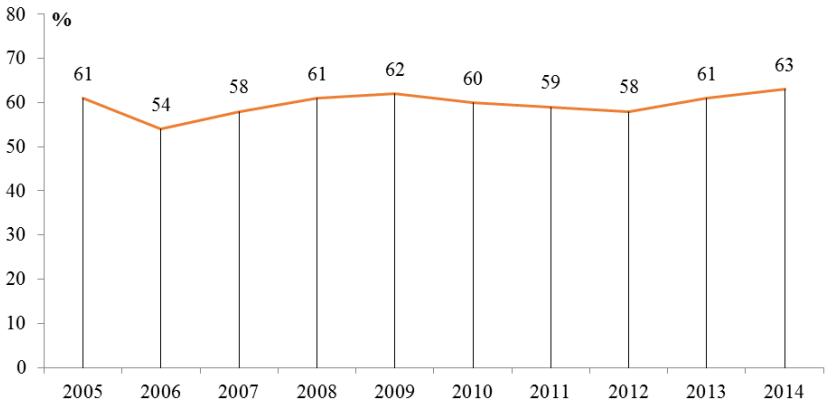
Alongside the family allowance, which supports the raising of children and constitutes a part of social benefits, increasing the number of places at nurseries also constitutes an important form of supplementary assistance for child care. In this area, the period between 2000 and 2009 was characterised by a gradual decline lasting until 2005, followed by a slow increase during the following four years. From 2010, however – as a result of the new policy in support for families that was then being implemented – the number of places grew at a rate that broke with the earlier trend: from 2010 to 2012, an average of 35,867 places were available each year, compared to an average of 24,670 for the years 2000-2009.

The increase takes a major financial burden off the shoulders of families, especially the free nursery care and in the case of those exposed to the risk of social exclusion.

As could be seen in relation to income poverty, the most vulnerable group in this dimension are children 18 years old and younger. The reason for this is that there are more children in households, and many mothers of small children do not work. Having a greater number of places helps them move out of a difficult income situation.

Rapidly increasing the number of places at nurseries is, from a demographic point of view, a priority task.

K.3.5. Pension replacement rate (%)



The values of this indicator show that, on average, entering into retirement between 2005 and 2014 did not affect an individual's income situation. Average pensions – with the exception of the outlier year of 2006 – came to 58-62% of the average income of wage-earners age 50-59 and nearing retirement age. The high value of 62% for 2009 is related to the major overhaul of the social benefits system in that year. In 2014, the two years after the recession year of 2012, the pension replacement rate was under 63%: in other words, this was the extent to which the state could assist the population of pension age to retain the standard of living it had achieved previously.

It is important to note, however, that this indicator does not account comprehensively for the total amount of benefits spent on the pension-age population, in view of the fact that – in addition to the state's contribution – the demographic factors pertaining to this age group also have a major effect on trends in its standard of living.

The trends observed over the long term in the pension replacement rate and its increase in 2014 are in line with trends in the performance and competitiveness of the national economy.

K.4. Employment and education dimension

Key indicator: ECONOMICALLY ACTIVE POPULATION AGE 15-64 (number of people)

- This indicator shows the number of people age 15-64 in the economically active population, calculated annually starting from 1998. The data originates from the CSO's survey of a sample population.

Sub-indicator 1: NUMBER OF PEOPLE EMPLOYED IN THE PUBLIC WORK PROGRAMME

- This indicator shows changes in the number of public workers (participants in the public work programme), starting from 2010. While public work already existed in the Hungarian economy prior to that year, it was from 2010 that this form of employment was widened to encompass new content and became widespread. Public work employment offers a temporary work opportunity to those whose efforts to find work independently have been unsuccessful for an extended period of time. The data originates from a CSO survey of a sample population, and is configured in a timeline starting from 2010.

Sub-indicator 2: RATIO OF EARLY SCHOOL LEAVERS (%)

- This indicator shows the percentage of young adults age 18-24 who have not completed more than primary education and are not participating in any further education or training. This data originates from CSO data covering the entire population, starting from 1997.

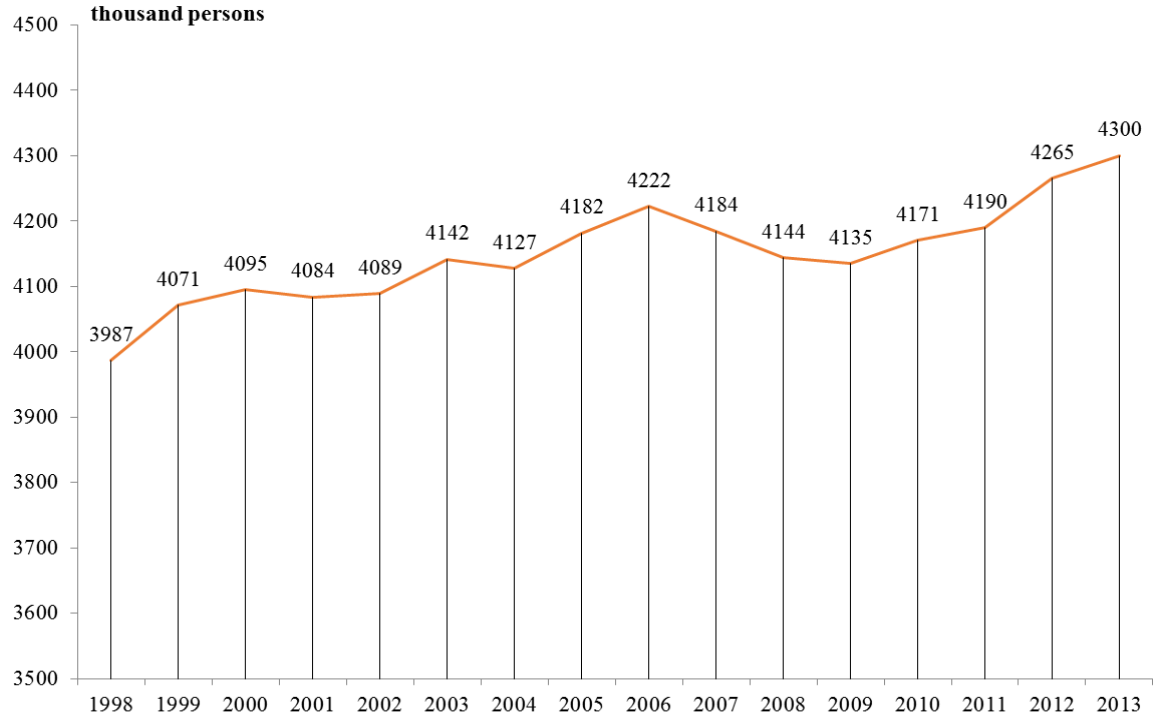
Sub-indicator 3: PERCENTAGE OF YOUNG ADULTS WITH HIGHER EDUCATION QUALIFICATIONS

- This indicator shows the percentage of young adults in the 30-34 age group who have completed higher education based on data from the CSO covering the entire population since 1997.

Sub-indicator 4: RESULTS OF THE PISA SURVEY (%)

- The percentage of 15-year-old students receiving a score of 1 or 2, indicating academic under-performance, on a scale of 1-6 on the OECD-administered PISA test, which measures ability in the natural sciences, mathematics and reading comprehension. The study takes place every three years, and Hungary participated in it for the first time in 2003 by way of testing all 15-year-old students from institutions selected as representative school types. The PISA survey is not the same as the competency measurement conducted in the public education system each year in years 6, 8 and 10.

K.4.1. Economically active population aged 15-64



The key indicator shows that the the number of employed and unemployed persons present in the labour market grew – with some minor fluctuation from year to year – in the time period between 1998 and 2006, reaching its highest value (4,222,000 people) in 2006. As a result of the crisis, the size of the active population shrank to 4,135,000 in 2009, but then started to increase, growing to 4,300,000 by 2013. As a result of the resumption of economic growth and the public work programme, the labour market indicators grew more positive, vis-a-vis the previous year, in regard to the increase of employment and the decrease in unemployment. The number of employed people age 15-64 exceeded the same figure for 2012 by 64,000 (a 1.7% increase), and the employment rate rose to 58.4% relative to the previous year's 57.2%, which lagged behind the unemployment rate for the EU-28 group of countries by nearly four percentage points.

The employment rate for people age 25-54, the largest cohort on the labour market, reached 75.5% in 2013, also growing to 38.5% for those age 55-64. In the case of young adults present in the labour market, the employment rate is lower than 20%, and for the population between the ages of 60 and 64, the rate is typically around 16%.

As with the differences between age groups, the gap between men and women was also significant. In 2013, the employment rate among men (at 64.3%) was 11.5 percentage points greater than that for women (which stood at 52.8%).

The employment rate also shows marked variation from region to region. The rate is lowest in Northern Hungary (51.7%), while the typical employment rate for those age 15-64 is 62.0% in Western Transdanubia, 62.8% in Central Hungary and 64.5% in Budapest, where it is highest.

Among the population age 15-64, the number of the unemployed stood at 448,000, 5.5% less (by 26,000 people) than the average for 2012. It is of great significance that, compared to the previous year, the unemployment rate among youths and young adults age 15-24 decreased by 27.2 percent.

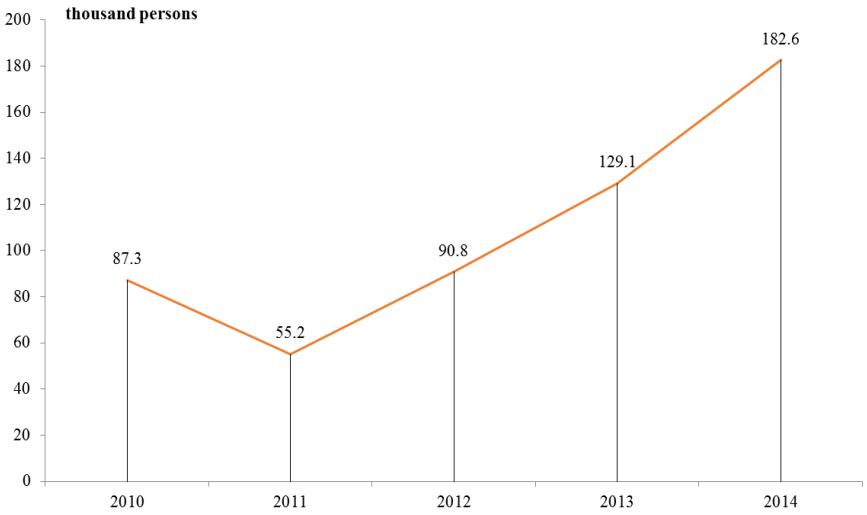
Within the economically active population, the number of employed people grew by 155,000 during the period between 2010 and 2013, an increase of 4.2%.

The number of people actually employed in producing GDP, however, only grew by 0.8%. Although the increase in the employment numbers is a positive trend, from the point of view of creating a foundation for economic growth, it poses a risk if the number of people employed in producing GDP does not grow proportionately..

Following the decline that lasted until 2000 and the stagnation of 2011, the number of employed people grew, and by the end of 2013 stood at close to four million, which was the highest employment rate of the previous two decades.

K.4.2. Number of people employed in the public work programme

The number of people employed in the public work programme, which has been fully implemented since 2010 with a broader range of jobs, grew from 83,000 in 2010 to 182,600 in 2014.



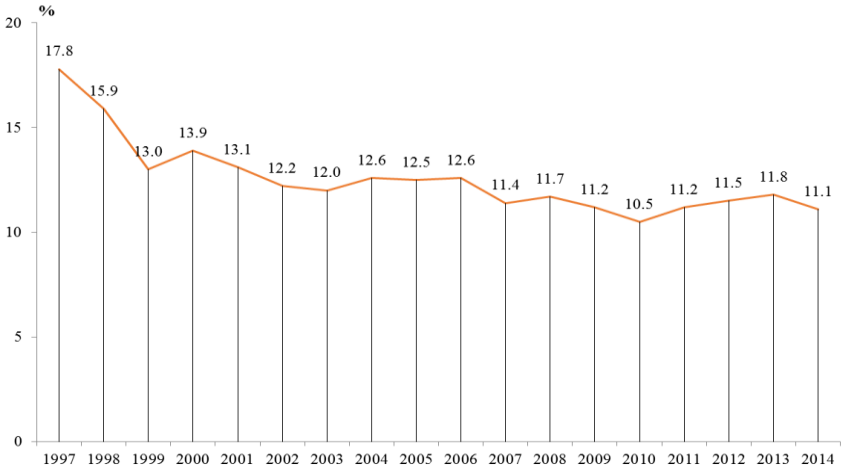
Of all those in the ranks of the employed, those working as employees grew from 3,317,500 in 2010 to 3,501,000 in 2013 (a difference of 183,500, or 5.5%). Of these, 87,300 considered themselves to be in public work employment in 2010, a number which grew to 129,100 in 2013 (an increase of 41,800, or 47.9%). Thus, during the examined time period, 22.8% of the increase in those working as employees was accounted for by the expansion of public work employment.

The number of jobs newly registered at the National Employment Service in 2013 was 718,700, of which 498,400 related to public work, representing an increase of 50% relative to the level for 2012. The number of new jobs coming from the primary labour market was 158,700, which entailed growth of 14.3% relative to 2012.

The employment rate for 2013 was 61.4%, a figure which would have stood at 59.3% without public workers, meaning that the expansion of the public work programme contributed 2.1 percentage points to the overall number.

K.4.3. Ratio of early school leavers (%)

Reducing the ratio of early school leavers to below 10% by 2020 is one of the key objectives of the Europe 2020 Strategy, which each individual member state is helping to achieve through the contribution of its own national pledges, made in accordance with each country's own unique attributes. Hungary set this target at 10%. By 2014, ten countries, including five that joined the European Union in 2014 along with Hungary, had successfully met their own national targets.

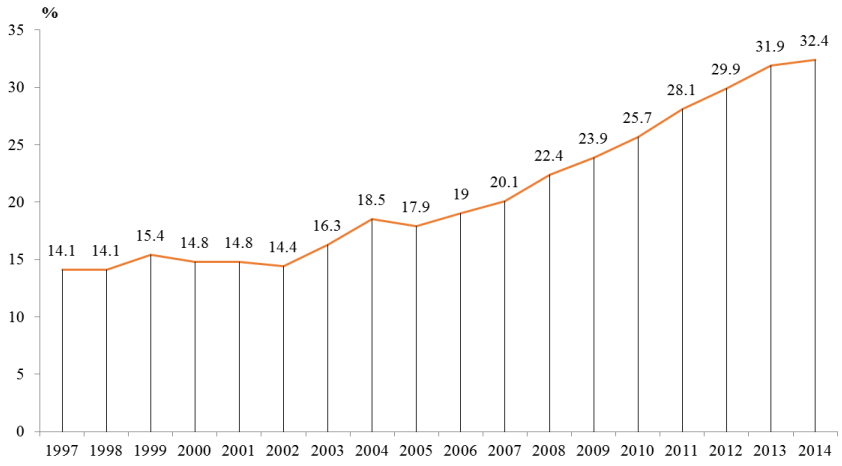


In Hungary, the ratio of those leaving school had dropped from its high 1997 level to 13.9% in 2000, and fell further to 10.5% between 2000 and 2010, but then increased, reaching 11.1% by 2014. Playing a role in this increase was, alongside the greater number of people leaving school with only a low qualification, the decrease in participation in adult education.

The ratio of school drop-outs was lower (11.1%) among women in 2013 than among men (12.5%). As for regional differences, while the ratio of school-leavers in Central Hungary, at 7.7%, was even more favourable than the 10% national target, in Southern Transdanubia and the Northern Great Plains it continued to top 14%.

In 2014, the ratio of early school leavers very nearly met the target set in the national pledge.

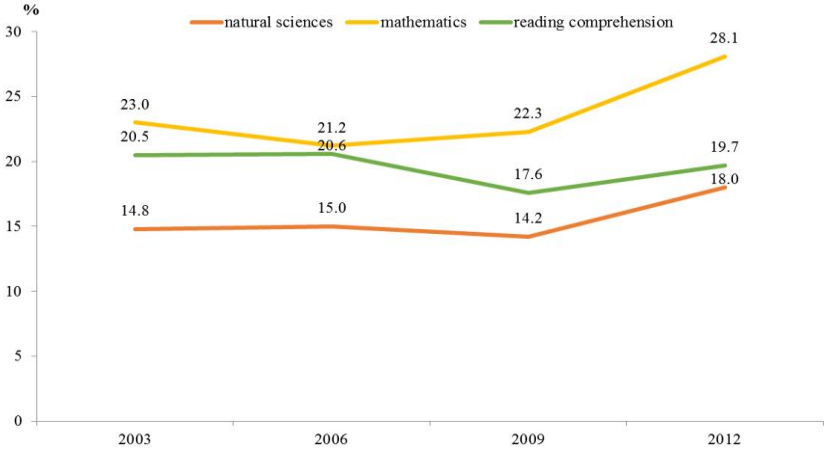
K.4.4. Percentage of young adults with higher education qualifications



Another important objective of the Europe 2020 Strategy is for the percentage of people in the 30-34 age group with a higher education qualification to reach 40% by 2020. In order to accomplish this, the member states contribute according to their individually determined efforts. By the end of 2013, 11 countries – including Hungary – were able to reach their prorated individual national targets. The indicator shows that 1997's low percentage had, with steady growth, by 2014 reached 32.4%, a 2.3-fold increase. While in 2001 the percentage of women with a higher education qualification was 2.5% higher than that of men, by 2013 the figure had grown to 10.9% higher. The proportion of those age 30-34 with a higher education qualification was highest (44.9%) in Central Hungary. The ratios in the other regions were similar to each other. Although a higher education qualification does not in and of itself completely guarantee a higher quality of life, its effect is clearly subjectively considered to be a positive one. This is also supported by the results of the 2013 module of the EU-SILC's household survey.

The number of people with higher education qualifications in Hungary has almost doubled (32.4%) since 1997.

K.4.5. PISA survey results (%)



The PISA survey measures the quality of education in three areas, with a primary focus on suitability for the labour market and further education. The results are depicted according to the OECD point system and broken down by country, with the OECD publishing, along with he average value, the ratios of students who are performing well and poorly (in other words, it gives information both on the spread of the results, that is, of quality of education, and on inequality in the education system). The OECD handles the three areas separately and displays the results separately (not consolidated into a single indicator), since they measure different competencies. In the area of mathematics, the ratio of students underperforming in the survey fell slightly between 2003 and 2009, but then between 2009 and 2012 grew from 22.3% to 28.1%, exceeding the OECD average. In reading comprehension, Hungary's ratio decreased, nearly reaching the OECD average, but then increased again by 2012. In the area of natural science, the ratio was lower than the OECD average, but by 2012 Hungary's performance had slipped behind the OECD average.

The survey focuses attention on improving the quality of the public education system.

K.5. The individual in society dimension

Key indicator: SATISFACTION WITH LIFE

- Satisfaction with life is a key variable of subjective well-being that comes from a sample survey of households using European Union methodology. The CSO first included this question in 2013, and it became a regular addition starting from the following year, although those results were not available at the time this publication was completed. The indicator shows, broken down according to the age group of respondants 16 years old and older, the answers to the question "On a scale of 0-10, how satisfied are you with your life?" (with 0 meaning that the respondent is not at all satisfied, and 10 meaning that the respondent is completely satisfied).

Sub-indicator 1: MEANINGFULNESS OF INDIVIDUAL ACTIVITY

- This indicator, which originates from a sample survey of households using European Union methodology, reveals information on the place of individuals in society and the roles they fill through the meaningfulness of their individual activity. On a scale of 0-10, the CSO measured answers to the question "Overall, how meaningful do you feel that the things you do are?" with 0 meaning not meaningful at all, and 10 meaning extremely meaningful. The CSO first included this question in 2013, and it became a regular addition starting from the following year, although those results were not available at the time this publication was completed.

Sub-indicator 2: NUMBER OF PRIVATE INDIVIDUALS WHO PAY TAX

- This indicator shows changes, since 2005, in the number of private individuals who pay tax based on comprehensive data from the Hungarian National Tax and Customs Administration.

Sub-indicator 3: RATIO OF TAX REVENUE RELATIVE TO GDP (%)

- This indicator shows the amount of tax and social security contributions collected by state bodies from economic entities and the general population in relation to consumption as a percentage of GDP, starting from 2004, based on a comprehensive calculation of the CSO's national accounts.

Sub-indicator 4: MIGRATION DIFFERENTIAL (No. of persons)

- This indicator shows the difference between the number of people immigrating to Hungary and the number of people emigrating from Hungary, starting from 2003, based on CSO data covering the entire population. A positive value for the migration differential means that the country is a receiving country, and a negative value means that the country is a sending country.

K.5.1. Satisfaction with life

According to the OECD definition, subjective well-being is a concept encompassing various evaluations people make in relation to events that happen to them, their bodies, their thoughts, their living conditions and their lives as a whole. The key variable of subjective well-being is satisfaction with life, as well as those other mental and emotional states that can be used to obtain information about the individual's mental disposition.

The 2009 Stiglitz-Sen-Fitoussi Report formulated recommendations for statistical offices on how to measure well-being, and subjective well-being in particular. In addition, the European Union's communication "GDP and Beyond" also puts the examination of indicators pertaining to the society's "hidden sentiment". Meeting the new challenge, Eurostat included in its 2013 EU-SILC data survey, which is mandatory for all member states, a 23-question module pertaining to individual subjective well-being. The questionnaire was given to residents 16 years old and older. In Hungary, the number of respondents, that is, the actual sample size, was 17,412. No survey of a sample comparable size had ever been taken on the topic before in Hungary.

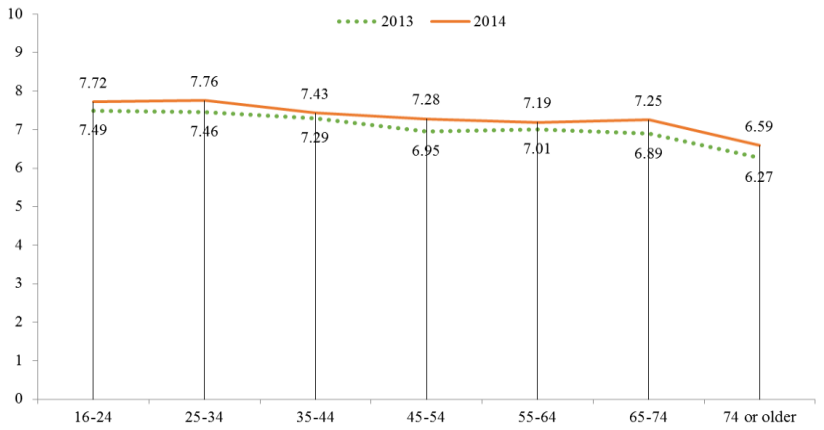
Based on the responses, the average value of the key indicator in 2013 was 6.15 points for the adult population. Close to one-third (31%) of respondents were very satisfied with their lives (giving a value of 8, 9 or 10) in their responses, while 6.2% of them were very unsatisfied (giving a value of 0, 1 or 2). Broken down by age groups, the responses show significant differences. In 2013, satisfaction with life was greatest among those age 16-24 (with an average score of 6.71), followed by the 25-34 (average score: 6.39) and the 55-64 (average score: 5.91) age groups. In comparison to this, in 2014 the figures improved slightly for each group, and to a greater extent for the the 35-44 (to 6.05) and 65-74 (to 6.08) age groups.

Average values of satisfaction with life for each income decile show that for those living under very poor financial conditions (those in income deciles 1, 2 and 3), satisfaction with life drops steeply along with income (average scores of 4.89, 5.37 and 5.90 respectively). For those with higher-than-average income (those in income deciles 8, 9 and 10), however, it rises with income (average scores of 6.42, 6.64 and 7.10 respectively).

Level of education also plays a role in this in that one's level of satisfaction with life rises in parallel with one's level of education: on average, those with only primary education scored 5.86 points, while those with higher education scored the highest (7.6 points).

Two-thirds (63.5%) of the Hungarian adult population were more satisfied (giving responses of 6-10 points) than not with their lives.

K.5.2. Meaningfulness of individual activity



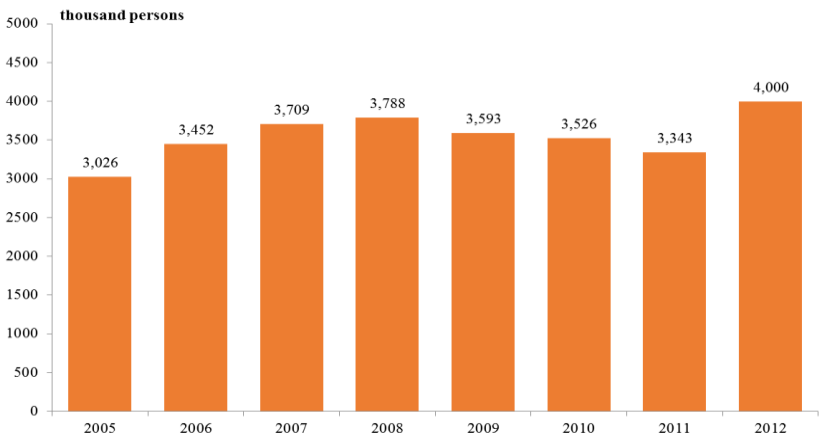
This indicator serves to express the feeling of success and usefulness that respondents get from their work, their private lives, or even from playing sports.

Based on the 2014 data, women on average (7.41 points) feel their activities to be more meaningful than men do (7.28 points). Examining the meaningfulness of activity according to age group, the average value was highest (7.76 points) for young adults age 25-34, but was close to the average (7.28 points) among those age 45-54, while in the eldest age group the average value of meaningfulness of activities was, at 6.59 points, the lowest. Each age group exceeded its values for 2013.

Level of educational attainment plays a defining role in assessing the meaningfulness and usefulness of activities being performed. The average value of those with higher education is 8.18, as opposed to 6.79 for those with only primary education. Broken down by community type, inhabitants of county seats or towns with county rights assessed their activities as being the most meaningful (7.25 points) in 2013. The average value of residents of smaller towns exceeded the national average (7.04 points), a level which residents of Budapest (with 7.04 points) failed to reach by a slight margin. Rural dwellers consider their pursuits to be the least useful (6.95 points).

In 2014, each age group exceeded its average 2013 values for meaningfulness of individual activity, and the average value of responses for the entire population was 7.35, which was also greater than the average value (6.15 points) of general satisfaction with life for 2013.

K.5.3. Number of private individuals who pay tax

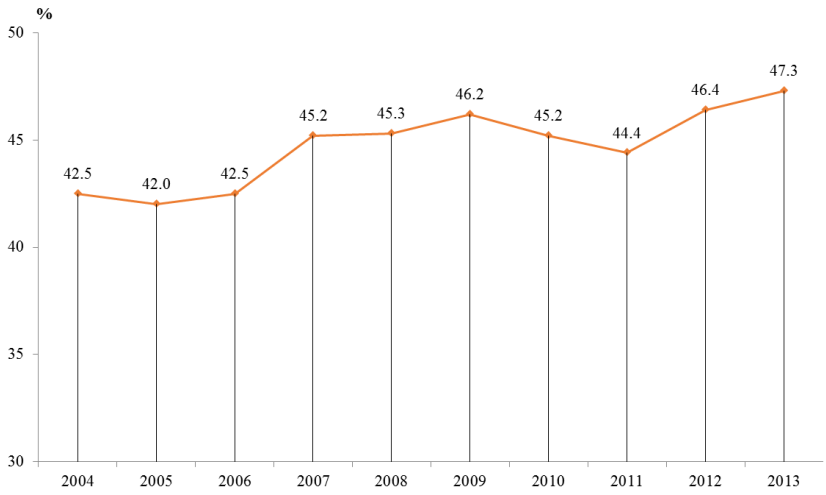


The indicator showing the number of private individuals who pay tax grew from 3 million in 2005 to 4 million in 2012. The number of taxpayers thus increased by one million, and the distribution of the public burden spread out to a wider base. This is supported by the fact that the amount of income tax payable per capita was 441,000 in 2005, but 360,000 in 2012. Examining the number of taxpayers broken down by region, it can be concluded that the primacy of Budapest declined with respect to taxpayers between 2005 and 2012, as the ratio of taxpayers in Budapest relative to the total number of taxpayers was 41.1% in 2005. By 2012, this ratio had shrunk to 32.5%. At the same time, the distribution between regions also changed, as in the regions of Transdanubia, the number of taxpayers only grew slightly, while in the regions of the Great Plains a more significant increase could be observed. In 2005, Western Transdanubia accounted for 9.7% of total taxpayers, and 10.4% in 2012. The Northern Great Plains, however, accounted for 10.6% of all taxpayers in 2005, and 13.6% in 2012.

The increase in the number of private individuals paying tax has reduced the amount of tax payable by any single taxpayer.

K.5.4 Ratio of tax revenue relative to GDP (%)

The annual fluctuations in the tax revenues that form the basis for budget expenditures are a function of, firstly, community needs, secondly, of changes in economic growth, and thirdly, of tax policy measures. The annual value of the indicator fluctuated between 2004, when it was 42.5%, and 2013, when it reached 47.3%. Within the time period, the ratio rose quickly up until 2007, reached 46.2% in 2009, and then after hitting a low 44.4% in 2011, grew to 47.3% by 2013, which is two percentage points higher than the EU average of 45.3%.



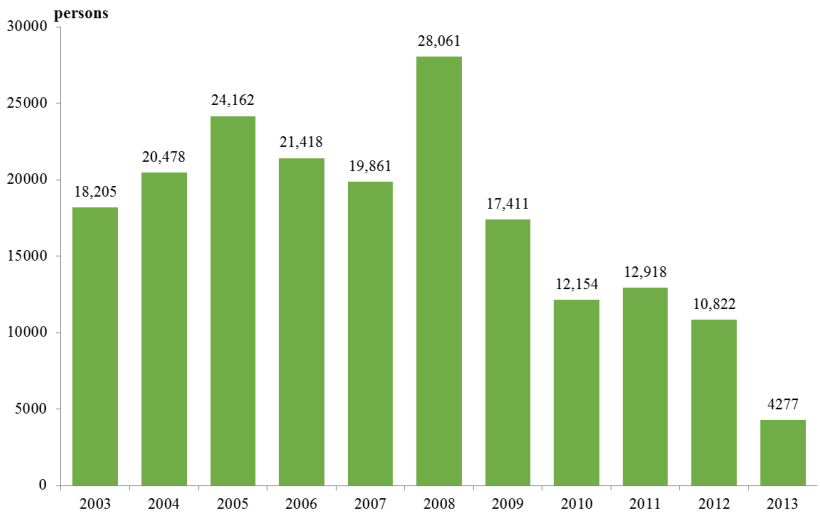
Considering that the government-sector deficit came to 2.2% of GDP in 2013, the ratio of tax revenue provided coverage for budgetary expenditures in an amount equivalent to 49.8% of GDP.

The indicator's importance is also increased by the fact that it enables the tax burden to be compared internationally. International comparisons of the Hungarian ratios, however, are distorted by the high cost of managing public debt – the amount of the interest payments is equivalent to 4-4.5% of GDP – which instead of paying for budgetary expenditures, served to finance the debt.

The economic growth that has begun creates the basis for a justifiable reduction of the tax burden, which currently slightly exceeds the EU average.

K.5.5. Migration differential (No. of persons)

An important indicator showing the social well-being of the individual is the migration differential. The indicator reveals that during the examined time period, Hungary was a receiving country. This manifested itself to the greatest extent in 2005 (a surplus of 24,162 immigrants) and in 2008 (a surplus of 28,061 immigrants). Since 2009, however, the positive value of the migration differential has declined, and in 2013 stood at 4,277, which was also the lowest value of the examined time period. One of the key causes of this decline is that as an the impact of the crisis, the opportunity afforded to Hungarian citizens by the European Union, available by virtue of their being citizens of the EU, to take up employment abroad has become a more viable alternative than it had been previously.



The gains from immigration are significantly reduced by natural population decrease; for example, in 2009, the natural decrease came to 33,900 people; however, owing to the positive balance of international migration, the country's population actually decreased by only 18,000 people.

Hungary is counted as a net receiving country, with better ratios than most neighbouring countries.

Financial stability and economic competitiveness

Summary

Good governance and the quality of governmental capabilities necessary for such can be accurately measured through observable results in the area of financial stability and economic competitiveness. It is precisely for this reason that financial stability and economic competitiveness are important areas for study in international research aimed at measuring the quality of governance.

What can be considered a weak point in international analyses, on the other hand, is that comparisons are made according to the same criteria for each of the examined countries. Doing so may cause problems with drawing final conclusions as it is not possible to examine the indicators most suitable for independently measuring the given country's specific socio-economic situation, its level of development and its obviously differing set of objectives as a result of these factors. This is because the selection of an appropriate set of objectives and effectively achieving the objectives are themselves dependent on governmental capabilities. Therefore, the research team took this into account when selecting the five dimensions to be examined and the single key indicator and four sub-indicators linked to each of these.

We respect to financial stability, we primarily emphasised the debt situation and, in relation to this, the extent to which the economy can be financed. This interrelates with the high level of state debt, the burden of which represents an impediment to achieving higher economic growth rates. How quickly and effectively the state is able to reduce the level of indebtedness is therefore an important indicator of good governance.

Exploring opportunities for improving competitiveness and finding the most effective methods for improving competitiveness are likewise measures of governmental capabilities. The lost economic diversity resulting from the devastation of a great number of industries after the regime change and the ensuing stunted economic activity not only posed problem in terms of competitiveness, but was also an obstacle to economic growth. Today, our economic structure is characterised by the dominant role of a few industries. This endangers the sustainability of economic growth, reduces the diversity and choice of available jobs and increases our dependence on imports. It is for this reason that competitiveness is an important issue. The most easily implementable method for increasing economic diversity is to strengthen and support Hungarian small businesses. From all this, it follows that it is important to measure diversity and evaluate the position and role of small and medium enterprises (SMEs) based on several perspectives. An especially important issue for competitiveness, as part of economic diversity, is the presence of modern industries in the economy and the proportion of technology and knowledge-intensive industries that create value and employment. In order to improve this future competitiveness, it is necessary to grow.

Investments are notable among the additional conditions for improving competitiveness in the future. It is useful to interpret these broadly: it is not only investment in fixed assets and technology that have an effect on future competitiveness, but increasingly investments in human capital and innovation as well.

It is no coincidence that several researchers are emphasising that the noticeable lack – deficit – of current investment in knowledge and innovation may cause tremendous harm to the country in the future. These deficits are evident in comparisons across the EU, and even in the region: under-investment in human capital and innovation. This makes it very important to have an extremely thorough and detailed analysis of this area and to show that today's favourable economic growth data will only remain sustainable in the long term if we devote much more of current national income into investments, be they investments in technology and machinery or in human capital and innovation. We can thereby improve the ratio between the GDP and GNI indicators, or in other words, succeed in ensuring that the gross national income generated by players in Hungary, which is the basis for domestic economic and social development, grows faster than GDP, which includes elements – such as repatriated foreign profit – that are not utilised in Hungary.

Ultimately, the conditions that are especially important for economic growth and competitiveness, the evolution of general and multifactor productivity and changes in the terms of trade and the export-import ratio must, in the case of Hungary, be subjected to very close scrutiny. Examining the multifactor productivity indicator is important, because it is a proven fact that this indicator increases faster in the more competitive economies than the traditional productivity factor. This is because the multifactor productivity indicator examines not only how GDP produced by employees measures up, but also analyses how up to date the technology that employees, on average, use in a given country is, what level of knowledge is required for the available jobs and how up-to-date corporate management, organisation and governance is. In other words, looking at this indicator shows the how it might be possible to raise traditional productivity. It is therefore also linked to other indicators related to the levels of innovation and education,

including, most importantly, the lifelong-learning indicator. One good method for increasing the multifactor productivity indicator, though, is continuous training of employees. Multifactor productivity, innovation and economic diversity together positively impact the export-import ratio and the terms of trade.

In the end, the five dimensions that have been selected and the five indicators contained within them are a good measurement of government capabilities in the area of influence of financial stability and economic competitiveness.

At some point in future, it would also be warranted to conduct a regression analysis, which would help enable us to display the relationships among the elements of the set of selected indicators and their proximity to each other. This would shed light on which indicators are especially important from the perspective of good governance and governmental capabilities, and which of these require special attention.

Naturally, it would also be possible to further expand the number of indicators. What also might be required would be the construction of a single composite indicator calculated based on the sub-indicators and taking into account their rankings in order of importance. We plan to return to these tasks in later phases of the research.

The construction of a composite indicator would also reduce the difficulty of carrying out international comparisons, which we would require primarily to analyse the evolution of Hungary's position within the region. Current analysis relies essentially on chronological series, forming an opinion based on the results relative to Hungary's previous results achieved during the given time frame. We could also express this as an internal diagnosis, but in order to improve governmental capabilities, one must also look outwards and make comparisons with others.

It is also important to point out that the areas of influence of financial stability and economic competitiveness are also closely related to the other areas of influence.

The level of financial stability and economic competitiveness also measures a country's economic stability and its level of security. Contemporary researchers focus a high degree of attention on examining countries' economic stability and investigating opportunities for reducing economic dependence.

Improving financial stability and economic competitiveness is a high priority when it comes to formulating national security strategies. The principal way to reduce economic dependency, that is to say, to reduce economic vulnerability, is to improve competitiveness. On this point, the examinations of the area of influence of financial stability and economic competitiveness relate to the area of security. On the other hand, increased financial stability and economic competitiveness result in improved living standards, quality of life and public well-being. Macroeconomic results, which generally reflect the impact in the present of past decisions, also create a basis for macro indicators to continue to move in a positive direction in the future as well by increasing well-being in the present and providing sources of present-day investment in social development.

The structure of the economy, its need for energy and resources and its operating efficiency, are all also closely interrelated with sustainability. The important issue for sustainable development is how to efficiently use the resources currently available, including human capital, so as to ensure that a sufficient quantity remains available for the coming generation. This, however, only applies to utilisation. On the other hand, our resources must also be continuously developed and expanded, that is, they must be invested in for the sake of sustainability. In this regard, land, water, clean air, energy and raw materials, as well as human capital – the demographics of the populace – all play a particularly important role.

The efficiency and transparency of public administration and the degree of bureaucracy, however, establish an environment and the conditions for economic activity. Research has confirmed that a state that operates flexibly and quickly based on a performance-oriented approach itself has a positive impact on competitiveness.

Finally, democracy is also an important economic factor as it also provides opportunities for decision-making in business, thereby supporting innovation and constant development.

G.1. Financial stability dimension

The financial stability dimension assesses the security level of the financial (financing) subsystem, that is, it evaluates whether or not there are stable foundations for developing a competitive economic and social environment, or, in other words, whether or not the individual sectors of the national economy possess the financing resources essential for their operation and development, and how much risk there is in obtaining these resources. If, however, financial security flags (financing resources become difficult to obtain, unavailable or expensive), then the risk level of the other economic security risks also grows significantly. In severe cases, the entire functioning of the economy can collapse. This is why it is the task of the "Good State" to help reduce risks to financial security, and thereby to create a solid foundation for long-term growth in competitiveness, and through this, in prosperity. To measure the G.1. Financial Stability Dimension, we have designated a total of five indicators (one key indicator and four sub-indicators). Within the dimension, we paid special attention to examining the issue of financing the state sector, since if financing the state sector becomes problematic, then the tools of economic policy and its room for manoeuvre both become drastically restricted, and not only is the state left without the tools or power to improve competitiveness, but its everyday operation and its ability to perform functions and tasks for creating well-being and can also be placed in jeopardy. This is why it is important for the "Good State" to ensure the sustainability of its own financing. We used two of the four sub-indicators to assess this.

Key Indicator: FINANCING CAPACITY RELATIVE TO GDP (%)

- In terms of a national economy, this is the prevailing core indicator of financial stability, showing the balance of payments, as well as whether the national economy possesses sufficient resources (savings) for its own operation, i.e. for investment in the corporate sector, and – if there is a deficit – the financing of both the budget deficit and existing public debt, as well as the need to develop competitiveness factors and for external financing, which are generated from the savings of other national economies. In the latter case, it is plain that the risks of financing security are higher, as these external sources can – even within moments in our globalised world – dry up or become significantly costlier. Source: MNB

Sub-indicator 1: GROSS EXTERNAL DEBT RELATIVE TO NATIONAL ECONOMY GDP (%)

- The ratio of the debt of domestic economic actors outstanding to foreigners as a proportion of gross domestic product. Growing debt can harm the external risk rating of domestic economic actors, which on the one hand can make new financing sources more costly and, on the other, increase the need for and expense of renewing maturing financing sources. The growing costs are highly detrimental to competitiveness and prosperity. Source: CSO

Sub-indicator 2: VALUE OF FOREIGN CURRENCY RESERVES RELATIVE TO FOREIGN DEBT MATURING WITHIN ONE YEAR (%)

- The ratio of the value of international reserves to the amount of foreign debt maturing within the following year. In the event that financing sources dry up, the national economy is able to use foreign currency reserves to finance its maturing obligations and pay for its imports to compensate for the deficit in its current account balance. The foreign currency reserve is also needed for open market interventions by the central bank and to protect the exchange rate of its own currency. If the market sees that the amount of foreign reserves is sufficiently high, there will also be higher market confidence in the national economy and much greater willingness to finance it. Source: HNB

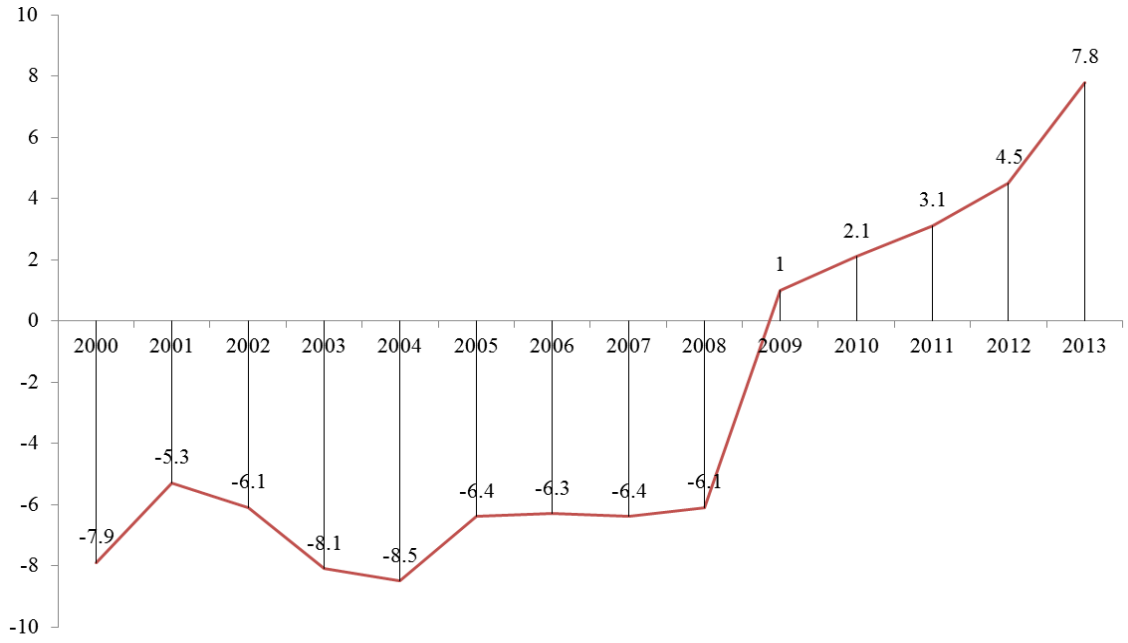
Sub-indicator 3: NET FINANCING CAPACITY AS A PROPORTION OF GOVERNMENT-SECTOR GDP (%)

- This shows the consolidated balance of government-sector revenues and expenditures. Source: CSO

Sub-indicator 4: GROSS STATE DEBT AS A PROPORTION OF GDP (%)

- Shows gross, consolidated government-sector debt calculated at nominal value compared to GDP. Source: CSO

G.1.1. Net financing capacity relative to national economy GDP (%)

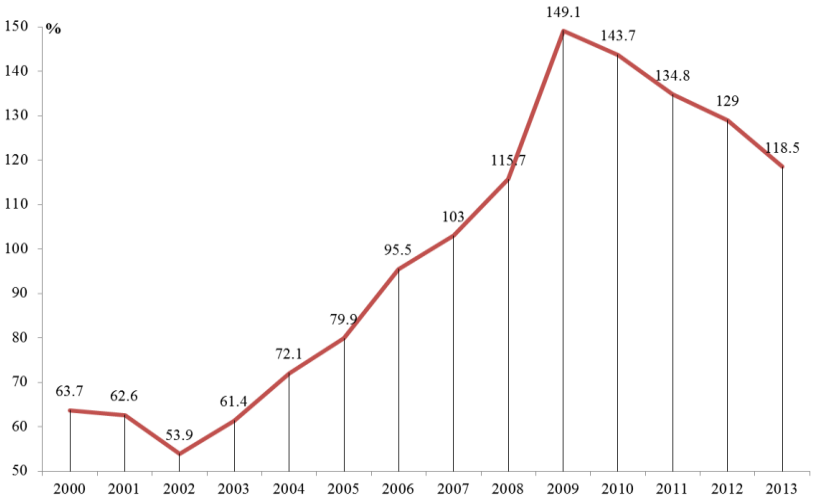


Since the regime change, the Hungarian national economy has been forced to continuously seek external financing. This necessity has only increased further as economic performance and the standard of living have risen. The chart shows data starting from 2000, and the external dependency can be easily discerned, since the economy is dependent on the savings of other national economies. A GDP-proportionate deficit of 3-4% in the balance of payments is sufficient to be considered quite significant. As can be seen, the Hungarian economy has been continuously operating with an even greater deficit ever since the outbreak of the financial-economic crisis. **This was the riskiest aspect of Hungary's economic security, and is the cause, for example, of the crisis of household foreign-currency debt, while also contributing considerably to the severity of the effects on the Hungarian economy and society of the collapse of the markets in 2008 and the lack of access to external financing.** With sources of financing frozen, the negative balance of payments became unsustainable, and it was only through austerity measures (accompanied by falls in the domestic standard of living, consumption and imports) that it was returned to positivity. Eventually, the government was able to start repaying the debt that had been accumulated previously. (This repayment or debt-reduction process is shown by the indicator becoming positivel. In other words, by showing that other countries have not been financing Hungary since 2008; instead, Hungary has been financing them. The latter entails repayment.) Since 2008, therefore, the financing position of the Hungarian economy has improved substantially, but this is not a great achievement, but rather the effect of forced austerity, the lack of opportunities for external financing and growing repayment obligations. This generalisation is true for almost every sub-indicator in the financial security dimension as well. The conclusion that can be drawn from the main indicator is that a similar situation must not be allowed to develop in the future, that is, risks to economic security must not be allowed to increase to such a level that might lead to a collapse in economic performance; the "Good State" must in any case increase society's overall level of economic awareness and education, as well as its motivation to save. In this respect, it must set a good example itself by striving towards efficient management. Growth driven by internal financing is always more durable and secure than the model built on uncertain external financing, which is dependent on market sentiment and risk-averse or risk-seeking behaviour. The competing countries of Central and Eastern Europe had significantly lower dependence on external financing. However, the greater a country's dependence is, the fewer the benefits that can come emerge from the relationship. The reason for this is in part because Hungary's rate of development was lower than that of nearby countries during the evaluated time period.

Preliminary data for 2014: 8.3%

Ever since the regime change, Hungary's national economy has been continuously forced to seek external financing, and this has been one of the most critical contributors to its economic vulnerability. After the global financial-economic crisis broke out, the negative indicator was turned positive through forced austerity measures, but all this means is that the previously accumulated external debt was reduced.

G.1.2. Gross external debt as a proportion of national economy GDP (%)

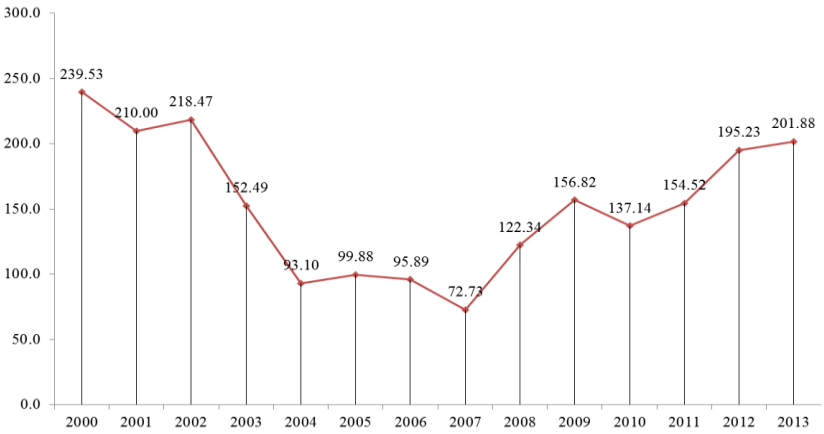


As a result of the continuous necessity for significant external financing, the external indebtedness of the national economy has grown significantly. The primary role in this growth is played by the increase in the external indebtedness of the financial sector. As domestic sources were not available to finance corporate and retail borrowing, external parent banks and international capital market sources had to be used. The external debt of the government-sector has likewise grown significantly, and it is this sector that stands in part in the background – as a result of the loans received from international institutions – of the growth in 2008-2009. The external direct financing of the corporate sector has also risen, although this increase took place during the lending meltdown in the financial sector, that is, in 2008-2009. After 2009, the process of debt reduction and repayment had begun in every sector (at various speeds, but most rapidly in the financial sector), but risk reduction was visibly a much slower process than was the rapid surge in risks amassed in the decade prior to the crisis. Moreover, the external debt of the region's – competing – national economies is well under 100%, making their risk level and rating lower than Hungary's.

Preliminary data for 2014: 117.0%

The external debt of the national economy grew rapidly during the middle of the examined time period, at a greater rate even in comparison to other countries in Central and Eastern Europe, which led to Hungary's economic risk rating deteriorating, whereas its external vulnerability grew.

G.1.3. Value of foreign currency reserves relative to foreign debt maturing within one year (%)

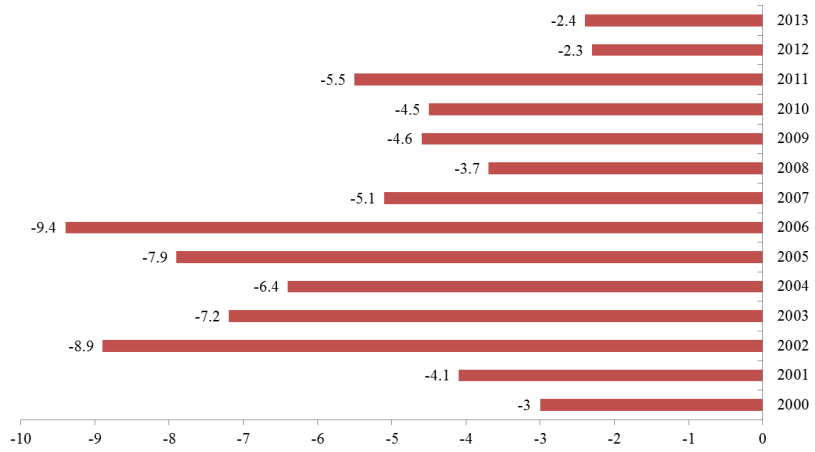


It is a law of economics that a negative balance of payments reduces the national economy's foreign currency reserves, while a positive balance increases them. Prior to 2008, the foreign currency reserves of the Hungarian economy were on a downward path in relation to the negative balance of payments, and by 2007 these stood at 72.73% of foreign debt maturing within one year. The optimal level of foreign reserves is estimated in many different ways. Often it is related to the value of annual imports, or to the total portfolio of liabilities for the entire national economy. The simplest index, and perhaps the one in longest use, is the Guidotti-Greenspan rule, which states that foreign currency reserves must be sufficient to cover the foreign debt of a country that will be maturing within the next year. The Hungarian economy failed to observe this rule in 2008, and the result of this was that when external sources were closed off, it essentially became unable to react independently without external aid, either through finding domestic financing sources or by stalling the plunge in the exchange rate. At the end of 2008, the loans received from international institutions increased cash reserves, which have since been further swelled by the country's positive balance of payments.

Preliminary data: 2014: 219.59%

The value of foreign exchange rates sank below the level considered to be safe in the period before the global financial and economic crisis, which increased the risk to economic security. Then, after 2008, after the international balance of payments had again become positive, it grew significantly.

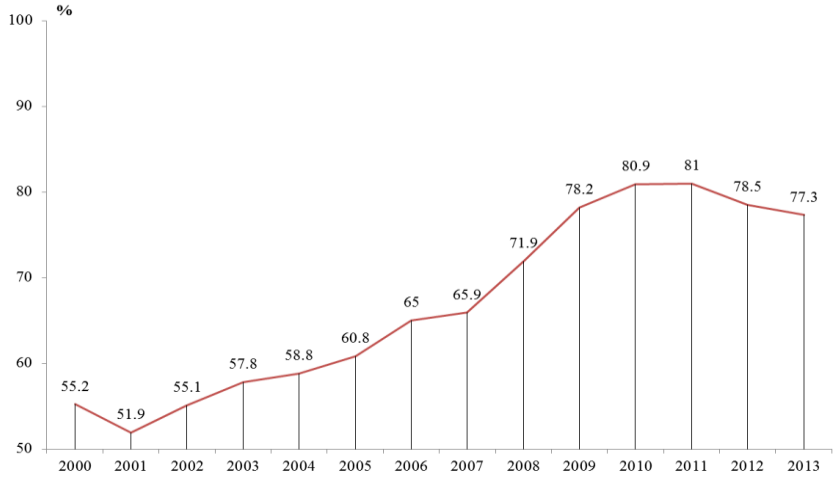
G.1.4. Net financing capacity relative to government-sector GDP (%)



The negative data shows that the Hungarian public sector was continuously in a net-financed position during the examined time interval, but this is also true of the entire period since the regime change. The financed position deteriorated drastically in the mid-2000s, which brought negative effects from several points of view. Firstly, it increased public debt at a growing pace. Secondly, it drew financing sources away towards other sectors (corporate sector). Thirdly, it increased the national economy's dependence on external sources and its external indebtedness. These factors together significantly increased the risks to economic security. After the global financial-economic crisis broke out, the tightening of the external sources that were available and their increasing costliness necessitated more disciplined management of public finances (precisely at the same time when social expenses were on an upswing). Only since 2012 has the net financing requirement receded to a truly low level.
Preliminary data for 2014: -2.6%

After 2001, the government sector's net financing needs grew to a dangerous extent, and only since 2011 have they returned to a low level.

G.1.5. Gross public debt relative to GDP (%)



Following the regime change, Hungary's economy would struggle continuously with a high level of public debt, which on the one hand increased security risks and, on the other hand, reduced economic competitiveness through the burden of servicing interest payments. The sustainability of public debt is influenced by many factors (pace of economic growth, primary budget balance, real interest rate); however, the models show that a debt ratio of 60% is the maximum that can be maintained with relative stability without the need arising for strong restrictive measures to be applied. After starting to grow again from 2002, Hungary's public debt quickly exceeded this limit, and it can be seen that, even despite the restrictive measures (a significant improvement in the primary budget balance), only a very slow decline could be observed subsequent to its peak in 2011.
By way of international comparison, it can be stated that between 2000 and 2008, the Central and Eastern European countries that became EU member states between 2004 and 2007 carried out vigorous reductions of public debt. Only in three other countries besides Hungary did public debt increase slightly, but nowhere did it ever exceed 60%. This placed the Hungarian economy at a strong competitive disadvantage, as the cost of paying interest on public date placed a significant additional burden on the country's economic actors and diverted funding away from development, innovation and investment in human capital.
Preliminary data for 2014: 76.9%

Gross public debt relative to Hungarian government-sector GDP rose at a rapid pace between 2001 and 2011, exceeding the level which can be described as sustainable. Meanwhile, the other countries in Central and Eastern Europe were able to keep this ratio at a manageable, risk-free level.

G.2. Economic diversity dimension

Economic diversity measures variety within the economic structure and the balance of industries and sectors. It also measures the length of the value chain functioning in a given country. The level of economic diversity is important because it is an issue that is interdependent with that of the level of economic development, because it has been demonstrated that economies with more variety and diversity are better able to withstand economic crises, which have less of an impact on them. Such economies are also better able to recover from the negative effects of crises. Another reason for pushing for greater diversity is that a diversified economy sparks the generation of more new knowledge and innovation, and the creation of a wide variety of highly skilled jobs. All things considered, a high level of diversity contributes to ensuring sustainable competitiveness and economic growth. Studies analysing competitiveness examine the level of economic diversity. They place special emphasis on **the share of gross added-value made up jointly by technology- and knowledge-intensive industries one one hand and what ratio exists between these industries**. Improvement in competitiveness and economic growth are both accelerated when there is a growing proportion of industries requiring cutting-edge technology and a high level of knowledge, and whose value curves do not just comprise assembly activities in the given country, but work phases generating high added-value, such as research and development, sales, marketing, and service activities.

From the above, it follows that **it is also important what percentage of all employees work in the technology- and knowledge-intensive industry**. These industries generally offer higher wages, which provides for a higher standard of living and quality of life. This, in turn, produces greater government revenue, which also ensures more funding for investments that are important from the point of view of the future. Furthermore, greater diversity improves the average level of productivity, which is also a source of competitiveness. Greater diversity reduces the country's economic exposure, increases economic independence, and improves well-being indicators.

From the point of view of diversification, the SME (Small and Medium Enterprise) sector plays an especially important role in the economy in Hungary. SMEs employ approximately 2 million people – more than 70% of the workforce – and generate approximately 56% of GDP.

Their share of exports comes to around 28%. This is why they have a major role to play in the continuing diversification of the economy. **It is therefore warranted to measure their share of gross added value and exports.** Another important indicator of economic diversity is **how GDP – gross domestic product – and GNI – gross national income – relate to each other**. The GNI indicator – according to certain professional opinions – measures the performance of the national economy more objectively, since it does not include the income generated in Hungary by foreign companies or earned by foreign person, and which then flows out of the country. To reflect the above, we have assessed economic diversity with the following five indicators:

Key indicator: SHARE OF GROSS ADDED VALUE CREATED BY TECHNOLOGY- AND KNOWLEDGE-INTENSIVE INDUSTRIES (%)

- The indicator expresses the extent to which technology- and knowledge- intensive industries contribute to the gross added value of the national economy. Source: CSO

Sub-indicator 1: SHARE OF EMPLOYMENT CREATED BY TECHNOLOGY- AND KNOWLEDGE-INTENSIVE INDUSTRIES (%)

- The indicator expresses the proportion all employees working in the technology- and knowledge-intensive industries. Source: CSO

Sub-indicator 2: THE SME SECTOR's SHARE OF GROSS ADDED VALUE (%)

- This indicator assesses the extent to which micro-, small- and middle-sized enterprises contribute to the gross added value of the national economy. Source: CSO

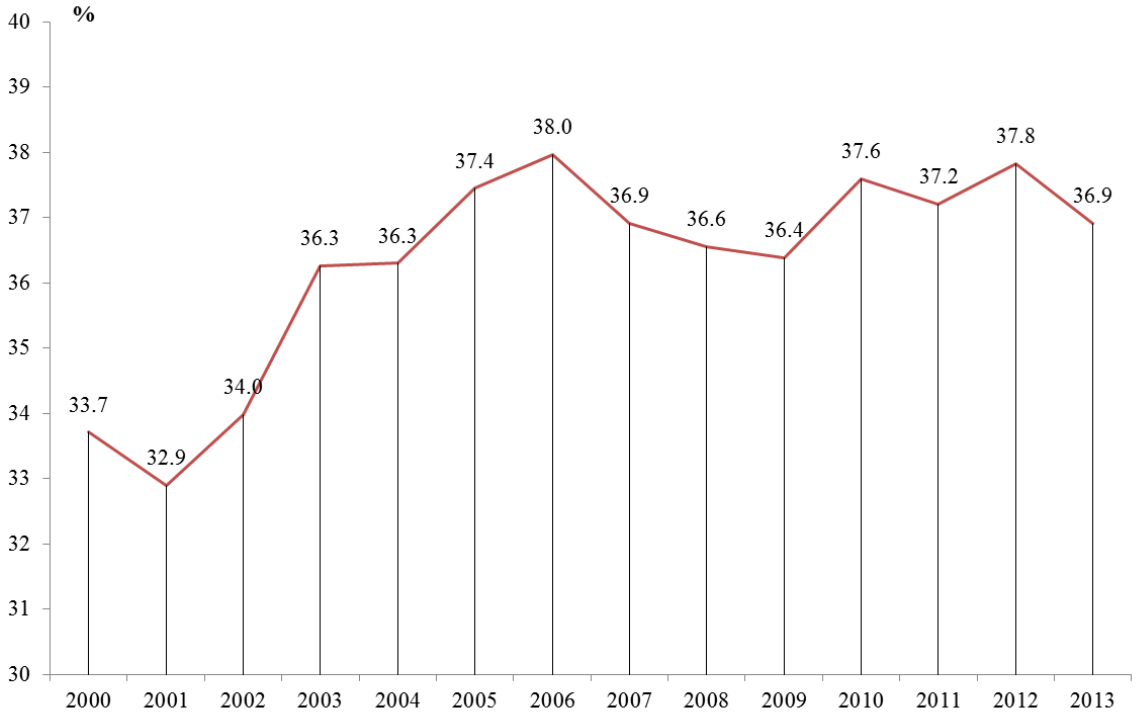
Sub-indicator 3: THE SME SECTOR'S SHARE OF EXPORTS (%)

- This indicator shows what percentage of the national economy's total export performance is made up of collective exports by micro-, small- and middle-sized enterprises. Source: CSO

Sub-indicator 4: VALUE OF GNI AS A PERCENTAGE OF GDP (%)

- This indicator shows gross national income as a share of gross national product. Source: CSO

G.2.1. Percentage of gross added value created by technology- and knowledge-intensive industries



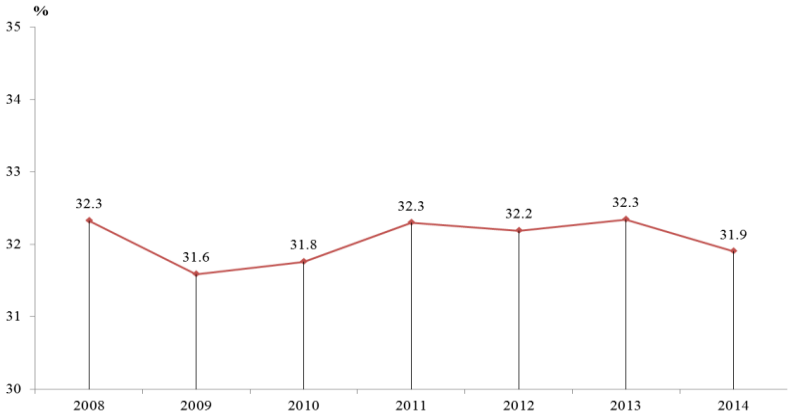
This indicator shows the performance between 2000 and 2013 of the technology- and knowledge-intensive industry (as defined by NACE 08) capable of generating modern, high added value. The aggregate value fluctuates between 32.9% and 38%. An overall rise can be observed since 2001, with a slight drop in 2006-2009. The average value is 36.3%. Across the full timeline, based on more detailed data, the industries increased their joint performance by a factor of 2.4. Outstanding growth is evident in machinery and machine-equipment manufacturing (a factor of 6.4), information technology services (4.5), legal and business administration services (3.3), road vehicle manufacturing (3), pharmaceutical manufacturing (2.8), and computer and electronics manufacturing (2.4). Striking, however, is the weaker improvement in performance of the telecommunications services industry (1.2). This, however, can be explained in the international analyses by the modest position achieved by Hungary (20th place among EU member states) in the area of digital performance. Due to the different pace of development, structural ratios have also changed. In 2000, the performance of telecommunications – disregarding education and health-care – was still in second place after road vehicle production, whereas by 2013 it had slipped to sixth place. Machine and machine equipment manufacturing, on the other hand, generated the 12th greatest amount of value – again disregarding education and health-care – in 2000, but by 2014 had advanced to second place.

The indicator demonstrates that it was the producers and suppliers of the road vehicle manufacturing industry who were able to increase their performance the most quickly. In the interest of sustainable development and growth, it will be necessary in future to increase the share of the technology- and knowledge-intensive industries in the generation of gross added value on one hand. International comparisons show that the share of these industries in generating gross added value is higher in competitive economies. On the other hand, more uniform growth might also be important, since this would improve economic diversity and reduce exposure to any potential crisis.

Preliminary data for 2014: 37.4%

Based on the indicator, it appears that road vehicle manufacturing strongly influences economic performance, the diversification of which we stress as being a matter of great importance due to the strong dependence on this one industry.

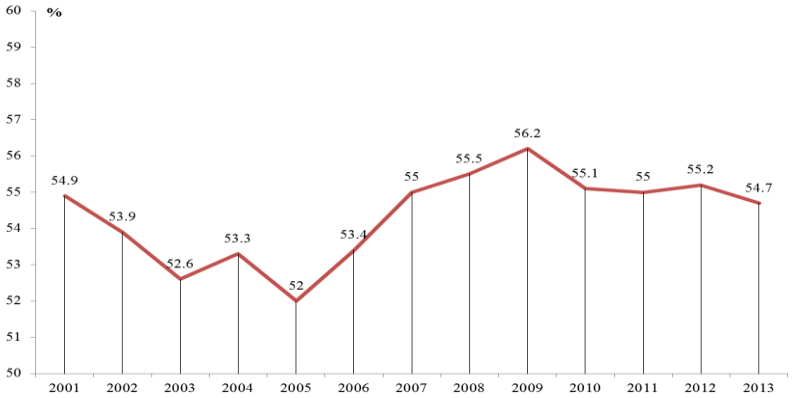
G.2.2. Share of employment created by technology- and knowledge-intensive industries (%)



The 28 analysed technology- and knowledge-intensive industries (as defined by NACE 08) accounted for an average of 32% of total employment during the evaluated time period from 2008 to2013. During the same period, the performance of these industries accounted for an average of 31% of gross added value. The yearly values for the two time series are close to each other. This suggests that these industries contribute to generating added value in proportion to their share of employment. Examining the employment figures, we noted that in 2013, disregarding education and health-care, the greatest amount of employment and the greatest expansion in full-time employment were both in road vehicle manufacturing. In a regional comparison, the greatest number of employees in the technology- and knowledge-intensive industries are in Budapest and Pest County, and the lowest numbers are in Tolna and Nógrad counties. This employment data does not mean that the employees work at knowledge-based jobs. This would be the case if the majority of the evaluated technology- and knowledge-based industries conducted their R&D, sales and marketing activities in Hungary in addition to production. The "European Innovation Scoreboard" takes into account only employees working in innovative jobs in innovative industries. In the G.2.2. indicator, however, all employees in predominantly technology- and knowledge-intensive industries are counted regardless of what kind of work they do.

In order to improve competitiveness, it is important to have growth in the technology- and knowledge-intensive industries, and to ensure the proportion of knowledge-intensive jobs increases as a proportion of total employment in these industries, as well as in other sectors of the economy.

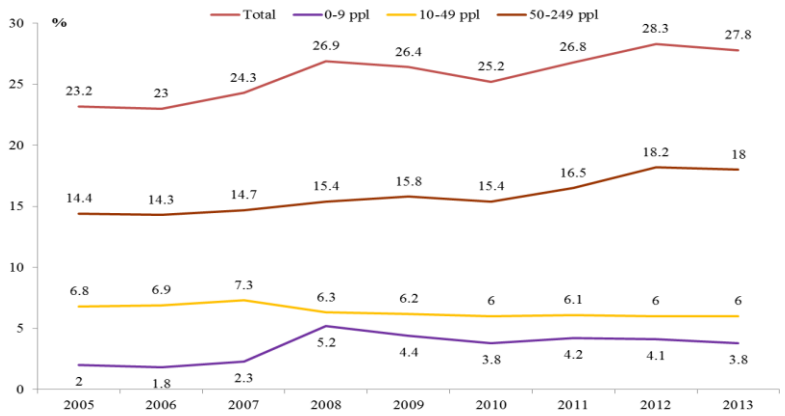
G.2.3. The SME sector's share of gross added value (%)



In Hungary, the vast majority of functioning companies are SMEs. SMEs are defined as those employing fewer than 250 employees. Data is available for the years 2001-2013. During this time period, SMEs' share of gross added value moved between 52% and 56.2%. This ratio shows that the SME sector generates more added value than the corporate sector, which is why it deserves increased attention in economic policy. Nevertheless, we must note that across the EU, the average contribution of the SME sector to gross added value is 57.9%, which is higher than the amount for Hungary. In terms of employment, however, the Hungarian value (67.2%) is lower than the EU average of 73%. SMEs are agile enterprises, which is why they play an important role in job creation in those regions of Hungary that are not attractive for large corporations. Analyses prove that, given appropriate conditions for conducting business, SMEs are able to create new jobs quickly and flexibly. This is why it is worth focusing a good deal of attention on them. In job creation, it is primarily micro-companies that lead the way, although the number of these in Hungary has dropped since 2010.

It would be useful to better exploit potential opportunities for job creation and economic growth in the SME sector through a more stimulative economic policy.

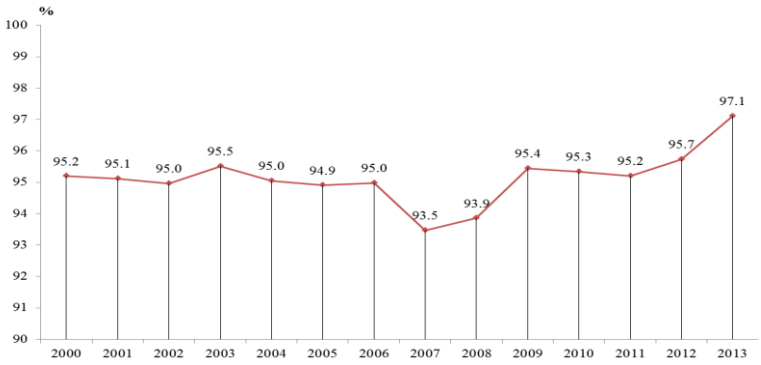
G.2.4. The SME sector's share of exports (%)



Supporting exports from the SME sector is a priority in the EU, where SMEs account for 13% of export activity on average. Within the sector, however, it is primarily middle-sized companies that lead the way. In Germany, for example, 14% of all SMEs engage in exports. However, only 11% of micro-enterprises and 22% of small-sized companies do so regularly, as opposed to nearly 43% of mid-sized-companies. According to the available data, 6% of Hungarian SMEs regularly conduct exporting activities. The available data shows SMEs' share of total exports fluctuating between a minimum of 23% and a maximum of 28.3% between 2005 and 2012. The average value for the period was 25.5%. By international standards, this is a low value. It can also be seen that the vast majority of the share of exports is accounted for by mid-sized enterprises, whose exports are growing slightly, whereas they have stagnated for micro- and small-sized companies. Export opinions suggest that in order to improve export capacity, the innovativeness of micro- and small-sized companies should be increased, while a group of 6000-7000 mid-sized enterprises capable of exporting should also be established, which would form the backbone of Hungary's export economy. It should be noted, however, that there are many SMEs that are suppliers for export companies, and thus export indirectly, which is why their exports do not appear in the statistics as the company's own exports.

Promoting innovation in the SME sector is critical as products and services that produce high added value and offer new solutions is a prerequisite to successful exports.

G.2.5. GNI as a percentage of GDP (%)



GDP is gross national product, whereas GNI is gross national income. The two indicators differ from each other in that GDP includes property income created by foreign capital operating in Hungary, as well as the income earned here by foreign employees. It does not, however, include income earned by Hungarian investors and employees abroad. GNI, on the other hand, does include the latter, but not the former. It is advantageous for a country if the GNI indicator is greater than GDP. With respect to the value of the indicator, that would mean that the ratio is greater than 100%. In figure G.2.5. it can be seen that there was not a single year when GNI in Hungary was greater than GDP between 2000 and 2013. The greatest difference between the two indicators could be seen between 2007 and 2008. This was the start of the economic crisis. It is likely due to the uncertainty of the time that these years were characterised by greater withdrawals of assets from the country. In any case, international statistics show that GNI is generally higher than GDP in the case of developed and competitive countries. This is especially true if those countries' companies engage in significant production internationally. It is precisely for this reason that it is important for Hungary to increase the value of productive capital investment abroad. This could be aided by the financial and competitive strengthening of the SME sector, and of mid-sized companies in particular.

A required condition for lasting economic growth and improved competitiveness is the strengthening of Hungary's corporate sector, including expanding its investments abroad.

G.3. Investment and human capital dimension

Economic competitiveness is the aim of every country, and for this it is essential that the available resources (capital, labour, knowledge, technology, etc.) are all utilised as efficiently as possible. It is a matter of importance that what is required for all this is an economic and social environment in which the actors are capable of creating the greatest possible added value. How the state functions has a major impact on this economic environment and competitiveness. The directions and aims defined by the state with regard to the future influence the country's effectiveness in international competition to a great extent.

The definition of competitiveness is a good bit more multi-layered and complex than that of economic growth or development. A truly competitive country, in the course of its operation, does not only scrutinise economic considerations, but social and environmental factors as well. Taking into account the analytical areas of the other working groups in the course of the research, we designated one key indicator and four sub-indicators for the assessment of the competitiveness dimension. The state should pay special attention to these in the interests of promoting growth in competitiveness. These are the following:

Key Indicator: GROSS FIXED CAPITAL FORMATION AS A PROPORTION OF GDP (%)

- This indicator shows the value of gross fixed capital formation (that is, the value of the goods comprising produced tangible assets and intellectual property that is either purchased or produced internally, the growth in value of use and non-produced non-financial goods and the value of non-financial assets obtained in financial leasing arrangements) compared to gross national product. The indicator expresses the ratio of investments as a percentage of GDP. Source: CSO

Sub-indicator 1: PROPORTION OF EMPLOYEES CLASSED IN NACE's EMPLOYEE CATEGORIES 1, 2 and 3 AS A RATIO OF ALL EMPLOYEES (%)

- The proportion of economic, administrative, advocacy, management and legislative employees, as well as employees in occupations requiring the independent application of advanced education or other advanced or secondary education compared to the total number of employees. The indicator expresses the ratio of workers in these areas to the total as a percentage. Source: CSO

Sub-indicator 2: ANNUAL GOVERNMENT-SECTOR EXPENDITURE ON EDUCATION AS A PROPORTION OF GDP (%)

- This indicator is the ratio of government-sector expenditures on education as a ratio of gross domestic product. The indicator gives the expenditures spent on education as a percentage of GDP. Source: In the case of centralised organisation and municipalities, the institution's annual budget report; in the case of institutions classified as non-profit by the government, the CSO data provision, as well as the annual report (balance sheets and income statements) of enterprises registered with the government.

Sub-indicator 3: NATURAL DECREASE IN POPULATION (per 1000 population)

- The natural decrease includes the difference between live births and deaths calculated per 1000 population. The data is given as a number of people. Source: CSO

Sub-indicator 4: NUMBER OF PATENT APPLICATIONS MADE AT THE NATONAL LEVEL

- This indicator shows the number of patent applications made at the national level. The data is expressed as a number of units. Source: Hungarian Patent Office

The selected indicators also show that **in the 21st century, a country can only be competitive with a knowledge-based (innovative) economy**. To this end, the Good State must pay increased attention to knowledge and human capital. Efficient, knowledge-based investment, the quantity and quality of human capital and the utilisation of knowledge at the highest level are all of key importance.

G.3.1. Key Indicator: Gross fixed capital formation as a proportion of GDP (%)

Annual gross fixed capital formation data is estimated broken down by industry, sector and asset-class based on data originating with investment data collection.

During the assessment of competitiveness, the quantity and quality of investments is a key area of analysis. If investment is not sufficient, this slows economic growth and recovery. For these reasons, in terms of the Good State, how efficiently it manages the available resources is an important area for study. With respect to investments, all of this poses questions such as, for example, what projects the state wishes to invest in, how good the planning of project costs is and how much the actual total cost of the completed projects deviate from what was planned. This latter area is especially important from the point of view of competitiveness, since unplanned costs that arise later divert resources from other areas (education, health and research and development).

In general, 21-22% of GDP is considered to be a "sustainable" level of gross fixed capital formation. The figure below shows the data for Hungary with respect to the period 2000-2013.

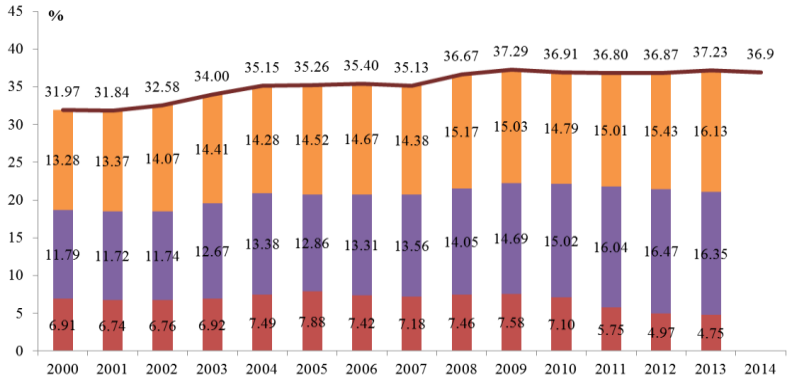
Based on the data for the assessed time period, Hungary unfortunately has not shown overly positive figures in the area of investments. Compared to 25.5% in 2000, gross fixed capital formation data in 2013 was only 19.9% of GDP. Although from 2000 until 2009, the decline took place at a slower pace, from 2009 to 2010, the drop became much more precipitous than before. This is in all likelihood the result of one of the negative effects of the financial and economic crisis that also engulfed Hungary. The nadir of the assessed period was in 2012, when investments came to 19.1% of GDP. After this, growth could be detected in 2013, as a result of whichthe (not-particularly) high investment ratio of 19.9% was reached. In spite of all of this, it still exceeded the EU's 19.3% average for the year. At the same time, none of these values reach the "sustainable" level.

In the area of investments, the task of the Good State is a complex one. It is important for it to have adequate funds available, but at the same, this is not enough. These funds must also reach the actors that are able to utilise them in the most efficient manner. In addition to all this, the state must create an investment environment in which investment confidence and the willingness to take on risk both increase.

Preliminary data for 2014: 21.4%

The role of investments is extremely important from the point of view of improving competitiveness, which is why special attention must be paid to ensuring that the level of the gross fixed capital formation, and within that, the level of investments in modern technology in particular, create the conditions for improving competitiveness.

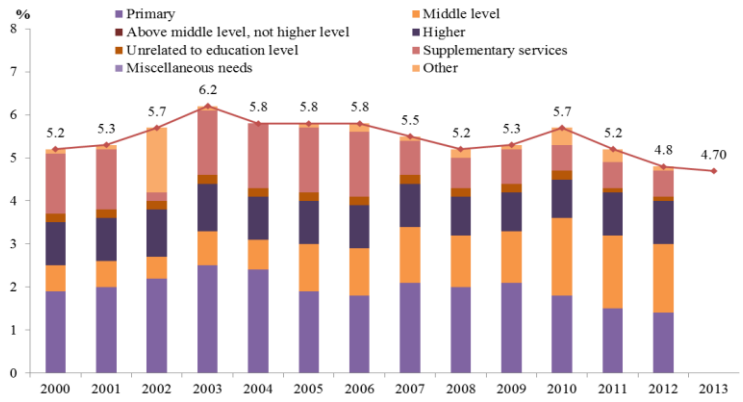
G.3.2. Proportion of employees classed in NACE's employee categories 1, 2 and 3 as a ratio of all employees (%)



The proportion of employees classed into NACE's categories 1, 2 and 3 increased by 5.26% from 200 to 2013. It can be observed that while the proportion of employees in Category 1 has shrunk in recent years, the proportion of those in categories 2 and 3 has grown. The proportion of employees in category 1 – those employed as economic, administrative or advocacy managers or legislators – reached its apex in 2009 with a figure of 7.58%. After this year, the ratio of employees in this area decreased, falling nearly 40% by 2013. The percentage of workers in Category 2 – those in jobs requiring the independent application of higher education – started to continuously show a growth trend starting in the 2000s, except in 2005, when a slight decrease can be detected. The proportion of workers in this sector grew 4.56% overall from 2000 to 2013. The ratio of workers in the third category – occupations requiring other higher or middle-level education – also shows a growth trend compared to the 2000s. In 2009 and 2010, a slight drop can be observed, but the ensuing years were characterised by continuous growth. In 2013, the ratio of workers in this area was 16.13% of all employees.

A modern and competitive economy that is built on knowledge and innovation can only be created with trained professionals who possess up-to-date knowledge, which is why it will remain necessary in the future to continue to make efforts to raise the level of knowledge and to ensure that professionals are able to find jobs that utilise their skills.

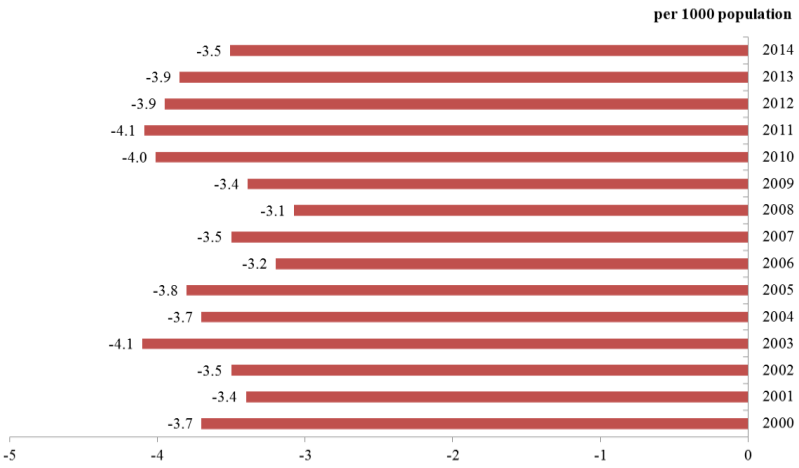
G.3.3. Annual government-sector expenditure on education as a proportion of GNP (%)



In a competitive economy, it is important for citizens to possess the kind of knowledge that can ensure long-term development. For this, it is essential for the country to have both a competitive educational system and competitive educational institutions that the state provides with adequate funds. The indicator shows investment spent on the development of human capital. During the first four years of the assessed time period (2000-2003), spending on education increased, and then decreased from 2006 to 2009. In 2010, a slight increase relative to the previous year can be detected, although a major decrease took place from 2010 to 2012. With respect to the individual areas of funding, in 2012 the total expenditures constituting 4.8% of GDP were divided as follows: 1.4% on primary education, 1.6% on middle-level education, 1% on higher education, 0.1% unrelated to educational level, 0.6% on supplementary services, and 0.1% on miscellaneous needs. Throughout the entire examined period, it can be observed that primary, middle-level and higher education account for the majority of spending. The division of the state's spending on education requires a more detailed analysis that will take into account important factors such as the reorganisation of the educational structure, reducing the number of people involved in education, and potential increases in the effectiveness of education. All of these are closely linked to expenditures on education.

State expenditures on education as a proportion of GDP do not reveal the long-range commitment that would be necessary for operating an economy based on knowledge and that would assure the available of professional with the highest level of skills in all fields. This may be an obstacle to lasting economic growth and improved competitiveness.

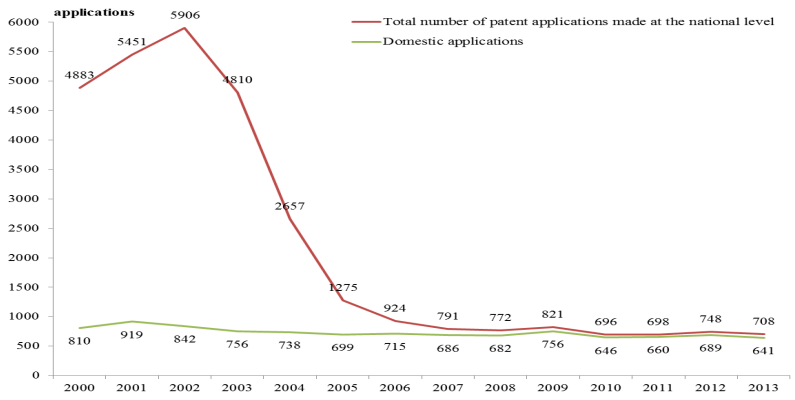
G.3.4. Natural decrease in population (per 1000 population)



In light of the fact that long-term development and future competitiveness are in large measure determined by the amount of available human resources, the extent of the natural decrease in population is an important factor for examination. "Natural decrease in population" refers to when the rate of mortality exceeds the birth rate. The indicator is an index that includes the most important characteristics of the demographic situation. There were two serious low points during the assessed period: in 2003 (-4.1) and in 2011 (-4.1). In the years since 2011, an upward trend has been evident. On 1 January 2015, the population of Hungary stood at 9,849,000 people, which is 28,000 fewer than the data for the previous year. In 2014, in addition to an increase in the number of births, the number of deaths also decreased, and thus the rate of natural positive decline moved in a favourable direction by reaching -3.5. It is an important task for the Good State to preserve its human capital. For these reasons, it must set future targets for itself that promote better health, create incentives to marry and increase willingness to bear children. In addition to the natural decrease of population, the actual rate of decrease also represents an important and substantive problem, which the number of emigrants leaving Hungary exacerbates greatly.

A nation's most valuable possession is its human capital, a decrease in which undermines, over the long term, the situation of the national economy and its competitive position, as well as its opportunity to have a say in world affairs. For this reason, in addition to increasing the number of births, emphasis must also be placed on improving mortality figures.

G.3.5. Number of patent applications made at the national level



A patent gives legal protection for all industrially useful inventions based on new development activity by establishing for the owner of the patent an advantageous position relative to competitors on the products and technologies market. Source: Hungarian Patent Office. In an increasingly globalised world and a dynamically changing economic environment, it is only possible to be competitive through adequate research and development and innovation activity. The number of patent applications submitted at the national level are a form of output indicator of research and development activity. Naturally, it is important that these developments and innovations are not simply registered, but are also used in practice and reach consumers. With respect to this indicator, during the first three years of the assessed time period, a growth trend can be seen, reaching its peak in 2002 with 5916 patent applications. This was followed by a dynamic downturn which resulted in 4,982 fewer patent applications being filed in 2006. Continuing decline can be observed in the period between 2006 and 2013, but it is not nearly as drastic as in the preceding years. Looking at the number of domestic applications, a more balanced trend can be seen, but in this case as well, an ongoing drop is the prevailing feature.

In total, while in 2000, at the beginning of the assessed time period, 4883 patent applications were made at the national level, in 2013 this figure had fallen to only 708.

The number of patent applications made at the national level improves opportunities for innovation. This is why it is necessary to make patent procedures easier, faster, and less expensive.

G.4. Innovation dimension

Innovation has become one of the 21st century's most important factors with respect to society, the economy and competitiveness. The Good State must encourage research and development, which is clearly evident in the growth of the number of research and development expenditures and research sites and the proportion of employees in the area of research and development. Investing in R&D activity, especially in the case of basic research, means investing in an activity whose results are uncertain. At the same time, if the research or experimental research brings results, than the newly obtained knowledge reaches consumers in the form of innovation, and Hungary's store of knowledge thereby generates significant added value. This is precisely the reason why, as was shown in the G.3. Competitiveness indicators, Hungary's store of knowledge and the quality of its human capital are also of key significance to its Innovation dimension, and both knowledge-based work and employment in the innovation sector must be encouraged.

In order to increase the proportion of workers in the research and develop area, it is not sufficient to train professionals with a high level of knowledge and methodological skills, for attention must also be paid to retaining the researchers and reducing the phenomenon of the "brain drain".

According to academic literature from both Hungary and abroad, the aim of competitiveness is prosperity. This is why it is important to take into account that **innovation can create the basis for competitiveness and productivity, which lead to a reduction of knowledge-dependence, to social development and to improvements in the standard of living and the quality of life**.

In order to measure the G.4. Innovation Dimension, we have selected a total of five indicators (one key indicator and four sub-indicators), as follows:

Key Indicator: TOTAL AMOUNT SPENT (BY THE STATE AND CORPORATE SECTOR COMBINED) ON R&D AS A PROPORTION OF GDP (%)

- This indicator shows the aggregate amount (excluding VAT) of R&D expenditures and R&D investment incurred in the course of research and development activity carried out in the national economy relative to GDP. The framework of the data collection includes, in addition to all institutions of higher education and research institutions, those economic entities that have reported conducting R&D activities over the course of the last five years as well as those that have received support for R&D from budgetary funds during the given time period. Source: CSO

Sub-indicator 1: CORPORATE EXPENDITURES ON R&D AS A PROPORTION OF GDP (%)

- This indicator shows the aggregate amount of R&D expenditures and R&D investment incurred in the course of research and development activity carried out in the corporate sector relative to GDP. Source: CSO

Sub-indicator 2: RATIO OF EMPLOYEES WORKING IN R&D AS A PROPORTION OF ALL EMPLOYEES (%)

- The indicator shows the proportion of persons employed in R&D activities relative to the number of employees in the national economy Source: CSO

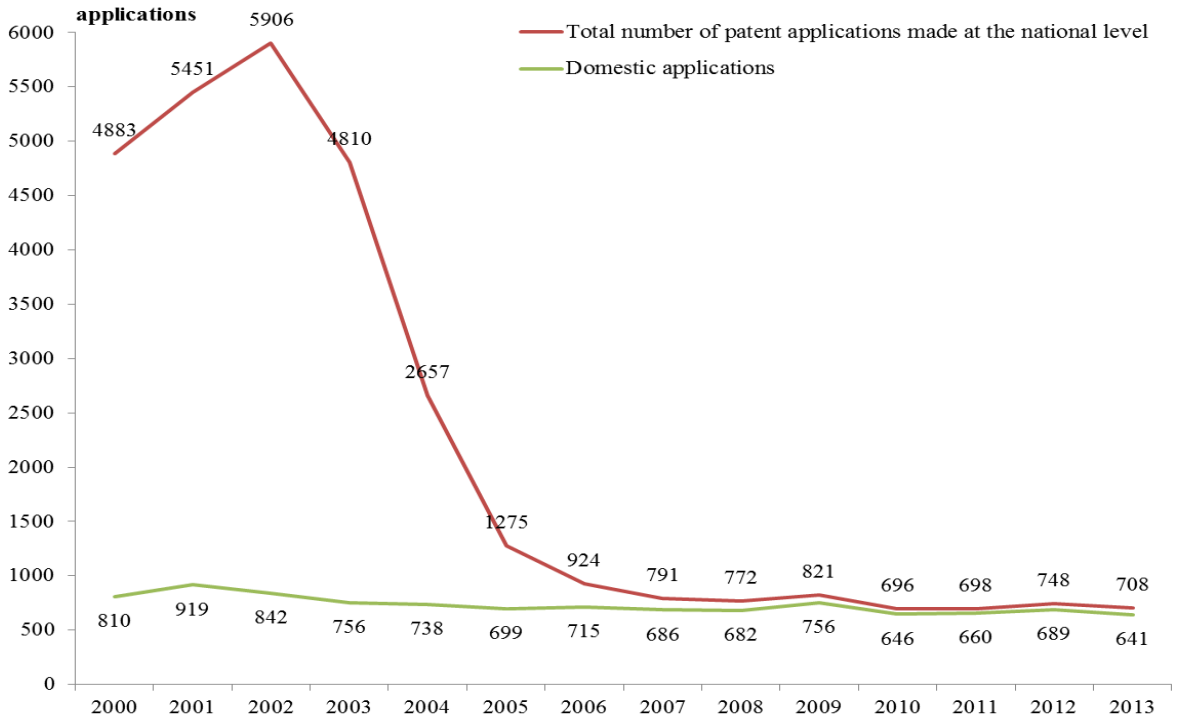
Sub-indicator 3: NUMBER OF QUALIFICATIONS OBTAINED IN TECHNICAL FIELDS AND THE NATURAL SCIENCES (No. of people)

- This indicator shows the number of diplomas and academic degrees obtained in technical fields and in the natural sciences. Source: Ministry of Human Capacities

Sub-indicator 4: PERCENTAGE OF COMPANIES ENGAGED IN INNOVATION (%)

- This indicator shows the number of companies engaged in innovating products and/or processes. Source: CSO

G.4.1. Total amount spent (by the state and corporate sector combined) on R&D as a proportion of GDP (%)



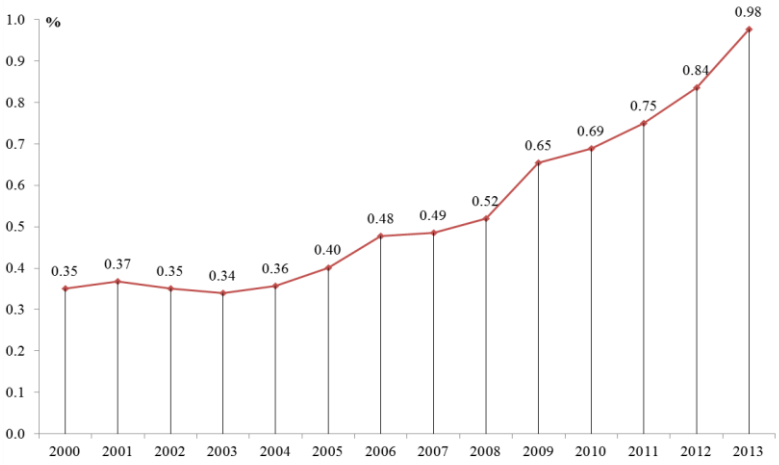
Government and corporate expenditures on research and development came to 1.41% of GDP in 2013, which shows a significant increase compared to the value (0.79%) for 2000. Between 2002 an 2008, the value of expenditures relative to GDP dropped slightly, and later stagnated, although a growth trend has again been in place since 2009 (despite the economic crisis). If this increasing trend can be successfully maintained, then the targeted level of 1.8% will be reached by 2020. It must be noted, however, that expenditures on research and development still will not then reach the average level of the European Union's 28 member states, which in 2013 was 2.02%. The increase relative to 2000 (close to 80%) is quite favourable, even compared to the other countries of the European Union.

This indicator is of key importance from the point of view of meeting the Europe 2020 targets, since the targeted objective for 2020 for the 28 EU member states is 3%, while in Hungary it is the aforementioned 1.8%. In Hungary, the total amount spent on R&D (by the state and by the corporate sector combined) in 2013 was more than 420 billion HUF. In analysing the regional distribution of research and development expenditures, one can see that 57.36% of the spending was in Budapest. After the capital, Hajdú-Bihar County received the second greatest amount (close to 27 billion HUF) for R&D, but this sum still only comes to 6.35% of the country's total expenditures. The amount of expenditures in the capital are more than nine times as much as those in Hajdú-Bihar County, which indicates a significant degree of inequality in scientific achievement. This is underpinned by the fact that R&D spending and investment is extremely low in Zala, Nógrád and Tolna counties, where less than 0.5% of the national expenditures are realised. Despite making the great progress at the county level in terms of percentage relative to the base year of 2000 (from HUF 12 million to HUF 1.6 billion), it continues to remain one of the laggards.

It is important from the points of view of both the national economy and society that by developing education, respecting knowledge and raising the standard and GDP-proportionate volume of R&D to be able to build a knowledge-based economy base, it becomes possible to build a knowledge- and innovation-based economy that contributes over the medium- and long-term to developing the given country's competitiveness, reducing its asymmetric dependence on foreign capital, and also improving the society's position in terms of income and well-being.

Although expenditures on research and development have been increasing gradually recently, further growth is needed. This would make it possible to assure convergence with the European Union's knowledge base and make it possible to reduce the Hungarian economy's knowledge dependence.

G.4.2. Corporate expenditures on R&D as a proportion of GDP (%)



Companies are a key subject of research and development activity, since it is not sufficient for the state to conduct K&F undertakings it has financed itself. Instead, other actors in the economy must be encouraged to engage in such activity. Corporate R&D expenditures relative to GDP have been rising dramatically: whereas in 2000 corporate R&D spending came to 0.35% of GDP, in 2013 the figure was 0.98%. Looking at the various industries in the economy, it becomes apparent that it is the manufacturing industry that spent the great amount on R&D, realising 56.7% of all expenditures in the entire corporate sector. Within the manufacturing sector, chemical and pharmaceutical manufacturing play a major role, with more than 64 billion HUF spent on R&D. Budapest's dominance is evident in corporate-sector research and development activity as well, as companies in the capital accounted for 58.5% of total expenditures. It was Tolna County that was able to increase its R&D expenditures to the greatest extent compared to 2004, reaching HUF 1.5 billion in expenditures in 2013, a figure 166 times greater than 2004's.

It is important to note that, while in 2004 the SME sector accounted for 18% of total corporate R&D spending, by 2013 this ratio stood at 48.4%, an increase of 30.4%, which leads to the conclusion that the SME sector's research and development activity is in full swing.

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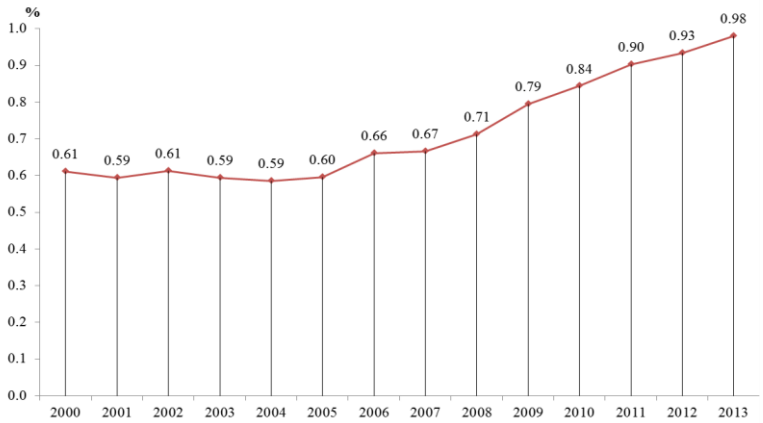
The increase in corporate R&D expenditures gives a favourable picture; however, additional growth is needed, since this contributes to improving the Hungarian national economy's competitiveness on the global market and in the world economy.

G.4.3. Ratio of employees working in R&D as a proportion of all employees (%)

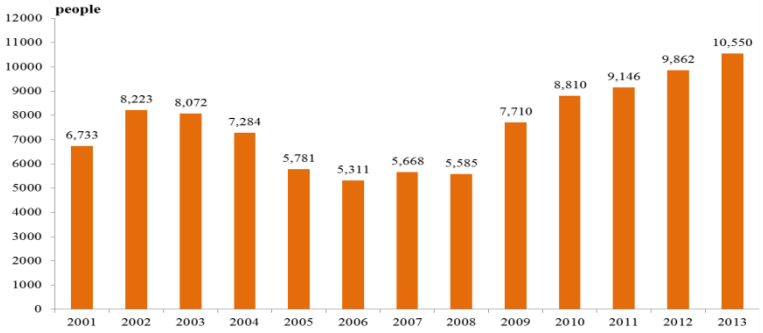


Research and development activity requires human resources whose quality and quantity are at adequate levels. Therefore, along with increasing expenditures, the number of researchers and developers also has to be raised. While not in itself sufficient, it is at the same time important for their numbers as a percentage of all employees to increase. This is an important indicator of a social and economic system that is knowledge-based and innovative. In 2013, the number of researchers and developers in Hungary stood at 38,163, which represents an increase of 62.6% relative to 2000. The change in the ratio of people employed in R&D activities as a percentage of all employees shows an improving trend, as compared to the basis year 2000, the ratio grew by 0.37%, to 0.98%. Significantly, 140 more people work in R&D in Nógrád County than did in 2000, when only 12 people were employed in this field there, a distant last place in the national data.

Budapest's overwhelming dominance also manifests itself in this area, since 56% of all researchers and developers worked in the capital. Research and development institutions and other budgetary research sites accounted for 20.3% of employees in the field of R&D, research and development sites in higher education for 21.4% and corporate research and development sites for 58.3%.

R&D expenditures are not in themselves sufficient to develop the knowledge base: well-trained professionals are also needed, along with companies and state institutions to employ them. These make it possible to ensure that the segments of the value chain that generate high added value can increasingly figure into the Hungarian national economy.

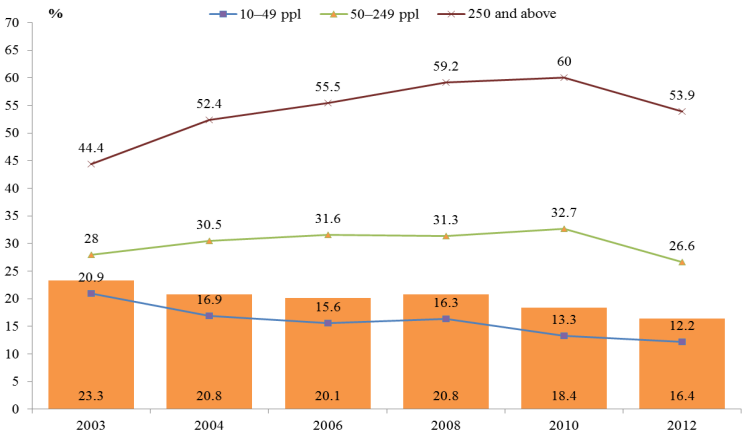
G.4.4. Number of qualifications obtained in technical fields and the natural sciences (No. of people)



The number of people with technical and natural science qualifications is an important indicator regarding the knowledge base suitable for shifting the centre of gravity in the direction of a more highly trained, knowledge-intensive high-tech sector. The number of higher-level qualifications obtained in these fields started to decline starting in 2002, reaching a nadir of 5,311 in 2006. After two years of stagnation, the number of new diplomas and science degrees gradually began to rise. This is presumably partly an effect of the Bologna system introduced in 2005. The first group of students to receive a basic qualification (BSc) in the new higher education system now divided into three levels graduated in 2008, although they generally appear in the 2009 data due to an education lasting at least six or seven semesters. The number of diplomas and scientific degrees awarded in these fields has grown 56.7% compared to 2001, the basis year. In comparing the number of qualifications obtained in technical fields and the natural sciences to the the total number of higher education qualifications, it becomes apparent that these two areas are making sweeping gains. Compared to 2005 as a basis year, the number had increased by 7.4% by 2013, with the proportion of these qualifications rising to 15.62%. This means growth of 90%, which is a favourable number, since having professionals qualified in scientific fields entails a resource for product innovation.

Those people in possession of qualifications in technical fields and the natural sciences represent an engine for innovation. In recent years, the number of higher education qualifications earned in these fields has increased gradually, which is due primarily to the restructuring of the higher education system and demand from the labour market.

G.4.5. Percentage of companies engaged in innovation (%)



Despite the growth in expenditure on research and development and the proportion of workers in the area of R&D, the ratio of companies involved in innovation has been gradually falling since 2003. The reason for this is clearly the drop in innovation performance on the part of small enterprises. Whereas in 2003, 20.9% of the enterprises in this sector were involved in innovation, by 2012, this figure was only 12.2%. With respect to mid-sized and large enterprises, we can establish that compared to the basis year of 2003, the ratio of companies engaged in product and/or process innovation increased up until 2010, but then by 2012 the innovation performance of both sectors was already deteriorating significantly. Projected across the entire corporate sector, the ratio of innovative companies dropped 6.9% between 2003 and 2012: from 23.3% to 16.4%. The aforementioned small enterprise innovation performance, owing to the high proportion of small enterprises in this sector, significantly worsens the results for the overall corporate sector. As we could see in relation to the G.4.2 Corporate Expenditures on Research and Development as a Sector of GDP indicator, while R&D expenditures rose significantly between 2004 and 2013 (including a nearly ten-fold rise for small enterprises), this did not, however, manifest itself in the proportion of companies involved in innovation. It's important to note that the data does not include the innovation performance of micro-enterprises, even though the R&D expenditures of enterprises with a staff of 0-9 people increased by a factor of 15 during the indicate time interval.

The number of companies involved in innovation has decreased in recent years, primarily due to weakening innovation performance in the SME sector. This is why the sector's enterprises deserve increased attention, and why their research, development and innovation activity must be encouraged.

G.5. Productivity and efficiency dimension

The level of productivity and efficiency significantly influences a country's competitiveness. Productivity shows how much new value an employee generates. But it can also be measured as how much new value is created per unit of employee's work during the time spent. Nevertheless, this relatively simple indicator is today supplemented by another system-oriented indicator as well. This is what is called the multifactor productivity indicator. The complexity of the work conducted by the employee, however, is also relevant, as are the modernness of the work equipment the employee uses and the extent to which his or her work environment is well-organised and managed. Work carried out using more complex tools, therefore creating greater value, that are well-organised and modern results in greater productivity. An important factor for improving full factor productivity is constant training of employees, that is, life-long learning. System-oriented multifactor productivity is shown to have improved when a country is capable of exporting more than it imports, since it is easier to find a market outlet for products containing greater added value. This also contributes to the strengthening of the exchange rate. Efficiency measures the utilisation of available resources, such as money, materials and energy, in a thrifty manner and for good purposes. It can be measured with various indicators, with energy efficiency being one of the most important among them.
We have measured the level of productivity and efficiency with the following indicators:

Key Indicator: GDP PER EMPLOYEE (HUF)

- This indicator is the gross domestic product (GDP) based on 2005 prices divided by the number of employees in the given year. Source: CSO

Sub-indicator 1: RATIO OF VALUE OF EXPORTS TO VALUE OF IMPORTS (%)

- This indicator is a numerical relationship that compares the national economy's exports to imports. A value over 100% shows that the value of exports is greater than that of imports. Source: CSO

Sub-indicator 2: CHANGES IN THE TERMS OF TRADE EXPRESSED AS A PERCENTAGE OF THE PREVIOUS YEAR (%)

- The change in the terms of trade is a very important indicator, since it sheds light on whether or not the country has a comparative advantage, and if it does, whether or not it can exploit it. If the value of the indicator is greater than 1, then more imports can be obtained with each unit of export products, or, fewer exports are needed to obtain each unit of imports. Source: CSO

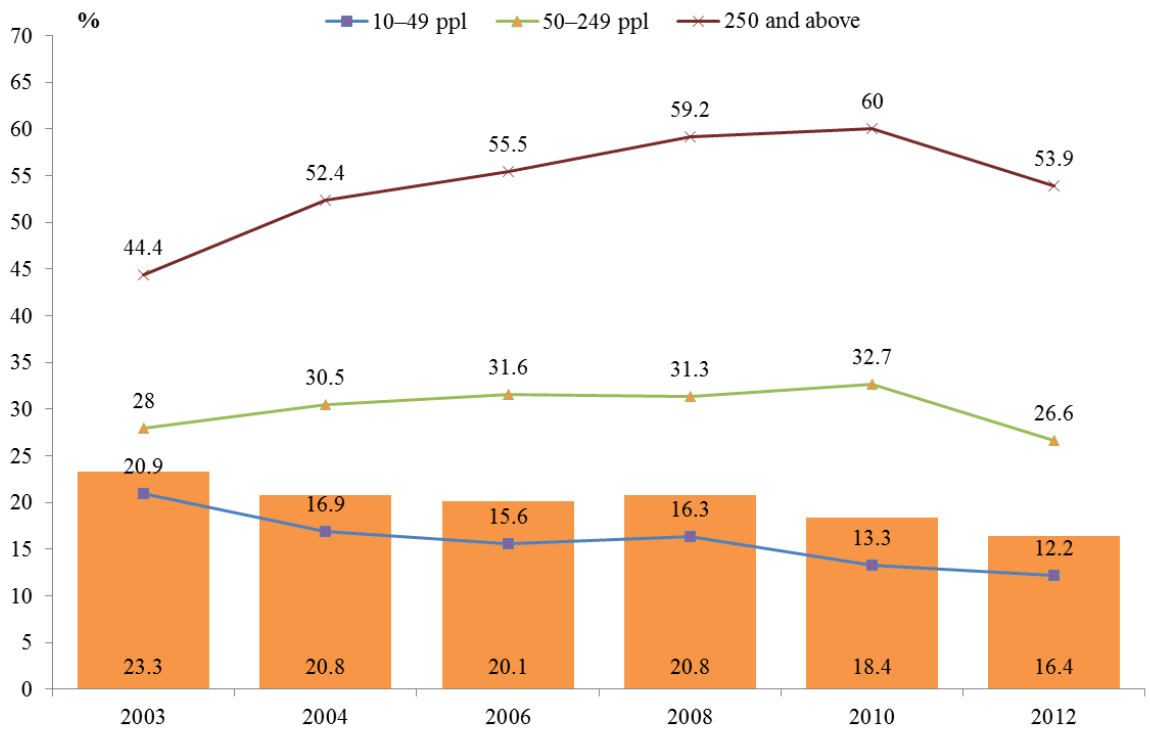
Sub-indicator 3: ENERGY INTENSITY OF THE ECONOMY (Kg of Oil Equivalent/1000 euros)

- Energy intensity is the gross domestic energy us in a given year divided by GDP, where energy use is represented in kilograms of oil equivalent. The gross added value shown in the denominator is specified in constant 2005 prices. The indicator measures the amount of energy required to generate 1000 EUR of GDP. Source: Eurostat

Sub-indicator 4: LIFE-LONG LEARNING AMONG THOSE AGE 25-64 (%)

- This indicator measures the proportion of the population aged 25-64 that has participated in formal education or adult training in the four weeks prior to the survey. Source: Eurostat

G.5.1. GDP per employee (HUF)



The figure measures changes in the amount of GDP per employee over the period 200-2013, calculated in 2005 prices.

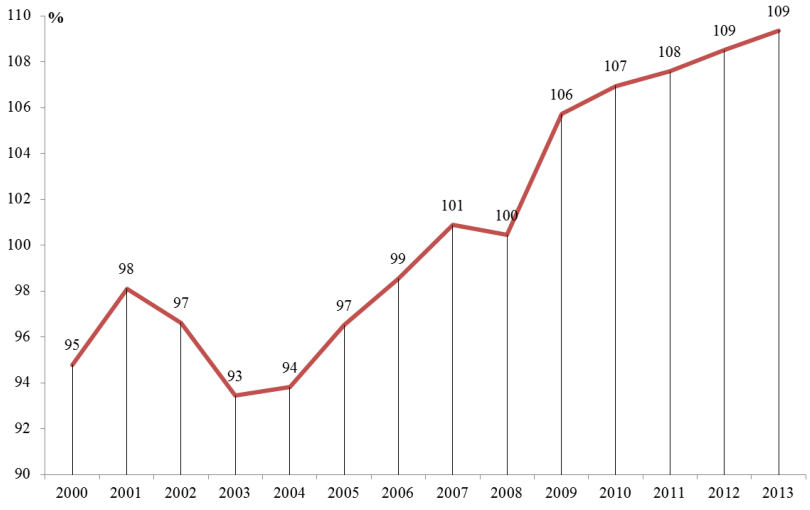
Calculating in constant prices is important in order to eliminate the effect of price changes in an indicator that measures productivity. In the figure, we can see that, based on this indicator, improvement in productivity remained uninterrupted until 2006. Since 2007, the value has fluctuated with overall growth halting. The principal reason for this is the crisis. Starting in 2006, the pace of economic growth slowed, with economic growth ceasing altogether in 2008 as the economy went through a contraction. It started to improve only in 2010-2011. The Hungarian productivity indicators are poor at the regional level, although its multifactor productivity indicator is even weaker.

Since growing productivity is one of the important sources of economic growth, it is necessary to improve the values of both productivity indicators. Improvement would be helped by raising the amount of investment in further education and innovation and the ratio of participation in adult education. This would require the number and quality of further education services to be raised as well.

Preliminary data for 2014: HUF 5,607,000

Growth in productivity is one of the main sources of improved productivity and economic growth, which is why creating the conditions for growth to take place, primarily by raising the level of knowledge and supporting innovation, must be considered a key issue.

G.5.2. Ratio of value of exports to value of imports (%)

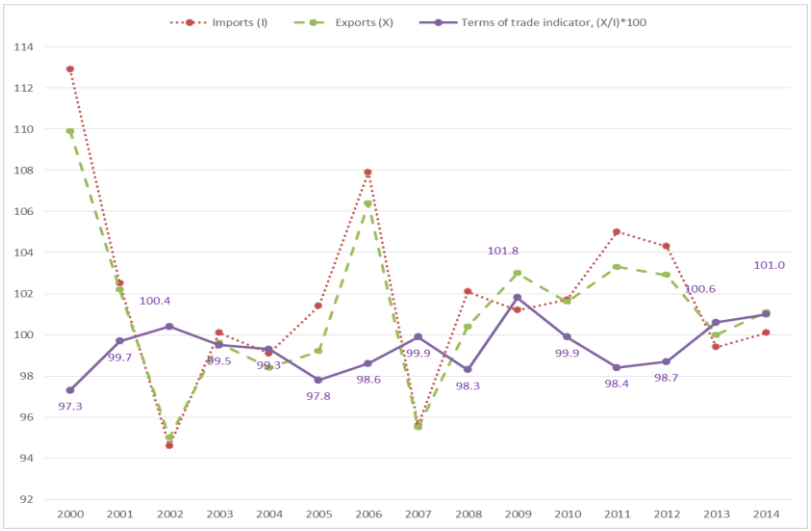


The figure shows the ratio of the value of exports to the value of imports between 2000 and 2013. The value for a given year is calculated at the middle rate and in nominal terms. The data shows that exports began to overtake imports in value starting in 2009. The chief reason for this is the launch of investments in the automotive industry and growing exports from it. In relation to this, the timeline indicates a problem of economic vulnerability as well: that exports should be diversified, primarily by increasing the export performance of Hungarian SMEs, in order to reduce the dependence of the country's export performance on exports by foreign companies, which are mainly in the automotive industry. Export results show the level of competitiveness of a national economy by indicating whether or not there is a demand in the global market for products and services generated by it. According to international analyses, (e.g. the IMF's country report from March 2015), Hungary's export ratio has stagnated since 2008 as a share of total exports in the world economy, and this is a weak result compared to other countries in the region.

Preliminary data for 2014: 108.8%

The expansion of exports – which is an important condition for economic growth – could be promoted in a sustainable way by increasing the diversification of the economy and expanding exports from Hungarian SMEs.

G.5.3. Changes in the terms of trade (2000=100%)



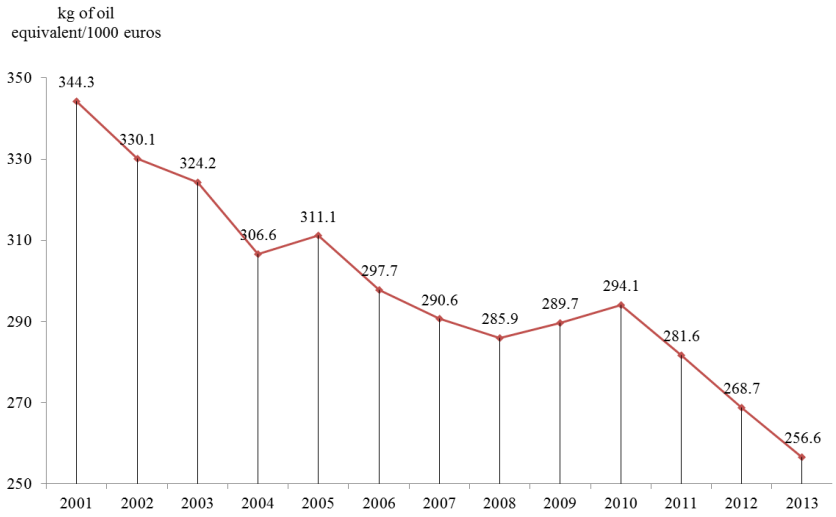
Changes in the terms of trade shows whether or not a country has a comparative advantage, and if it does, whether or not it is capable of exploiting it properly.

If the value of the indicator is greater than one, than the terms of trade are positive for the country. The terms of trade can be improved by increasing both the production of the country's products and services that carry special value and are therefore can be sold at a premium price, as well as the export of such products.

In figure G.5.3., we can see that that during the time period of 15 years, the terms of trade deteriorated more often than they strengthened. It is only possible to achieve high prices with products and services that contain a high level of value and innovation and with outstanding marketing. This is why innovation, knowledge and the creation of the great value that underpin these are a key issue.

A deterioration in the terms of trade sucks resources out of the economy, which is why improving it is a crucial issue. This depends on enhancing performance and outstanding marketing.

G.5.4. Energy intensity of the economy (kg of oil equivalent/1000 euro)



Knowing the level of an economy's energy intensity allows one to draw conclusions about the economy's structure (production-oriented, service-oriented) and the efficiency with which resources are used (whether individual industries are wasteful or thrifty with respect to energy use) and the economy's environmental awareness. Its value is to be interpreted together with the energy price level, both at an absolute value and scaled to the level of competitors, in order to understand the effects of competitiveness. Its high level in the case of Hungary – as a typically energy-importing country – could be an issue of pronounced supply-security and price-level, which may pose a significant geopolitical risk with respect to the source of the energy imports. Hungary's actual level is nearly double the EU average. At the same time, in the past decade, the decline of Hungary's energy intensity has outpaced the EU's average decline. The indicator is calculated with the country's entire energy usage, not only its actual economic activities, and also includes residential and transportation-related energy usage, equalling roughly two-thirds of energy usage. It is advantageous that, of the Visegrad Four countries, Hungary's economy is the least energy-consuming. If Hungary wishes to strive for a competitive economic structure, it would make sense to promote increased energy efficiency, the diversification of energy resources and low energy prices.

Energy dependency also entails economic dependency, which is why it is a strategic task to reduce the economic structure's energy intensity and to generally increase energy efficiency both within and outside the economy.

G.5.5. Life-long learning among those aged 25-64 (%)

The rate of participation in adult education generally has a significant effect on the possibility to increase productivity, especially the possibility to raise multifactor productivity. The indicator's importance is demonstrated by the fact that the EU's European Innovation Scoreboard published each year also evaluates it as an important Sub-indicator. Hungary, in terms of this indicator, has long been in a poor position. Based on the ELLI (European Lifelong Learning Indicator) index, the country is among the "weak performers". In the entire EU, only four countries are ranked below Hungary. The problem is demonstrated by the figure for G.5.5: the participation rate in adult education fluctuates between 2.7% and 4.5%. This value can be considered low even within the region. For example, it is 11.4% in the Czech Republic, 15.9% in Slovenia and 11.4% in Estonia. The lack of continuous education and further training harms employees' chances on the job market. The lack of up-to-date knowledge hinders economic development, improved export capacity and, ultimately, increased competitiveness and the chances for GDP growth.

The essential tool for increasing productivity and expanding employment is constantly raising employees' level of knowledge, which is why significantly increasing the participation rate in adult education is a task of critical importance.

Sustainability
Summary

Sustainability is not merely an area or aspect of good governance. Sustainability is the sole possible manner in which it is both feasible and worthwhile to plan for the long term. This means that sustainability is both a system and an approach that must run across all disciplines in order to ensure that decisions made for the long term will serve the interests of the citizens, whether this is at the regional, national or global level.

Naturally, before proceeding to back up the grounds for the above statement, the concept of sustainability requires some clarification. At the same time, it is important to note that this study concentrates on government capabilities and criteria. It is therefore not our aim to examine sustainability at the level of individuals, but rather to examine everything in the decision-making process that makes up a country's policy direction.

Living in prosperity while respecting our planet's ecological limits.

Hungary's economy is a market economy. We belong to the world's advanced minority, and, as is characteristic of such, we are forced to confront the environmental problems of an economy based on fossil fuels. A market economy means that the economic situation of the people and the country is created by those markets and transactions taking place in which we participate. From the point of view of sustainability (both environmental and social), economic considerations present one of the greatest challenges. The economy is the sum total of systems based on flows of materials and energy. Economic processes have environmental and social impacts, some of which can be termed visible, predictable and intentional, while others cannot be predicted or have indirect effects. When conducting policy analysis in advance of a decision being made, the analysts generally attempt to uncover and consider every circumstance that might influence the decision or its consequences.

The governing of a country is a series of long-term strategic decisions which, if made within a shifting or poorly structured system, invariably come with great risks. In light of the fact that the aim of this chapter is to integrate criteria of sustainability into policy analysis and advisement, this becomes all the more complicated, because the sustainability indicators which would point the way to reaching objectives are rather controversial and immature.

It is the task of the state to promote the preservation and growth of environmental and social values. As Hungary's Fundamental Law states: "The protection and maintenance of natural resources... and their preservation for future generations is the responsibility of the state and of everyone." [article P] The National Assembly of Hungary, to this end, has accepted for the support of sustainability efforts the national concept for a transition to sustainability pursuant to the document entitled the National Sustainable Development Framework Strategy 2012-2024.

The indexes we have selected are in line with the contents of the framework strategy, according to which "producing the assets required to promote the material, intellectual and spiritual well-being of every generation – whether these are products and services generated through the coordination of the market or public assets provided by the state or other institutions – is not possible in the absence of four fundamental resources, these being **human, social, natural and economic resources**.

This research undertaking, and the Sustainability dimension in particularly, can also be considered a response to the appeal of the Hungarian National Sustainable Development Council, since "we currently do not have at our disposal indicators measuring the four national resources which can be used without causing concerns with respect to their methodology and content. For this reason, the Framework Strategy, by starting to develop this set of indicators, addresses the government, the Central Statistical Office, and the various academic working groups.

In selecting the indicators, we bore in mind the fact that each of the dimensions (environmental, social and economic) should carry equal weight in the final set of indicators, and accordingly identified the following categories:

- climate change
- natural resources management
- environmental stresses
- economic dimension
- social dimensions

It is evident that the indicators relating to the viewpoint of environmental protection are in a majority vis-a-vis the other two other dimensions, which can be explained by the fact that these indicators do not appear in the other areas of the Good State Index, whereas the volume dedicates an entire chapter to each economic and social consideration. At the same time, it is important and also, in part, symbolic for none of the three dimensions to be omitted from the sustainability "dimension".

In accordance with the above, the sustainable development indicators measure the functioning of the good state based on the following criteria:

The greatest challenge for human civilization is the transition to a low-carbon economy. The climate-change indicators seek an answer to the question of what the state should do in order to reduce the country's carbon emissions. This includes all activities, actions and investments that target reduced or more efficient energy consumption, as well as those that support increased use of energy produced from renewable and/or low-carbon sources.

The indicators having to do with the management of natural resources reflect the results of measures taken in the interest of careful handling of the nation's natural resources and assets. It shows the extent and health of the natural capital that the country possesses.

Environmental health, and by extension, food safety, are factors that are so critical, they can lead to disaster even in the short-term if the state does not manage them as a careful steward.

The environmental stresses indicators track the emissions (solid waste, wastewater and air pollution) generated during economic and social processes. Like the other indicators, this one too indirectly hold up a mirror to the environmental pollution caused by various activities. The state's efforts can take the form, in part, of measures taken to appropriately handle pollution, and all activities that support the reduced generation of pollutants, so the implementation of cleaner technologies, has a positive effect on the indicators.

Sustainable economy is one of the most complex and contentious of issues. We can, however, state with confidence that, in a given country, contemplating the question from the point of view of the people who live there, the answer is that the economy must support everyone's ability to earn adequate income while performing meaningful work according to their own abilities and ambitions, and to have the chance to spend it as they see fit. The set of indicators showing economic sustainability, like the economic indicators, can and will be developed further.

The aim would be to integrate subjective criteria in such a way that the subjective impact of the "goodness" of the governance can also be made measurable (livelihood, positive outlook for the future, feasibility of life goals) on the basis of a reliable survey conducted regularly on a representative sample.

Overall, we can say that we already have a number of indicators at our disposal with which Good Governance is measurable, at least in an indirect way, from the point of view of sustainability. But the range of indicators needs to be expanded, which means that what would be required would be a broader ranger of different types of data collection that follows the changes taking place in society and in the economy. These in turn serve as appropriate points of reference for public policy and government decision-making.

It is also obvious that, in addition to measurability, there is also a need for the government to be able to influence processes in the desired direction, and thus achieve indicators showing a positive change. Since change in social and economic processes is the result of a complex system in which the state's role is just one factor, if not a marginal one, the effects of government measures can only be predicted with a relatively high degree of likelihood after more detailed analysis has been conducted. It can, however, be stated that the consultation preceding the making of decisions, in which the parties concerned have an opportunity to participate, greatly assists in finding appropriate solutions. Therefore, in those cases where the government is unable to set either a direction or an example by taking some direct measure (reducing emissions, supporting environmentally friendly solutions, designating specific resources), then an appropriate consultation period is essential for policy analysis to take place.

This study places Hungary's situation and challenges at its centre. Unfortunately, owing to the conceptual uncertainties and the frequently inadequate communication of the recent past, "sustainability" has become a platitude, emptied of its meaning. In hindsight, initiatives related to sustainable development have often withered on the vine, and sometimes progress has been labelled as obstructive, while its implicit potential remained ignored.

The time for emergency communication and scaremongering is over. Not because the danger has been averted, but because in our time sustainable development has become a symbol of the possibility for meaningful and happy life, which we can collectively find and enjoy with the help of methodologies, technologies, and our existing knowledge.

F.1. Climate change dimension

The world's developed economies (such as Hungary) are confronted with challenges entirely different from those of developing countries. Accordingly, of the numerous critical resources and endangered and heavily damaged ecosystem services, most tasks faced by Hungary involve, in addition to the issue of food and water, planning in relation to climate change and energy provision. Many researchers say that climate change entails that the 21st century will be the most threatening century ever for humankind.

There are some effects that will only become threatening after they have accumulated over time, but even before we reach such a point, repairing the damages may require incalculable amounts of resources. There are also estimates regarding the extent to which climate change might cause economic damages. According to the Stern Report: "Based on the results of the official economic models... if we do not act, the total costs and risks of climate change may reach the equivalent of more than 5% of global GDP – and this is not a temporary impact, but rather an eternally lasting one. If we take into account a wider range of risks and consequences, the estimated extent of the damage caused could reach 20% of GDP, or even more. In contrast with this, the costs of action – to reduce the emissions of gases that cause the greenhouse effect in order to avoid the worst consequences of climate change – might come to as little as approximately 1% of global GDP."

Key indicator: GREENHOUSE GAS (GHG) EMISSIONS (1000t CO_2 equivalent)

- Emissions of six greenhouse gases (CO_2 – carbon dioxide, CH_4 – methane, N_2O – nitrous oxide, HFC – hydrofluorocarbon, PFC – perfluorocarbon and SF_6 – Sulfur hexafluoride), converted into carbon dioxide equivalency.
- Carbon dioxide equivalency (CO_2 equivalency) is a tonne of CO_2 or the quantity of another greenhouse that has the equivalent potential to alter the global climate to an equivalent extent.
- Source: CSO, Hungarian Meteorological Service (OMSZ)

Sub-indicator 1: GREENHOUSE GAS INTENSITY OF ENERGY CONSUMPTION (based on year 2000 base level)

- The ratio of greenhouse gas emissions related to energy use to gross domestic energy use. Source: CSO, OMSZ, Hungarian Energy and Public Utility Regulatory Authority (MEKH)

Sub-indicator 2: GREENHOUSE GAS EMISSIONS FROM TRANSPORTATION (based on 1999 base level)

- Changes in the level of greenhouse gas emissions originating from transportation (road and railroad transportation, shipping on domestic waterways and domestic flights). Source: OMSZ

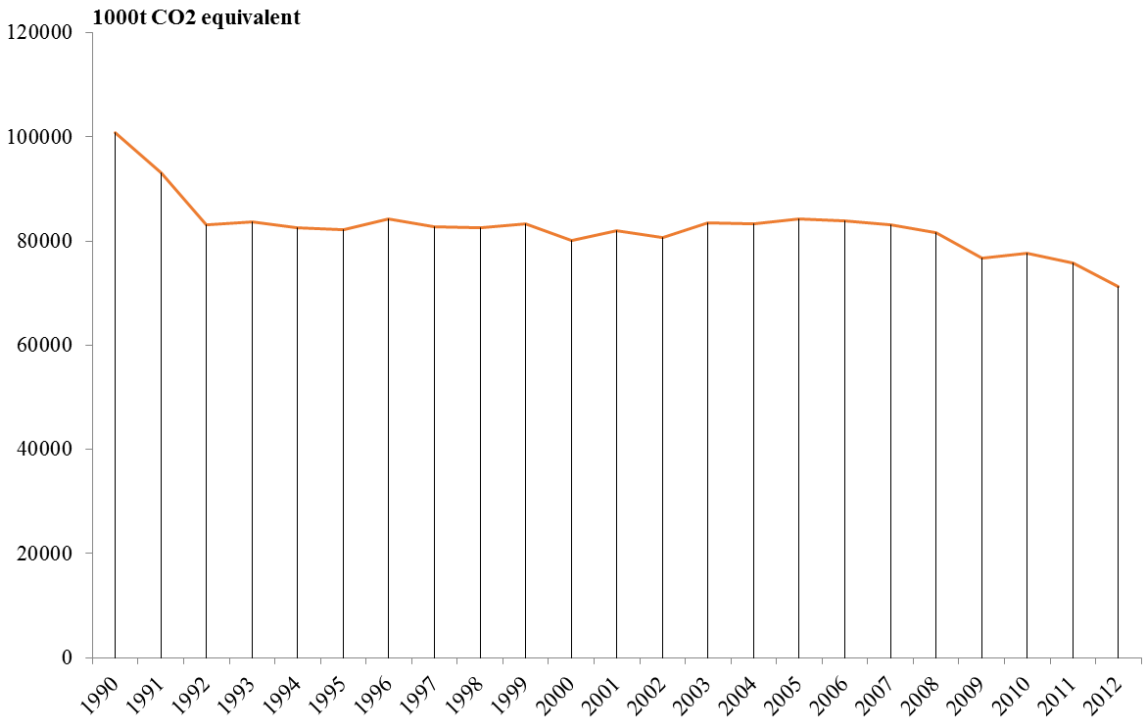
Sub-indicator 3: RENEWABLE ENERGY SOURCES AS A SHARE OF TOTAL ENERGY USE (%)

- The share of renewable energy sources (electricity generated from hydro and wind power, thermal and electric energy supplied from solar energy, geothermal energy, biomass, biogas, biofuel, communal waste) as a part of gross domestic energy use. Source: CSO, OMSZ, MEKH

Sub-indicator 4: DEPENDENCE ON ENERGY IMPORTS (%)

- The ratio of net energy imports to total domestic energy use and reserves. Energy dependency can also be expressed as a negative when the country is a net exporter, whereas a value over 100% indicates that energy is being accumulated. Source: CSO, MEKH

F.1.1. Greenhouse gas (GHG) emissions (1000t CO_2 equivalent)



It would have been difficult to select a different for the key indicator for climate change than total greenhouse gas emissions. The factors causing climate change are also often measured in GHG emissions per capita, a figure which has decreased in Hungary as well in recent years, despite the dwindling population, but we instead chose total emissions, because from the point of view of the harmful effects, it's incidental what population is causing it.

It is interesting to glance to at the OECD statistics that track GHG emissions for individual countries. If we compare total, per capital and GDP-proportionate emissions, then Hungary ranks 12th place out of 34 countries (with Iceland, Luxembourg and Slovenia in the top places), while in the area of per capita emissions, it is in third place, after Turkey and Sweden. In the case of GDP-proportionate emissions, a different picture is shown, with Hungary placing 18th, and Switzerland, Sweden and Norway in the lead.

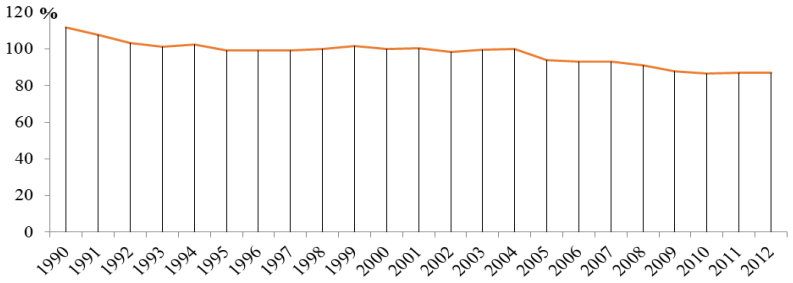
Based on the commitments it has made, the EU must reduce its GHG emissions to 20% below its 1990 level by 2020. This is one of the main objectives for the Europe 2020 growth strategy program, which is called the Climate and Energy Package.

Hungary's performance exceeds the commitments (in 2012, emissions were at 70% of the 1990 level), and thus in the European Union, based on Government Decree 323/2007. (XII.11) on the use of revenues originating from carbon dioxide trading in effect since 1 January 2005 and on the quota systems, the Green Investment Scheme (GIS). The aim of this is to provide revenues for use for climate protection.

From all of this it is clear that the government is able to play a major role not only in promoting and supporting the reduction, but also putting the revenue from the quota system to appropriate use. In order to achieve the objectives, it is also important to be aware of what sectors are the biggest GHG emitters, and where government intervention can be most effective. As can also be seen from the EU statistics, transportation is the one sector that is responsible for 24.3% of GHG emissions (of which road transportation makes up 71.9%). What is even more important than this, however, is that while in the case of the other sectors, emissions have decreased, in the transportation sector they have grown by 36% at the EU level.

While the reduction of CO_2 emissions is a positive step, increasing the extent of these reductions is still important from the point of view of sustainability and climate change, if Hungary is to exceed the commitments it has made.

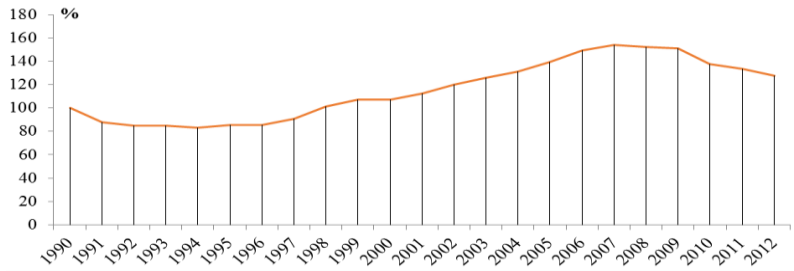
F.1.2. GHG intensity of energy consumption (based on year 2000 base level)



A methodology frequently applied in measuring environmental factors is the Life Cycle Analysis (LCA). Based on this, we establish the degree to which a product is environmentally friendly. On of the most important factors in this is the GHG emissions of the given product over the course of its life cycle. Using fossil-based energy sources can cause the most significant burden. Thus, if we wish to succeed in reducing the environmental impact, then we must reduce the ratio of fossil fuels in favour of renewable sources, which means that the GHG emissions for a given unit of energy use will also decrease. Glancing at the diagram above, one can see that there has been a 13% reduction compared to 2000. Taking into consideration that consumption has also increased by 16% since the reference year, it is clear that the environmental burden is clear. At the same time, we must also note that replacing fossil fuels with renewable sources can only be a solution for the problem if we also target reducing consumption in parallel with this. An example of this are those residential programmes that target improved household energy efficiency. Continuing these programmes along with supporting programmes that are targeted at improving conscious consumption (e.g. employing smart meters) can contribute a great deal to ensuring that an ever greater share of decreasing energy consumption is covered by renewable energy sources. Showing a good example also plays an important role in this process. The energy use linked to office buildings (heating, cooling, lighting, etc.) comes to a significant share of total energy consumption, and therefore the efficiency measures made in this area immediately show a direct effect.

The proportion of clean energy sources has grown at a slowing pace in recent years, to the point of the stagnation that can unfortunately be seen now. This trends also adversely influences total CO_2 emissions as well, and thus in order to reduce the intensity, further measures are required.

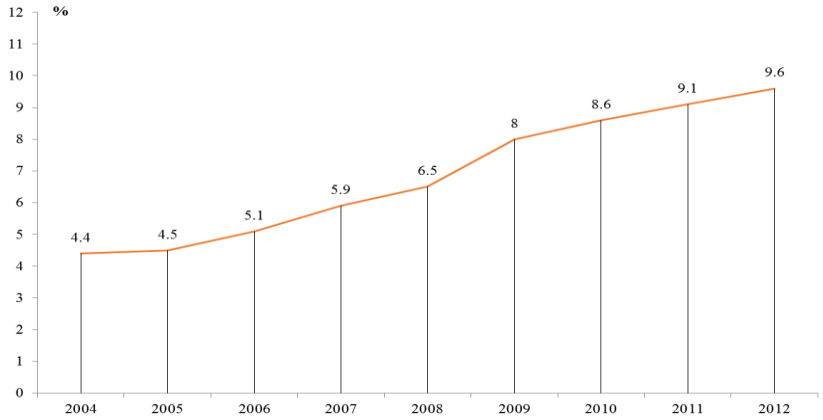
F.1.3. Greenhouse gas emissions from transportation (based on 1999 base level)



GHG emissions from transportation deserve special scrutiny. The Feiler–Ürge-Vorsatz analysis of long-range objectives puts it this way: The study foresees the most significant room for reducing emissions in the power-generation sector to lie in the energy requirements of buildings, and in transportation. Transportation is also a sector requiring management based on a long-term approach and systematic thinking. Significantly conflicting interests can expected to appear frequently. Increases in individual prices can improve the burden on certain areas, and increases in the price of petrol can spur drivers to use public transportation, and these increases can appear in consumer prices. While the environmental burden of road traffic and transportation of goods is quite high, it is quite difficult to compete with it in terms of flexibility and speed (due to existence and development of infrastructure). At the same time, by developing the logistical system, a significant share of shipment of goods on public roads could be replaced.
Naturally, reducing the fuel consumption of vehicles and making environmentally friendly (hybrid and electric) cars more widespread also promote the reduction of emissions. We also cannot forget to remember the effects of the crisis. The diagramme perfectly illustrates how visible its impact on transportation was. At the same time, we cannot regard it to be a positive turn of events if emissions are reduced through problems with living circumstances, even if we have to be ready for such problems as well. With respect to the consequences of climate change, which is leading to problems with living circumstances in many areas, taking the most efficient and effective measures possible is of vital importance.

The downward trend over the long-term changed as a result of the crisis. It will be necessary to maintain the positive change in future as well.

F.1.4. Renewable energy sources as a share of total energy use (%)



As could be concluded from the reduction in GHG emissions, the share of renewables among all energy sources has increased in Hungary. Considering Hungary's attributes, biogenic sources and wind-energy offer the most potential among renewables, while hydropower and geothermal and solar energy are also worth looking at and using in the long-term.

The most frequently consulted source, a 2003-2005 study prepared by the Renewable Energy Sub-committee of the Energy Committee of the Hungarian Academy of Sciences, calculates Hungarian's renewable energy potential at 2,665.246 to 2,790.406 petajoules (PJ) annually,

Solar (thermal) 102.5 PJ/year

- Solar (power generation) 1,750 PJ/year
- Hydropower 14.4 PJ/year
- Wind energy 532.8 PJ/year
- Biomass 300 PJ/year
- Geothermal 63.5 PJ/year

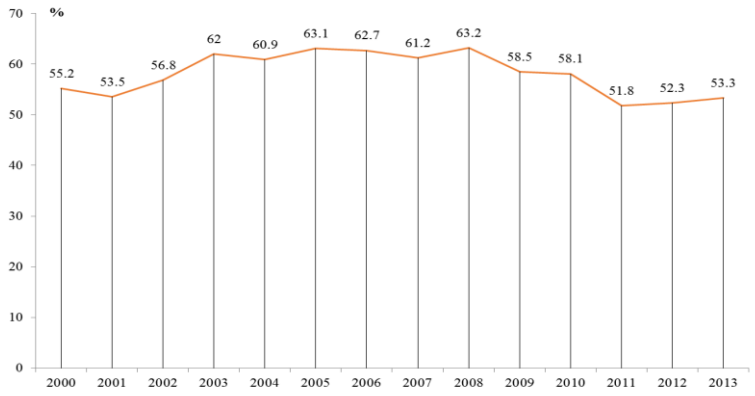
Of the total, 405-540 PJ is realistically usable each year (15-20% of total potential), which comes to around 30-40% of domestic energy needs.

If we take into account the hidden potentials from energy savings, which also entails modernising buildings and systems, the achievable results are even more attractive.

In any case, achieving the objectives that have been undertaken does not present a problem for Hungary, and thus it is more of a worthwhile aim to set to restrict the country's dependence on energy imports to a minimum by making use of cutting-edge technologies.

Although the increase in the proportion of renewable energy sources can be considered favorable, the actual figures far fall short of their potential. A greater pace of growth would also be feasible.

F.1.5. Dependence on energy imports (%)



Import dependency is not just an aspect of sustainability, but one of security policy as well. Few countries can claim that they are not dependent on imports for some raw materials and products. Often this is not a question of the theoretical possibility of being self-sufficient, but rather that for strategic and/or economic considerations it does not choose to be self-sufficient. In the case of Hungary, self-sufficiency is not a realistic goal when import dependency has not sunk below 50% in the past 10-15 years. Obviously, reducing this figure is an objective in the interests of security of supply. However, domestic production also creates jobs, which means that it is not just the security factor that is important, but the local economic stimulus role as well. Apart from Denmark, every country in the EU is dependent on imports for their energy needs, and based on the data for 2011, Hungary's figures are lower than the EU average in this regard. Energy import dependency is composed of two parts, of which one part is the extent of domestic supply, and the other is the extent of energy needs. Energy is required for economic growth, and thus the solution lies in harnessing domestic renewable power supplies. Some of these projects are investment-intensive, and the statutory environment is also keeping pace with the changes in order to create opportunities instead of obstacles. With these in mind, it is fair to state that by increasing the share of renewables and increasing energy source productivity, coupled with positive economic data and improved dependency on energy imports, the country will become more sustainable with respect to energy supply.

Hungary's energy dependency shows slight fluctuation around a high value. It is desirable to continue the slight reduction that can be seen over recent years.

F.2. Natural resources dimension

The role of the state is to safeguard valuable natural and social assets and to promote economic development. As the Fundamental Law states in Article P: "it shall be the obligation of the State and everyone to protect and maintain them, and to preserve [natural resources] for future generations".
Furthermore, in Article Q, it also undertakes the obligation to work with other nations for the sake of sustainable development: "In order to create and maintain peace and security, and to achieve the sustainable development of humanity, Hungary shall strive for cooperation with all the peoples and countries of the world."
Therefore, energy resources and their yield is not a permanent asset. Natural capital is not important solely from an economic point of view, or conversely, we could also say that it is not in every area that natural capital has a direct economic benefit.
The chief function of natural capital is to provide resources, to accommodate and neutralise waste, along with its functions of sustaining life and promoting well-being. "The mineral treasures and fossil energy sources in the earth's crust constitute part of natural resources just as much as the possibility that new life forms may come into existence, or that the biosphere has a capacity to accept and absorb pollutants."

Key indicator: PRODUCED BIOMASS (million tonnes)

- This indicator considers all lifeforms that we use in the given year in economic processes. It is the combined total of primary agricultural products and by-products, pasture plants, wood for processing, fish stock and shot game. The sources of the data are the national economy-wide material flow accounts, which consider the animal stock to be part of an economic process, so it takes account of the plant products consumed by lifestock as biomass. Source: CSO

Sub-indicator 1: CONSUMPTION OF WATER SUPPLIED BY PUBLIC UTILITIES (m^3/person)

- The volume of water supplied per capita by public utilities to residential, agricultural, industrial and other consumers (e.g. institutions) via drinking water mains. The indicator does not consider the quantity of water won through privately owned wells. Source: CSO

Sub-indicator 2: PERCENTAGE OF AGRICULTURAL LAND USED FOR ORGANIC FARMING

- Areas certified for farming according to European Commission Regulation 889/2008 as a proportion of total agricultural area. Source: CSO

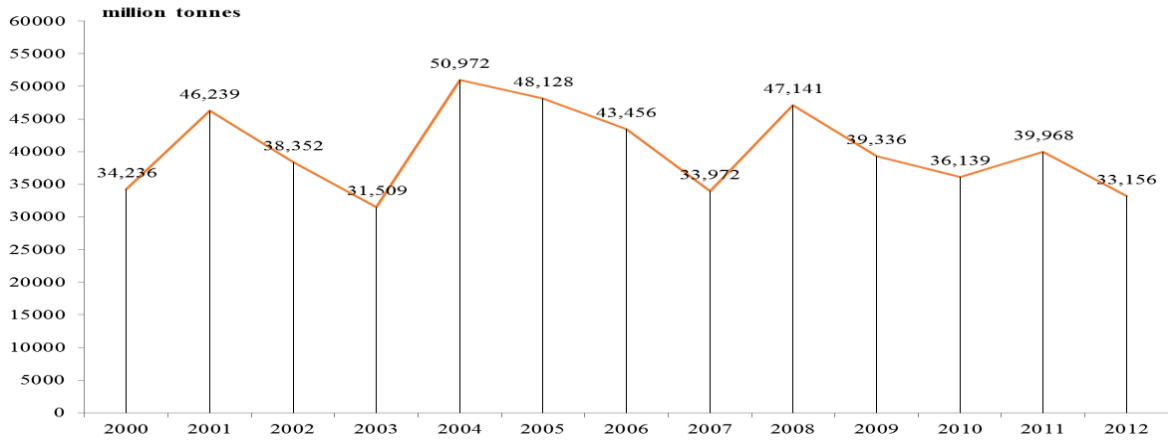
Sub-indicator 3: SIZE OF AREAS OF NATIONAL IMPORTANCE PROTECTED BY THEIR OWN LOCAL LAWS (hectares)

- Areas of national importance protected by their own byelaws include national parks, conservation areas and nature reserves. A national park is a larger area that is home to the country's characteristic natural endowments and has not been significantly changed, and where the presence of animal and plant life, topolographical feaures and their combination is of particular significance in the contexts of science, public education and recreation. A conservation area is a larger area or region protected in order to preserve and maintain natural assets and favourable natural characteristics. A nature reserve is an area set aside to preserve and maintain particular natural assets, including caves and assiociated land aread. Source: Ministry of Agriculture

Sub-indicator 4: CHANGE IN POPULATIONS OF BIRD SPECIES ASSOCIATED WITH AGRICULTURAL HABITATS (1999 = 100%)

- This is an aggregated index result ing from the programme to monitor the common bird types feeding and breeding in agricultural habitats. Its value reflects the changes in bird numbers associated with agricultural habitats. The Hungarian index is based on 16 species of birds that represented common bird types in domestic agricultural habitats in the period 1999–2012 (on the basis of habitat use and preference). Source: Hungarian Ornithological and Nature Conservation Society

F.2.1. Produced biomass (million tonnes)



A prerequisite for sustainable development is for every human activity to take place within the limits of the ecosystem and of biocapacity.

Produced biomass is an important subset of natural resources. Biomass includes all organic materials and organisms present in every type of habitat at a given moment. Its quantity can be specified as a number of individuals, in terms of mass, energy content, and so forth. The quantity of organic materials present in the ecosystem is therefore the energy of the sun converted into and trapped as chemical energy by green plants during photosynthesis. The chief ways to utilise biomass are for food production, animal fodder and in producing base materials for agro-industrial products, as well as in energy production. Biomass, therefore, is primarily food, and secondarily an industrial base material, and only thirdly can we talk about its possible use as an energy source. The latter possibility therefore only exists where the quantity of produced biomass is enough to meet the food needs of the population and where the need exists for energy that is produced this way as well; the amount of this, however, varies tremendously with the natural attributes of different parts of the world, and depends, for example, on the consumption structure of the given area. The quantity that can actually be used, however, is a function of the historical, economic and political situation in the given country.

As can clearly be seen in the diagram, biomass is also a natural resource whose quantity varies. The quantity of biomass is not only influenced by human activity, but by factors that are "independent" of the economy as well, such as weather, or even historical events.

Hungary can be counted as one of those fortunate countries where its natural attributes enable biomass to be utilised for energy as well. However, it is important to note that this area is quite sensitive, as Hungary is also a country where the use of biomass for food purposes takes top priority, and it is only possible to engage in its otherwise important use for energy production in the context of the criteria of food production. Although its use for energy purposes is currently still small, if one takes the EU's targets into account, the future belongs to renewable energy sources, and biomass, as one of these cannot be ignored. As can be seen in the table based on the Ministry of Economy and Transport's data from 2008, which was included as an annex to Parliamentary resolution 77/2011 of October 2014 on National Energy Strategy, biomass follows solar energy and wind power as the third most significant potential source of renewable energy in Hungary.

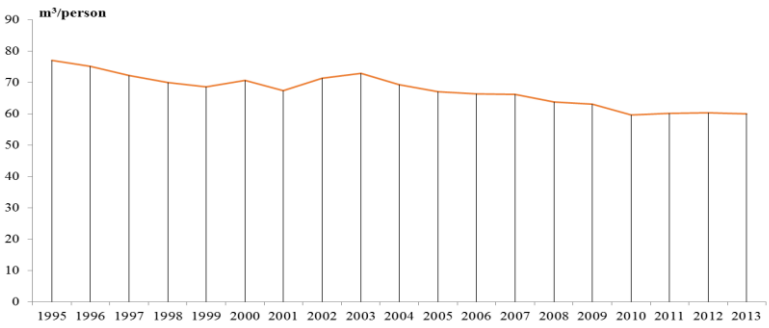
Renewable source	Potencial (PJ/yr)
Solar energy	1,838
Wind energy	532.8
Biomass	***203-328***
Hydropower	14.4
Geothermal	63.5
Total	2,600-2,700

Biomass (breakdown)	Potencial (PJ/yr)
First-generation bioethanol base material	70
Biodiesel base material	20
Solids (combustion technology)	188
Biogas	25
Total	303

(Hungarian Academy of Sciences, 2008)

Disregarding several "peak years", the quantity of produced biomass has shown little change. The solution may involve counterbalancing the environment effects and responsible management, while the portion of the trend that is not a result of the weather needs to be identified.

F.2.2. Consumption of water supplied by public utilities (m³/person)



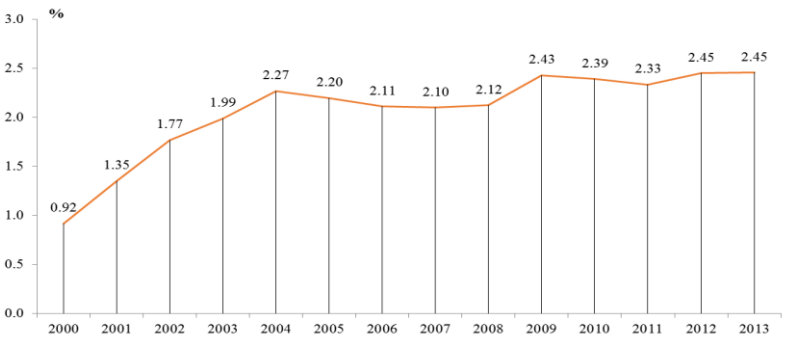
The downward trend in water consumption is a positive process, for which the decline in industrial production is just as important a contributor as the significant rise in price of water supply. According to the CSO data, all communities in Hungary have a potable water supply from a mains connection, and for households, the rate stood at more than 95% in 2011.

In Hungary, the public utility gap (the difference between the potable water supply from a mains connection and the level of sewerage) has also declined significantly. By 2010, there were more than 650 metres of sewerage for each kilometre of water mains.The greatest proportion of domestic water consumption is linked to households. Of the 450 million cubic metres of water provided in 2011, 340 million cubic metres were used directly by the population, while the other approximately 110 million cubic meters were used indirectly, especially within the framework of industrial use.

From the point of view of sustainability, it is worth noting the concept that relates to water consumption, which is that of the water footprint. The water footprint of an individual, community or organisation shows the total amount of water that they have consumed both directly and indirectly, in the course of producing products and providing services. In Hungary, the water footprint per person was 6,500 litres per day. Of this, the population only consumes altogether 110-160 litres directly in the form of water (for washing, cleaning, cooking, drinking water, etc.). The rest is integrated into the objects, foodstuffs, purchased items of clothing and services that the population uses. The drinking water that is consumed, therefore, is only the tip of the iceberg in terms of the total quantities of water that are needed for daily life.

The downward trend in water consumption that can currently be observed may contributr to a reduction of the risk of a water shortages.

F.2.3. Percentage of agricultural land used for organic agriculture (%)

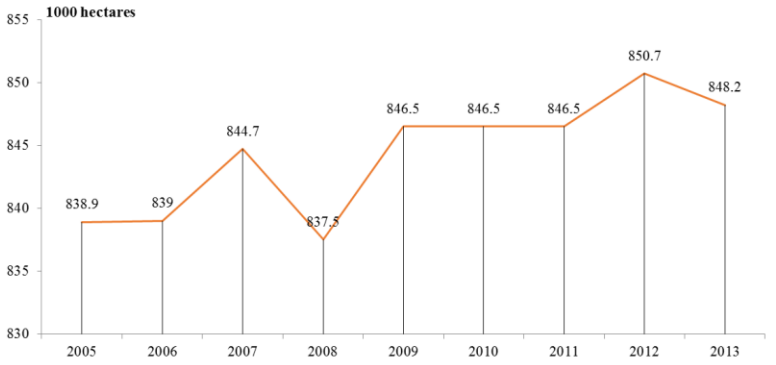


The most important aim of organic farming is to safeguard sustainable development by ensuring biodiversiy. Founded in 1972, IFOAM has brought together the world's various grassroots ecological trends. According to IFOAM, organic agriculture "includes all agricultural systems that promote the environmentally, socially and economically sound production of food and fibres." These systems take local soil fertility as a key to successful production. By respecting the natural capacity of plants, animals and the landscape, it aims to optimise quality in all aspects of agriculture and the environment. Organic agriculture dramatically reduces external inputs by refraining from the use of chemo-synthetic fertilisers, pesticides, and pharmaceuticals. Instead, it allows the powerful laws of nature to increase both agricultural yields and disease resistance.

The core principles of organic farming are "protecting the environment, fairness, care and health." The figure shows, following a period of expansion between 2000 and 2004, the number stagnating around 2.45% in recent years. Regulatory conditions favouring organic production and increased support would be stimulative. The National Rural Development Strategy accepted by the government in the spring of 2012 calls for, as an objective in the Organic Farming Programme, the development of an organic agriculture action plan for Hungary that is aligned with the EU action plan for organic foods and organic agriculture in order to increase the amount of land used for organic farming. Pursuant to this, the amount of land used for organic agriculture will at least double, to over 300,000 hectares, by 2020.

Following an initial upward swing, stagnation can be seen in the change of the proportion of land used for organic agriculture. Having this ratio resume its earlier increase would have a positive effect in terms of both Hungarian agriculture and the quality of the food supply.

F.2.4. Size of areas of national importance protected by their own local laws



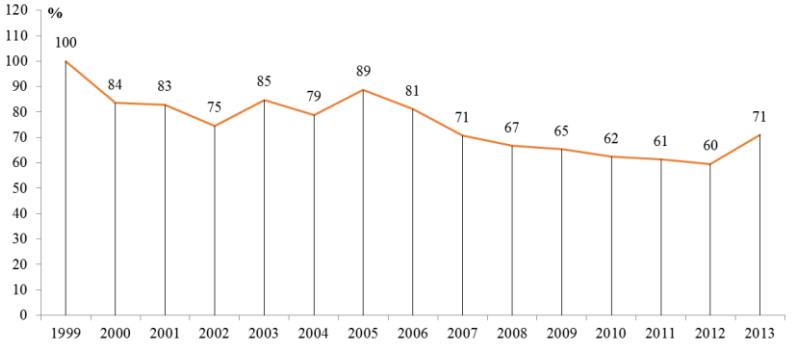
According to articles 4 b), c) and d) of Act LIII of 1996 on the Protection of Nature, all areas shall be considered natural areas that are characterised by being in or close to a natural state. Special protection for natural areas is established by way of the force of law (ex lege) or through declarations of protection in individual statutes. The name natural areas of national importance protected by individual legislation is the term used to refer to natural areas declared by the Minister for Natural Protection to be protected by decree. These can be national parks, protected landscape areas, conservation areas and natural monuments. The first declaration of protection in Hungary was made in 1939.

The authority's website reports on the reason for the reduction in 2008: "The minor reduction in the total extent of protected areas does not mean that protection has been lifted, but instead is the result of a reconfiguration of the GIS bases in our record systems that has made the data more precise. A category of international (European) importance is constituted by the Natura 2000 areas established by the European Union. Included as areas of international classification are wetland habitats of international importance (Ramsar sites), the European Diploma sites, the Biosphere reservation, the Geoparks, the World Heritage sites and the Dark Sky Parks."

Approximately 10% of Hungary's territory is protected natural area, and 21% is Natura 2000 area, which – as a result of overlap – means that a total of 22% of its territory is under natural protection

Defence is the best form of protection, and a slight increase would be an important addition, as would be tracking qualitative changes.

F.2.5. Change in population of bird species associated with agricultural habitats (1999 = 100%)



"Birds are suitable indicators of environmental changes," says Dr. Richard Gregory, President of the EBCC, "and the decrease in their populations across Europe is clear proof of perceptible environmental degradation (destruction). Most bird species that live in agricultural areas and surrounding habitats are in serious danger. Such well-known bird species as the skylark, the red-backed shrike, the corn bunting, the lapwing and the tree sparrow are now on the list of species showing dramatic declines in their stocks." European organisations for the protection of birds demand that drastic reforms be made to the Common Agricultural Policy (CAP), as the European Union's policy of providing subsidies for agriculture has led to agriculture becoming significantly more intensive.

The CAP adversely affects wild birds and Europe's environmental status as a whole. In Europe, the population of birds present in agricultural habitats has shrunk by nearly 50% over the past 25 years, with the negative trend being caused by changes in the European agricultural sector. In Hungary, the information for the European programme is provided through the Common Bird Monitoring programme run by the Hungarian Ornithological and Nature Conservation Society. "In the past four or five years, the populations of bird species that are linked to agricultural habitats in Hungary have dropped perceptibly. The aim is to avoid going down the same path that Western Europe did, where the biological diversity in agricultural habitats fell by nearly 40 percent in the case of birds."

After many years of a downward trend, a positive change has been seen in bird populations in the past year. Since this is only an indicator, determining the causes for the change and conscious management are required for continuing growth.

F.3. Environmental burdens (emissions) dimension

Tracking the emissions stemming from social activities serves to directly measure the size of the burden being caused by making use of the service to neutralise pollutions into the environment. In the golden age of environmental protection, the main focus of state intervention concentrated on this area, since this is what, with respect to each activity, was most observable.

In particular, it was the source points of producing companies that became the symbol of environmental protection. It is enough to think of the images of smoking factory chimneys. State efforts in part took the form of measures taken to appropriately manage pollutants, and any activity that supported reducing the generation of pollutants, that is, the application of cleaner technologies, positively influences the indicator.

Reducing emissions, therefore, can be achieved partly through technologies and careful treatment, and partly through managing waste as a secondary raw material. One of the things that life cycle analyses search for is the answer to how to increase the useful lifespan of a given product, thereby reducing the waste that it generates. Initially, the essence of the "cradle to the grave theory" was to track the life of the product from production to the point when it becomes waste. Nowadays, the more modern techno-cycle, that is, the "cradle to cradle model" prevails. With this approach, by mimicking nature, the concept of the existence of waste is not accepted, but what is generated is instead simply a secondary raw material, and therefore a phase of the process, after which it becomes the useful base material for another process. At the end (likewise, as happens in nature), each component can be disposed of, as a biodegradable material, through composting.

Key indicator: WASTE INTENSITY (2004 = 100%)

- This is the ratio of waste produced to gross added value. The indicator helps establish the volume of waste produced in relation to economic growth. A fall in the index indicates a reduction in waste intensity, which signifies economic growth with less burden on the environment. Source: Ministry of Agriculture, CSO

Sub-indicator 1: MUNICIPAL WASTEWATER TREATMENT INDEX (%)

- The municipal wastewater treatment index shows the level of development of municipal watsewater treatment, taking into account the effectiveness of purification processes. Analysis of the efectiveness of municipal wastewater treatment levels is categorised based on the following weighted factors: unpurified wastewater: 1.00; first-stage (mechanically) treated wastewater: 0,86; second-stage (biologically) treated wastewater: 0.49; third-stage treated wastewater: 0.00. The municipal wastewater treatment index is 100% if the wastewater is not treated, and 0% if all municipal wastewater is purified using stage III water treatement. It represents the level of development of the municipal wastewater system, taking into account the effectiveness of purification processes. Source: CSO

Sub-indicator 2: THREAT TO THE POPULATION FROM AIR POLLUTION (SOLID PARTICLE AND OZONE EMISSIONS INTO THE ATMOSPHERE) (mg/m^3)

- The annual average concentration of solid particles and ozone in the atmosphere as recorded at monitoring points and weighted by the number of people living locally. Source: European Environment Agency

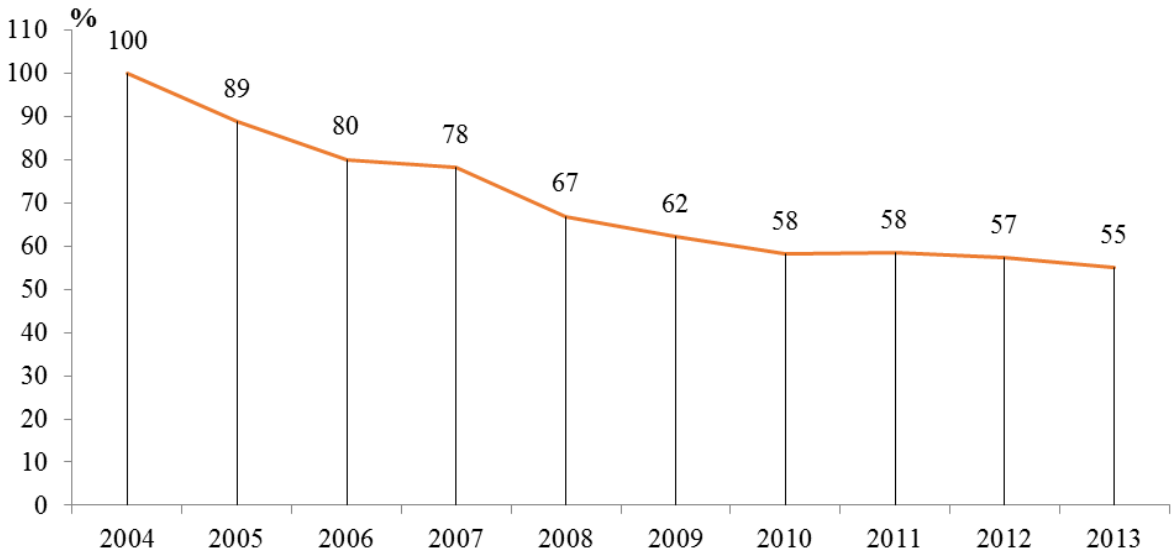
Sub-indicator 3: PERCENTAGE OF WASTE THAT IS RECYCLED

- Reprocessed waste as a proportion of total treated waste. Reprocessing is a process that makes use of waste to produce a product or material, either for its original use or for another purpose. This includes processing of organic waste but does not include use for energy production and processing into materials used for landscaping. Source: Ministry of Agriculture

Sub-indicator 4: NITROGEN BALANCE (kg/ha)

- This indicator tracks the condition of agricultural land. It is the difference between the nutrients introduced through fertilizers and other means and the nutrients removed in the form of produce. The defining component on the input side are the nutrients introduced in the form of chemical fertilizers. The output side is determined by the volume of production, which depends significantly on weather conditions in the given year. Source: CSO

F.3.1. Waste intensity (2004 = 100%)



Waste consists of any material or group of materials whose owner wishes to be free of in some way. If he or she does so in accordance with the environmental protection regulations, then it causes no further damage. Waste can be categorised in many different ways, as determined by the source of the waste (issuer "source"), condition (material characteristics) or environmental impact (handling). Although it is important to promote environmentally conscious waste-handling and support (either through taxes or rewards) a less wasteful lifestyle, the global problem of emissions cannot be remedied solely with increased thriftiness.

Waste, as an undesirable "by-product" appears in the activities of nearly every producer or service-provider, and arranging for appropriate handling of it is the task of the given organisation. In Hungary, strict legal regulations apply to both the registration of waste and the means of its handling. In spite of this fact, 2,780,000 tonnes of municipal waste were generated in 2013.

In 2010, the Europe 2020 programme launched by the European Parliament set as its objective economic development for the EU that is intelligent, sustainable and inclusive. A key area of this is resource efficiency, recognising the need to decouple economic growth from use of resources.

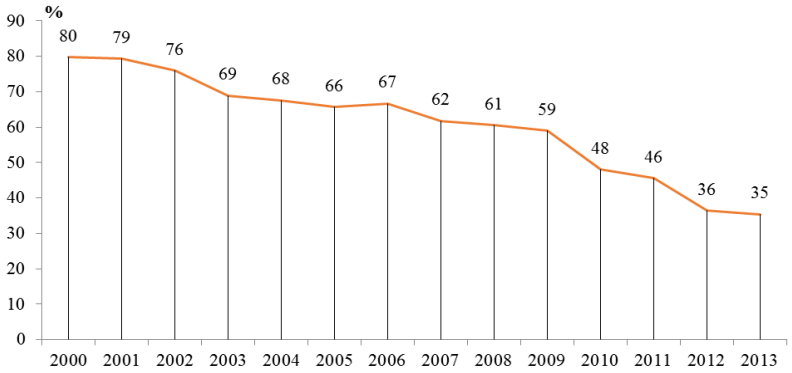
It is important for the emphasis to be on effectiveness rather than efficiency; a process is effective if it supports or positively influences the natural flow of materials, or in other words, it adapts to the existing situation rather than opposing it (e.g. in the case of low CO_2 technologies, one does not get rid of the GHGs, but rather makes use of them).

Generating the greatest possible amount of product using the least possible amount of raw, recycled or secondary raw materials in the course of the processes seems to be the ideal solution. But one must not ignore the fact that a number of other factors other than the raw materials also have to be taken into consideration during production. This is why it is more precise to calculate the added value, which is the difference between the output (base price) and the intermediate producer or end use (market acquisition price). In other words, it calculates with every resource (other than raw materials) that has to be used during production in order to generate the given value.

In finding a solution to the problem of waste, researchers side with the potential solution of increasing the ratio of services at the expense of purchased goods. But to do this requires grappling with numerous obstacles that arise in part from our culture and in part from human nature. We are participants in a large-scale social and technological transition that will hopefully result in a more sustainable economy.

In approximately the past ten years, the level of waste intensity has decreased, happily, by a half. Further reductions are important from the point of view of economic efficiency, and is also a desirable process from the point of view of sustainability.

F.3.2. Urban wastewater treatment index

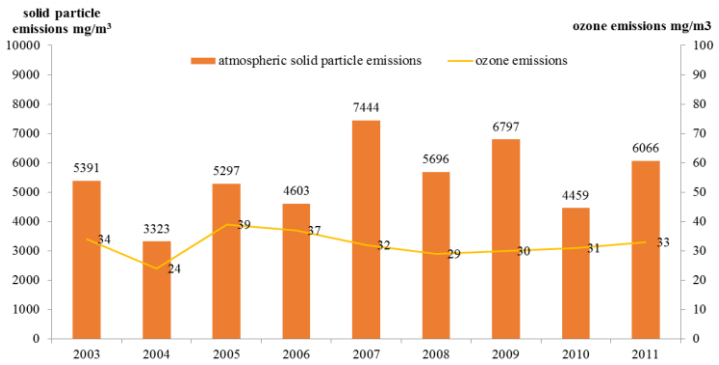


The aim of wastewater management is to remove contaminating substances to the greatest extent possible. After appropriate wastewater management, the pollutants remaining in the water are broken down by the self-purification capacity of the natural water that accepts it, and thus the water becomes available for further use, and the condition of the original, natural water is not harmed significantly. The municipal wastewater index stands at 100% when there is no wastewater management, and at 0% if all municipal wastewater is purified with third-stage wastewater treatment treatment. In Hungary, the value of the index fell by more than 43% between 2000 and 2012, which is the result of the commissioning of more effective (at least biological-stage) wastewater purification plants.

The total quantity of wastewater processed through the public utility wastewater collection network has fallen continuously since the regime change, and currently stands at no more than a half of its previous level (436 million m³). Of the total quantity, 430 million m³ is purified wastewater and 317 million m³ is also treated using mechanical and third-stage purification (in which the inorganic substances arising as an end-product of the biological stage, for example, nitrates and phosphates, are removed.) In Hungary, the proportion of residents with a sewerage connection stood at 74.5% at the end of 2012. Compared to what can be regarded as nearly universal freshwater service from a mains (in 2012, the proportion of residents connected to the freshwater network was 94.7%), wastewater treatment showed a shortfall of around 20.1%. The extent of the utility gap was lowest in Budapest and Győr.

As a result of major efforts, the value of the index has declined sharply in recent years. The reduction can be continued with additional investments.

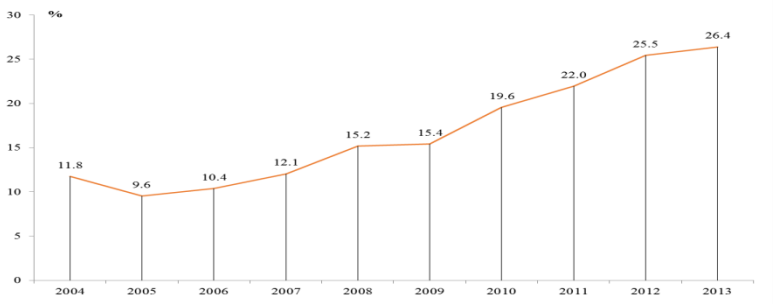
F.3.3. Threat to the population from air pollution (emissions of solid particle and ozone emissions into the atmosphere) (in mg/m3)



Air pollution is an environmental health issue that presents a serious hazard for the inhabitants of many countries. Smog alerts, which cities with already high pollution often suffer through during periods of poor weather, are also a familiar event in Hungary. A high degree of variance can be seen across the country, not to mention within individual cities. The figure shows no discernible trend of improvement, and therefore it is absolutely necessary to manage the situation in the mostly highly endangered areas. A large portion of the harmful particulate matter comes directly from diesel engines. Particulate matter emissions from diesel vehicles, most of which is carbon, is greater by an order of magnitude (i.e. at least ten times greater) than that of petrol motors. It has been scientifically proven that there is a close correlation between occurrences of asthma, allergies and other respiratory ailments and the level of air pollution. It is largely due to air pollution that the number of asthma and lung cancer patients is increasing dramatically in Budapest. The World Health Organisation takes the view that there is no minimum level of particles that can be proven to be harmless to health. "Even modest improvements in air quality can have a positive effect on the health of a given population." The greatest progress can be seen in reducing mortality arising from cardiovascular and respiratory illnesses.

Statistics on air pollution are not moving in a positive direction, with the trend more upward than downward. The need to reverse the severe environmental health risks is growing increasingly urgent.

F.3.4. Percentage of waste that is recycled

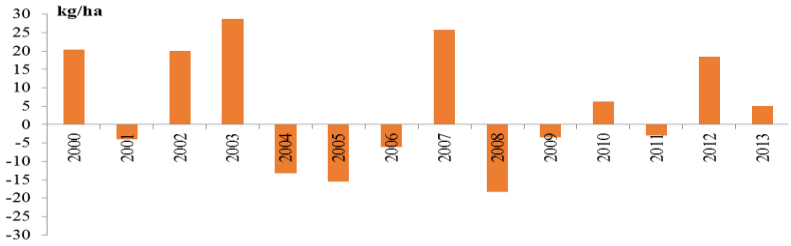


The life-cycle approach is the basis for the evaluation of environmental impacts, as well as for environmental management systems. This approach yields greater divergences from the usual approach when production and discarding phases are also calculated into the life of the product.

The widespread view today, naturally, just as the legal statutes require, is that manufacturers should also attend to handling the waste. Thus, either they themselves have to ensure that it is collected, or else they have to contribute to the cost of collecting the waste in proportion to the quantity of the emitted goods in the form of either a tax or another charge. As a consequence of all of these changes, the share of waste that is recycled has increased dramatically in Hungary, as it has in other countries. In the life-cycle approach, turning a product into waste in one process can result in an input for another process. In this way, it resembles the closed loop that nature follows in its own processes. The use of the waste or some component of it in industry or in a service qualifies as utilisation. Pursuant to the Waste Management Act, waste can be utilised in three ways: recycling, when the waste is again used in some production process in its current state; recovery, when some recyclable component of the waste is separated and converted into a base material, and utilisation for energy generation, when the utilisation does not involve any useful material in the waste, but rather the utilisation of its energy content.

The proportion of recycled waste has, happily, grown from year to year. Continuing this growth process is an objective that is both absolutely necessary and realistic.

F.3.5. Nitrogen balance, calculated per hectare of agricultural land (kg/ha)



The fertiliser (either natural or artificial) used in soil and the quantity of nitrogen removed from it, especially during the process of harvesting the produced plants (through leaching or erosion), is of key significance from the point of view of productivity. The nitrogen content of the soil depends on its organic matter content, and so the higher the humus content, the higher the nitrogen will be as well. If the quantity of nitrogen that can be used in the soil is low, then plants' growth will be impeded. The lack of nitrogen causes serious problems: the growth of the plant slows down, it becomes stunted, yields are drastically reduced or there is no yield at all. But having too much nitrogen is not favourable either: an overdose of nitrogen reduces a plant's resistance to frost. An excessive nitrogen supply in the soil can lead to an undesirable accumulation of nitrates (NO_3), which in turn can cause "blue baby syndrome" in infants. In Hungary, the quantity of nitrogen input remained fairly constant between 2000 and 2013. The level of the nitrogen balance fluctuated chiefly as a function of the yield taken from the land. The Soil Degradation System (TDR) operated by the Ministry of Rural Development also provides information on the nitrogen balance. The exact significance of this is that the nitrogen balance is, on the one hand, important from the point of view of the yield, and on the other, from that of water pollution. Therefore, in an ideal case, the balance will fluctuate around the median value (0) as it adjusts to weather conditions. As can be seen from the above diagram, with regard to the horizontal line marked in red, which is the average for Hungary for around the past 15 years, the balance has shifted in the direction of excessive input (4.36 kg/ha). Nitrogen replenishment suited to the features of the soil is also especially important because it is harmful to have excessive quantities of nitrogen in standing water, and the use of fertilisers also pollutes the air with nitrogen dioxide and ammonia.

The value, fluctuating around zero, indicates balance. Maintaining this balance can be achieved through conscious and responsible agricultural management adapted to changing weather conditions.

F.4. Sustainable economy – economic dimension

The purpose of an economy is to create conditions for human well-being, for everyone to be able to earn a suitable income from meaningful work based on their talents and ambitions, income that they can in turn spend responsibly. The sustainability area of influence is only tangentially related to the economic dimension as the economic dimension the analysis the capabilities of government in detail and also with respect to sustainability. In connection with sustainable economy and government, the question arises as to who can do what and what are people's responsibilities in the development of sustainable economy, and when can an economy be considered sustainable. It is crucial to distinguish between the processes of growth and development. Tóth Gergely describes this kind of value economy as follows: "The financial economy can be expanded technically and in terms of the market, but it is ultimately dependent on the effective allocation of limited resources in service of people and their communities. In order to achieve this, we must take into account the spiritual and mental needs of at least the coming seven generations, while affording fitting space to live and opportunities to other peoples and speicies."

Key indicator: RESOURCE PRODUCTIVITY (2000 = 100%)

- Resource productivity is the relationship between GDP and domestic resource usage. With the help of this indicator, it is possible to determine the extent to natural resources are used in tandem with economic growth. An increase in the indicator suggests growth in the productivity of the available resources, which makes it possible to achieve economic growth at lower cost to the environment. Source: CSO

Sub-indicator 1: INCOME DISTRIBUTION (Gini coefficient)

- This indicator shows the inequality of income distribution. The larger its value, the greater the difference in income and wealth in the given country. The value of the Gini coefficient lies between 0 and 1, wjhere 0 is perfectly equally distributed income and 1 represents complete inequality. The greater the value, the greater the inequality.
- The Gini coefficient is an economic indicator that measures the inequality of statistical distributions. It is generally used to measure the distribution of income and wealth. It evaluates the distribution of income-earning groups based on a simple ratio. The Gini coefficient is is calculated as the area between the ideal distribution and the actiual distribution (A) and the total area (A+B), so Gi=A/(A+B)*100, but as A+B=0.5, Gi=2A*100. The value of the Gini coefficient lies between 0 and 1, where 0 is perfectly equally distributed income and 1 represents complete inequality. The greater the value, the greater the inequality. The Lorenz curve is a special graphical diagramme to illustrate and evaluate concentration and visualize inequality. Source: CSO

Sub-indicator 2: INVESTMENTS IN ENVIRONMENTAL PROTECTION (million HUF)

- Expenditure associated with reducing damage to the environment. Investment in environmental protection includes all investment expenditure with the primary objective of preventing, reducing or eliminating pollution or any other damage to the environment. These investments arise due to some form of environmental protection task and are clearly and directly assigned to realising the given environmental protection task. Source: CSO

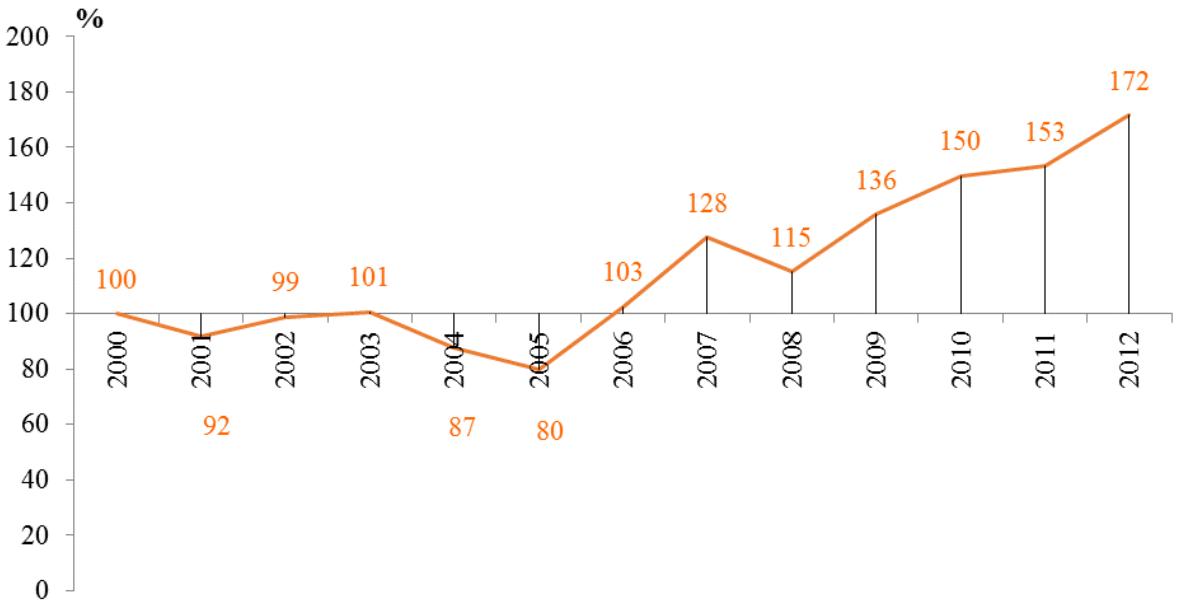
Sub-indicator 3: PEOPLE EMPLOYED BY SMEs AS A PROPORTION OF TOTAL IN WORK (%)

- The ratio of those employed by micro, small and mid-sized enterprises as a proportion of the total workforce. Source: CSO

Sub-indicator 4: RELATIVE RATIO OF EXPORTS ((EX+IM/GDP) %)

- The ratio of total exports and imports to gross domestic product. This indicator shows a country's exposure to foreign markets. Source: CSO

F.4.1. Resource productivity (2000 = 100%)



The OECD's 2011 Towards Green Growth study places resource productivity at the forefront as one of the key paths towards green growth. "The following incentives can promote greater efficiency in the use of resources and natural assets: improvement in productivity, reduction in waste and energy consumption, and securing resources for the highest value applications.

The chart paints an interesting picture of the changes experienced in the past decade and a half. Following an initial downward trend in 2005, continuous growth was only interrupted briefly by the international financial crisis in 2008. Of course, the reasons for the improvement can largely be attributed to technical and technological developments rather than in a move to a more sustainable philosophy.

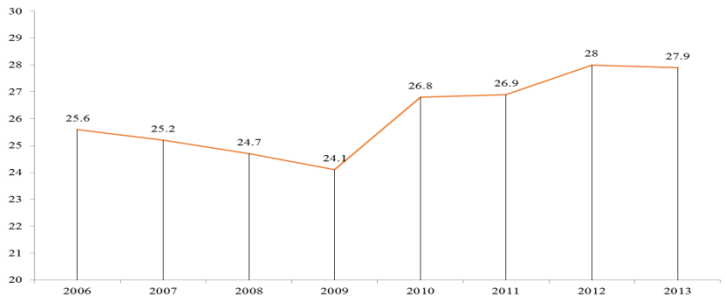
Continuing the train of thought begun in the introduction, according to which the economy must serve the individual and community in such a way that it uses limited resources in a efficient manner (using these within the boundaries of renewability), then resource productivity is the most convenient indicator to monitor the extent to which a given country satisfies sustainability criteria. There is only one requirement that also poses the greatest challenge; that of determining where the optimal value lies. When we look at the indicator and see an improvement, it is also important to know how far away we are from the goal. Understandably in this case, the significant improvement also shows that there is plenty of slack in the system. As we approach the optimum, the rate of improvement slows right up until it settles at highest level achievable.

As resource productivity is a ratio of GDP and materials usage, it provides a more complete picture with respect to the above of the cost of a country's economic growth in the given period. An upward trend can, however, also be interpreted in various ways. An increase in a ratio such as this may also reflect higher growth in the antecedent (GDP) in comparison with the consequent (resource usage). This can also be achieved if the antecedent falls, but the antecedent decreases by a larger value, so we use significantly fewer resources during a period of falling GDP. If we are to examine another extreme case, it may also occue that rapid growth in GDP is achieved at the cost of a slower increase in resource usage.

However we look at resource productivity, the result is always that its growth shows an improvement in sustainability.

Improved resource productivity suggests efficient and improving economic activity. Further growth in this indicator is desireable as it indicated both an increase in economic activity and mordernisation.

F.4.2. Income distribution (Gini coefficient)

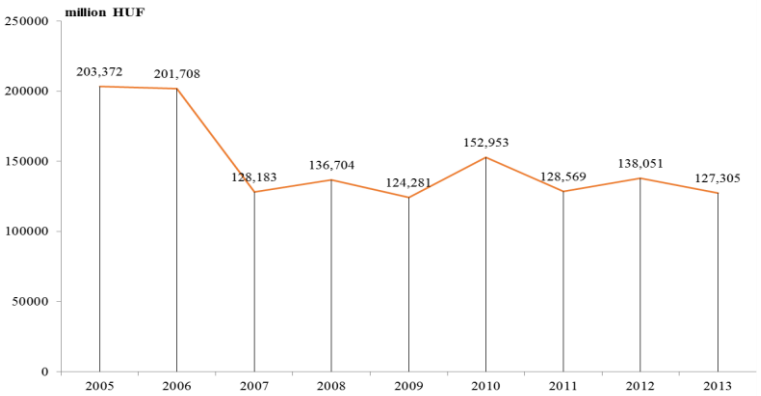


Social justice is a prerequisite to social sustainability. This does not mean that everyone should have an equal share of assets without any form of distinction, just that everyone should have the opportunity to earn an income based on value and performance regardless of their background or ethnic origin. Therefore, all income cannot be allowed to flow to a handful of individuals.

The Gini coefficient provides a picture of the relative distribution of income by way of a single figure. If we consider complete equality to be the ideal distribution (this is not true in many cases and fails to motivate people), which is represented by a straight line at 45 degrees, the Lorenz curve shows the true distribution. The Gini coefficient is calculated on the basis of the difference between the ideal and the actual distribution, the area indicated with an A, and is expressed as a proportion of the total area, i.e. Gi=A/(A+B)*100, but as A+B=0.5, Gi=2A*100. In short, the distribution of incomes is fairer the closer the Lorenz curve is to the equality line, or rather the lower the value on the 0-100 scale. Hungary's Gini coefficient shows a steady fall in the figure until 2009, followed by slight growth. The Gini coefficient says nothing of the country's general economic state and well-being. It only shows the distribution of income within the country. In addion, it is possible to use the value of the Gini coefficient before and after taxation to determine the extent to which the tax system of the given country supports those on lower incomes possibly at the expense of those on higher incomes, or whether the tax burden is spread uniformly across the populace.

It can be shown that the distribution of income is deteriorating. This is unfavourable from a social perpective, so the investigating causes and exploring potential solutions is an important task.

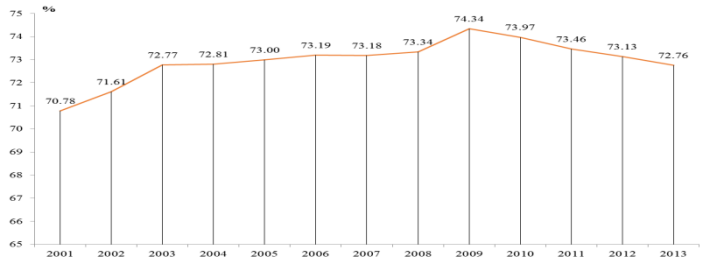
F.4.3. Investement in environmental protection (million HUF)



Since the 1960s, society has had to face up to the deteriation in the natural environment to an ever increasing extent. This change in the state of the environment is now also a global phenomenon (climate change, limited supply of natural resources, etc.). These changes to the natural environment can be proven to also have economic effects, so preserving an appropriate condition of natural assets has become an increasingly important prerequisite to economic sustainability. This makes increasing investments in environmental protection a necessity. Environmental protection investments include all investments that have become necessary due to some form of environmental damage. Anyone in Hungary will have an inkling of why there was a spike in the otherwise relatively flat figures in 2010. On 4 October 2010, the area of Kolontár and surrounding villages was swamped with more than one million cubic metres of red sludge. Published analysis showed that the cost of damage prevention and clean-up, as well as compensation for residents, ran to 38 billion HUF. The disaster highlighted that investments in environmental protection is primarily used for prevention and managing minor environmental damage, but also clearly illustrated what happens when a major environmental disaster occurs. From the perspective of data, this is significant because although individual peaks in years may be unfavourable, continuous growth can show a government's commitment to dedicate significant sums to activities to protect the environment.

The high values seen in the years following accession to the European Union were followed by minor fluctuations at a lower value. The values and trends observed only offer genuine insight in full knowledge of the environmental situation.

F.4.4. People employed by SMEs as a proportion of total in work (%)



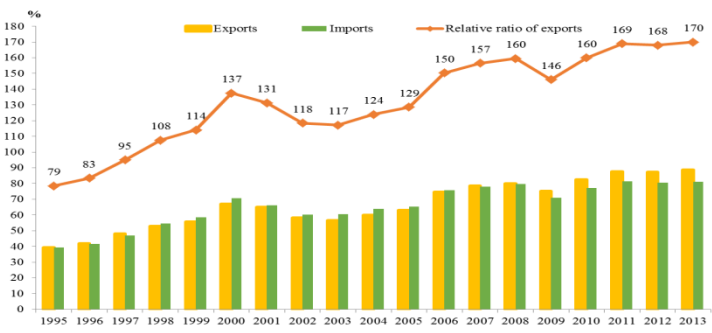
Of the 2.7 million people employed by businesses, almost 2 million worked for small and mid-sized enterprises in 2012 based on preliminary data. The significance of small and mid-sized enterprises in terms of sustainability is that their majority are on the internal market, and specialise in providing services. The a significant proportion of the activities of small businesses is connected to mid-sized companies and major corporations. This relationship is generally that of supplier and purchaser, in which the SMEs sell materials or components to larger partners, as a result of which dependence can easily develop. The other typical form of relationship is the provision of outsourced services to a large company. There are certain labour-intensive services that large companies are unable to provide cost-effectively internally, so they entrust these services to companies specialised in these areas. SMEs also have an important role to play in the development of minor regions. These companies are able to more quickly adapt to local needs, and are therefore better able to serve the given areas requirements. They are locally based, have an interest in the development of the region and can reduce local unemployment through their ability to absorb the local workforce. Based on preliminary data for 2012, 58.3% of the revenues generated by companies can be attributed to SMEs. The sector's contribution to gross value added is around 55% since 2007.

According to Hungarian (Act XXXIV of 2004) and European Union categorisation, small and mid-sized companies (SMEs) include:

SME category	No. of employees	Annual net income	or balance sheet total
Medium	< 250	≤ €50 million	≤ €43 million
Small	< 50	≤ €10 million	≤ €10 million
Micro	< 10	≤ € 2 million	≤ €2 million

Following a period of growth, a continuous fall in the number of people employed in the SME sector can be observed. The indicator is not sufficient in itself to illustrate the extent to which the environment is favourable to businesses, but it does provide information on the domestic economy.

F.4.5. Relative ratio of exports (%)



The concept of dependence is closely related to that of interdependence, as mutual dependence – whether it is broadly considered economic dependence or more narrowly defined as export dependence – is the integation resultiong from the growing intensity of international collaboration. It is a popularly held notion that Hungary is a small, open country, yet what does the frequently used term "openness" mean exactly? Openness to foreign trade in a given country is the proportion of foreign trade and direct foreign capital investments to gross domestic product. As far as the first component of openness is concerned, OECD statistics show Hungary's openness to foreign trade (exports/imports in proportion to gross domestic product) developing as follows from 2000 to the present day. As is also apparent from the diagramme, both exports and imports show and average of 70% openness to trade. Open economies are generally considered to be those where foreign trade accounts for more than 50% of GDP, so Hungary is an open country as regards foreign trade. In our globalised world, dependence and a high degree of foreign trade is more of an asset that a strategic issue. On accouint of its size, situation and economic strength, a carefully considered and balanced economic policy represents the appropriate and sustainable approach for Hungary.

Growth in the relative share of foreign trade is among the consequences of globalisation. However, it is not necessary to achieve continuous growth and suggests dependence.

F.5. Social sustainability dimension

The social sustainability area is well represented in the indicators of the public well-being area of influence, and so we present, from the point of view of sustainability, those areas that are absent there. There are many intangible features of sustainability that make it the ultimate goal, for example, for people to feel that their lives have meaning. In this dimension, it is more the integration of subjective points of view that are the further aim, in such a way that the "goodness", "effectiveness" and "efficiency" of governmental functioning may be made measurable (a secure livelihood, a positive view of the future, realisation of life goals). Overall, one can state that there are numerous indicators already available with which "Good Governance" can be made measurable from the point of view of sustainability. But direct indicators are also available that present those governmental efforts which serve to create a well-off society, such as total expenditures on education and health care.

"In Hungary, the life expectancy at birth was 71.3 years in 2000. This is the highest value for life expectancy of the last 100 years; nevertheless, it is still low by international comparison. Life expectancy in Western Europe is between 75 and 79 years... The life expectancy that would be in line with Hungary's parity-adjusted gross domestic product per capita would be 74.6 years, and yet actual life expectancy is three years shorter." The situation is no better in the area of education. The results of the international PISA survey show Hungary to be in a downward trend, performing below the OECD average. This is extremely unfortunate, because the deficiencies in education have their real impact over the long term, and so its disastrous impact cannot yet be truly measured.

Key indicator: DEPENDENCY RATE (%)

- The total dependency rate reflects the responsibility falling on one member of the active population (inactive age is 0-19 years, and 60 or older, active age is 20-59 years old). A mutató esetén a demográfiai adatok alapján jövőre vonatkozó előreszámítási becslés is készül. Source: CSO, National Institute of Public Administration

Sub-indicator 1: EDUCATION EXPENDITURE IN PROPORTION TO GDP (%)

- Government functions are measured according to the so-called COFOG standard, which allows the scale and composition of the govenrment sectors of various countries to be compared. Expenditures on education: Operation of pre-school and primary teaching institutions; operation of secondary teaching institutions;operation of non-higher education institutions requiring secondary school diploma; operation of higher education institutions; operation of the student loans system; operation of teaching institutions that cannot be categorised by level; services to students (e.g. transport, catering, medical treatment). Source: CSO

Sub-indicator 2: HEALTH CARE EXPENDITURE IN PROPORTION TO GDP (%)

- Government functions are measured according to the so-called COFOG standard, which allows the scale and composition of the govenrment sectors of various countries to be compared. Expenditures on health care: Medication used outside of health care institutions; provision of medical devices and instruments; provision of general medical, specialist and dental treatment; medical treatment provided by hospitals; operation of epidemic management network, blood banks, family planning clinics and screening centres. Source: CSO

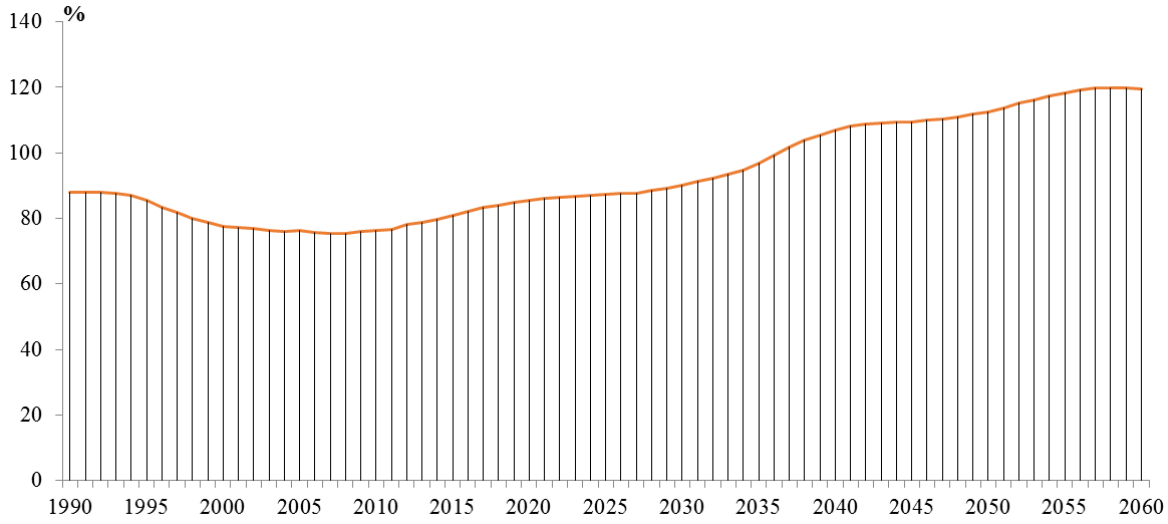
Sub-indicator 3: HAPPY PLANET INDEX

- The Happy Planet Index (HPI) measures the ecological effectiveness of the achievement of human well-being. The 0-100 scaled serves to measure well-being. Source: New Economics Foundation

Sub-indicator 4: MUNICIPAL WASTE PER CAPITA (kg/person)

- This indicator shows the per capita quantity of household and similar waste per capita. Household waste includes mixed, separated and junk waste derived from homes, residnetial properties, leisure and holiday buildings, as well as communal rooms and areas in appartment buildings. Waste similar to household waste is mixed or separated waste that is generated outside the home but is equivalent in its make-up and composition. Source: Ministry of Finance, KSH

F.5.1. Dependency rate (%)



The population of Hungary is falling continuously. In 2003, the number still stood at 10,142,362, whereas by 2014 it had shrunk to only 9,877,365, which equals a drop of close to 265,000 people, a number greater than the population of a city the size of Debrecen. In addition to the number by which the population has shrunk, the dependency rate also serves to provide other important information.

The dependency rate indicates the extent of the obligation to support others that falls on people of working age. The lower the proportion of people of working age as part of the overall population, the greater the burden they incur, which also means that the taxes and charges are charged to them. This is something that must be taken into account when making governmental decisions in order to prevent these extra burdens from making the situation even worse. But ultimately, state revenues are produced by those who carry out activities that add value, and so every measure may only be limited to the extent that these removed resources are utilised in the best possible manner.

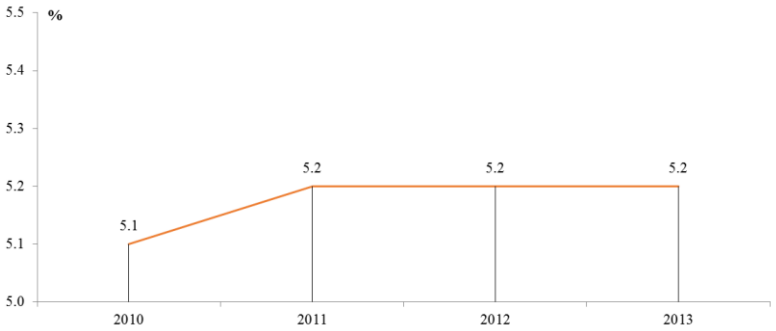
The population pyramid is the most widespread indicator to track demographic trends. As shown in the diagram, it displays the dependency rate graphically. The area in the red box shows the number of working-age inhabitants, while those outside of it are inactive workers. Unfortunately, the number of children is quite low, which does not foreshadow positive changes in future.

The shape of the population pyramid also shows the age-structure of a given population::

- a pyramid or cone: a growing population composed of young people,
- **an onion or urn shape: a dwindling population composed of older people,**
- a bell shape: a stable population with few changes in the number of people of each age.
- The success of any state intervention can only bring results in the long term, and increasing the desire to bear children is only one side of the coin. If it is not accompanied by, among other things, educational development, then newly born generations will not necessarily become earning citizens when they reach adult age.
- Overpopulation has often been mentioned as one of the problems for sustainability, and therefore, in the eyes of sceptics, a dwindling population does not seem to be a problem. But the truth is that the population problem cannot be remedied by a decrease in the number of inhabitants of developed (well-off) societies while overpopulation continues to threaten developing countries. On the one hand, some social aspects of sustainability cannot be interpreted globally, only locally, and on the other, the already high level of economic inequality thereby grows even worse.

The increase in the dependency rate sends a clear message. It draws attention to a tendency that, if not checked, will grow increasingly serious, while the solution will grow increasingly resource-intensive. Meanwhile, failing to solve the problem exacerbates it further, thus maintaining the growth trend.

F.5.2. Education expenditure in proportion to GDP (%)

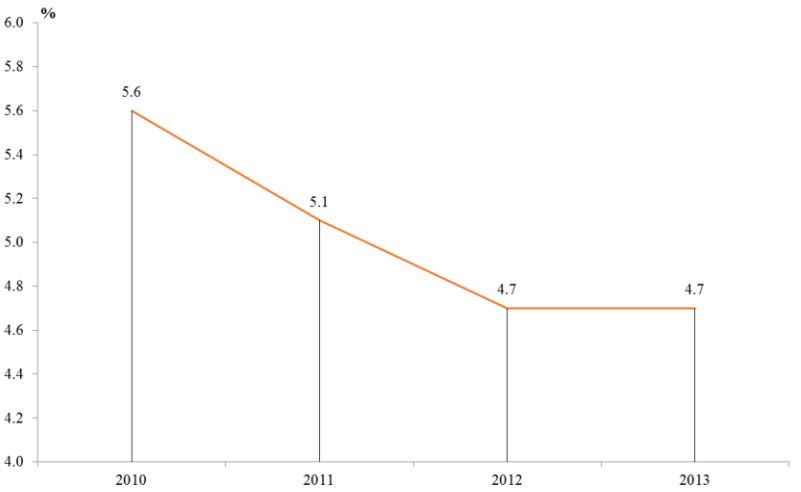


Education is a long-term investment that cannot be left exclusively to the market. Naturally, it is a good thing if some educational institutions are in private hands, but the state, if it wishes to function sustainably over the long term and also intends to remain independent, must make continuous sacrifices in this area. Education is, at the same time, lauded these days as "the antechamber to R&D"! There is general consensus that the key to Hungary's future lies in having "knowledge workers" who are capable of finding a solution to the current crisis by approaching the problem differently. But as Sir Ken Robinson puts it: "It is often said that education and training are the keys to the future. They are, but a key can be turned in two directions. Turn it one way and you lock resources away, even from those they belong to. Turn it the other way and you release resources and give people back to themselves."

Hungary, unfortunately, is a laggard in this respect. As long as Denmark, and even the Republic of Moldova, spend more than 8% of GDP on education, while the figures are around 7% for Sweden and Finland, in contrast to Hungary's 5.2%, one cannot be surprised at the striking results of the PISA survey.

The level of expenditure on education is also an indicator for long-term planning. The stagnation shows the lack of investment in the future. Radical changes are needed, along with efficient and effective utilisation of increasing resources, in order to avoid tragedy.

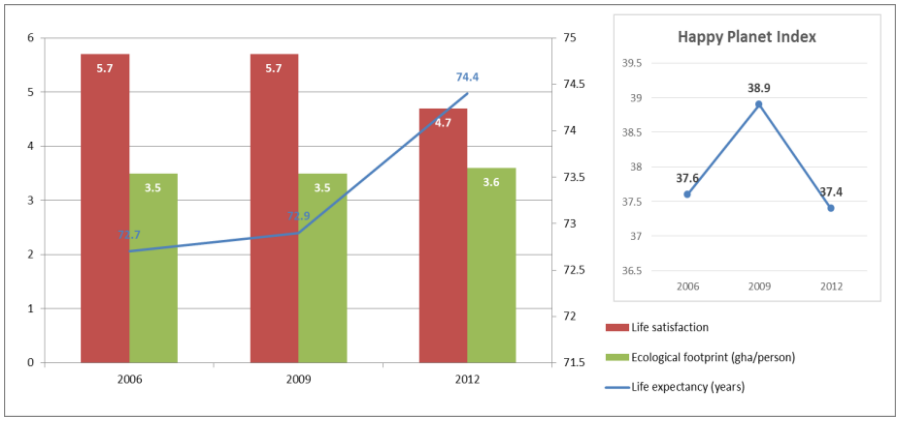
F.5.3. Health care expenditure in proportion to GDP (%)



In parallel with education and in full knowledge of the state of Hungarian health care, the amount of expenditure on health care is a critical issue from the point of view of sustainability and, as part of this, public well-being. Health care is not important only from the viewpoint of treating illnesses that have already developed, but one of its most important roles is in prevention. For the economy, however, it is of exceptional importance, especially in a country where the dependency rate is very unfavourable, for the working-age population to be able to actually work. The extent of this value creation depends in part on a well educated labour force, and in part on the labour force actually being healthy to work. Health care expenditure, like that on education, is a long-term investment. Indeed, fewer resources are required to maintain an existing healthy state than are needed to fix an unhealthy state. But as can be discerned in the diagram, the situation with health care in Hungary is a great deal more depressing than that of education. While an ageing population would suggest that the country would enjoy a slight increase, instead the diagram shows a sharp decline. In analysing the OECD's most recent health care indicator reports, one is surprised to find data showing that, with respect to nearly every indicator (life expectancy, mortality rate, cancer and cardiovascular illnesses), Hungary is among the countries with the worst levels. It is also worth analysing, for the sake of comparison in this context, how much other developed countries spend on health care. In this regard, Europe is led by the Netherlands, with close to 13%, but Switzerland and France are also at the forefront with spending rates of around 11.5%.

The decrease in health care spending places health care means Hungarian health care is heading towards a critical situation. Only an immediate reversal of this trend will give some chance for the system to avoid collapse. Increasing funds and monitoring utilisation are also both needed.

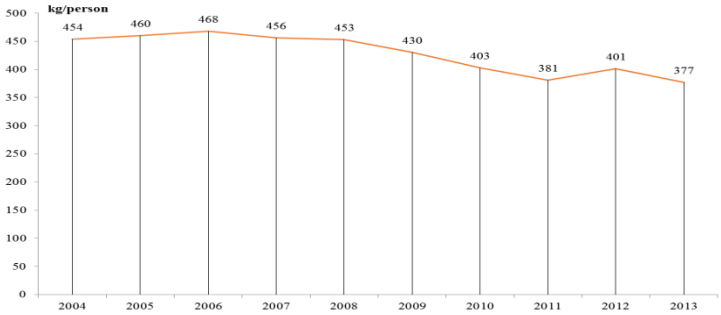
F.5.4. Happy Planet Index



The HPI is an alternative indicator that measures well-being independently of material goods together with environmental burdens. The indicator was developed by London's New Economics Foundation in 2006. The most recently published report includes 151 countries. The HPI indicator includes three factors: life expectancy (UNDP Human Development Report), life satisfaction (Ladder of Life survey, Gallup) and ecological footprint (WWF and Global Footprint Network). The indicator, therefore, fuses objective measurements and subjective elements. The HPI scores values between 0 and 100 points, where a higher number indicates a more positive result and that conditions exist in a country to support a long and happy life at a relatively low cost to the environment. The developed countries have set the target of achieving a score of 87 points on the HPI scale by 2050 – which means reducing the global footprint per person to 1.7 gha (global hectares), reaching a score of eight out of ten on the life satisfaction scale and for life expectancy to reach 87 years. Another objective is to help less developed countries attain the same results by 2070. The expectation seems to be a bold one in view of the current situation: currently the highest scorer on the HPI, Costa Rica, falls short of the target value by more than ten points. Hungary's shortfall relative to the world average is significant (ranking 104th out of 151 countries), but it is also interesting to note that not a single EU member state is to be found among the world's happiest countries (the highest scoring EU member on the HPI is the United Kingdom, which places 41st out of 151. In the case of Hungary, its life satisfaction (5.5 out of a maximum of ten) is the reason for its low HPI score.

The trend toward a longer life expectancy is positive, but reducing the ecological footprint and increasing life satisfaction are both of key importance with respect to the well-being of the nation.

F.5.5. Municipal waste per capita



Although neither recycling nor re-utilisation in and of themselves solve the problem of the environmental burden caused by consumer society, environmental awareness still needs to be stressed at every level. There are several reasons for the fact that the mantra "rethink, reduce, reuse, recycle" has gained ever more popularity.

Waste is created in front of our very eyes, and everyone must attend to ensuring that it all reaches the appropriate collection container. This is the point where, day after day, we are confronted with the negative results of our consumption and the size of the problem that it entails for the environment. The downward trend in the quantity of waste is also highly positive for the reason not only that rubbish removal fees would have increased otherwise, but that they even declined in 2013 as part of the utility cost reductions of that year. The quantity of rubbish is interrelated with the quantity of purchased products. Thus, the decline that has been evident since 2008 is more of a consequence of the economic crisis than it is a sign of increased awareness on the part of society. At the same time, the development of the sorted waste collection system, which got underway two years ago in Budapest as the result of an Environment and Energy Operational Programme (KEOP), cannot be ignored. Even if the impact of the related public awareness campaign is impossible to measure, it at least has promoted recycling. A breakthrough in the quantity of waste could be achieved if manufacturers would favour durable products and service-based, long-term utilisation of them in place of throwing them out and purchasing new ones.

The modestly declining trend, although positive, is not sufficient. The extent of the reduction in municipal waste per capita can be increased by boosting the level of public awareness and by making infrastructure available.

Democracy
Summary

The purpose and positioning of the democracy area of influence.
Democracy is the theoretical and procedural basis for the system of power relationships within the "Good State" and the source of its legitimacy, controllable functioning and its capacity for renewal, as well as (one of the) most important measures of its realisation.
The primary aim of the research conducted by the Democracy Area of Influence Research Group was to develop a set of indicators which would serve to express, in a quantified manner, governmental capabilities relevant to exercising influence on the most important elements of democracy and which would be suitable for serving – in conjunction with the indicators for the other areas of influence – as a partial index of the "Good State".
The research takes the "minimalistic" concept of democracy as its starting point. This means that of the various conceptual dimensions, it concentrates primarily (or most heavily) on the "sine qua non", that is, it records its own conceptualisation of democracy in the substantive registers of political competition and political participation. At the same time, the concept of democracy also includes the requirement for effective rule of law, and as part of this, effective operation on the part of institutions, as well as respect for individual and collective rights and accountability. This is why the two fundamental substantive elements mentioned above should also be supplemented with an additional constituent element primarily emphasised in "centrist" (or liberal) thought: the components of social dialogue, the democratic exercise of rights, and freedom of the press and of speech. In doing so, the research group dismissed the idea of assessing the substantive/thematic areas characteristic of the "maximalist/widespread" approach: "good government" resulting in deliberation and social equality, economic development, a good quality of life and widespread satisfaction.
The conceptualisation places the work of the research team in relation to various measurements of democracy. It plainly connects indicators to more sub-areas of influences than does the Vanhanen Index, which clearly and exclusively puts forward the "thin" concept, and fewer than The Economist's Democracy Approach with its "thick" approach emphasising criteria of good governance, economic performance and political culture. The "level" of the approach to the research, with respect to the number and proportion of subject areas, also remains somewhat below that of Freedom House's democracy checklist, which, by concentrating on the somewhat widespread, meso-level constituent elements of so-called liberal democracy, places particularly strong emphasis on basic democratic rights and individual freedoms, as well as the extent of checks and balances on political power. By way of an analogy that is more approximate than entirely precise in nature, it can be concluded that the set of indicators show kinship most of all to measurements "minimalistically" going beyond the Polity IV Project by only applying the criteria of the "moderate" approach to a limited extent.

Relationship with the other areas of influence.
Democracy, of the areas of influence examined by the GSRWC, together with the Security and Trust in Government and Public Well-being areas of influence, falls primarily under the category of target-type areas of influence. The Democracy Area of Influence Research Group, proceeding along a horizontal (public policy-oriented) concept of effective governance, sees a primary relationship with Rule of Law, the Security and Trust in Government and the Sustainability areas of influence, and a secondary relationship with Public Well-being and Economic Competitiveness areas of influence. In this context, however, a distinction must be made from the indicators of the research groups or the Rule of Law (area of influence VII) and the Security and Trust in Government (area of influence II) areas of influence. The Research group examines essentially the trust in legal justice and legal protection of core democratic principles, as well as the substantive merit of the law, in relation to the rule of law in the context of legal certainty within the Democracy area of influence (area of influence V).
The issues of rule of law, core democratic values and human rights can be related to the meso-level concept of "liberal" democracy, and examining it is of fundamental importance from the point of view of the predictability of the democratic operation of the individual legal institutions. The formal and narrowest content of legal certainty, that is, the examination of the trust in legislation and the perception of legal security that is built on it is warranted in the Security and Trust in Government area of influence.

Criteria for selecting and analysing the dimensions and the key indicators and sub-indicator..
The first two components of the area of influence – the direct adoption of political competition and the political participation sector and the version of democracy developed to be put into operation – are, according to (nearly) everyone's definition, two fundamental conceptual dimensions of the democratic idea.
Developed by way of the separation of the other, substantively distinct area of the concept of participation, which thus requires separate treatment in the course of the examination, was social participation, which means participation by citizens in "civil" activities of public life substantively free of elements of partisan politics and political power (in a sense, close in meaning to the term "public participation" that is used in international literature). The democratic exercise of power, however, already entails the adoption for use in operation of the third conceptual dimension. The freedom of speech and of the press also, in part, include this conceptual element emphasised in the meso-level approach, and at the same time, one can identify in it the framework conditions of political competition, as well as an important factor in and

catalyst for political participation.

Interpreting government capabilities related to the democracy area of influence.
The research established the components that are considered to be the most important for democracy along with the governmental capabilities that impact them by first formulating the concept, reflected in history, that takes into account a pluralistic interpretive environment, and then deduced them from the most important dimensions of understanding found in the definitions. Based on the above, the research identified the following governmental capabilities:

1. *Assuring political competition* – The government capability relating to this sector is the ability to provide for (and guarantee) the fair and unrestricted enforcement of competition between political alternatives, organisations and programmes, as one of the essential conditions for the democratic functioning of public life.
2. *Promoting political participation* – The government capability relating to this sector can be defined as the government's assuring or promoting, in the interest of the democratic functioning of public life, one of the fundamental conditions for such: the realisation of participation in managing and influencing public matters and in political decision-making.
3. *Promoting social dialogue* – The government capability relating to this sector shows the extent to which, during the course of political decision-making, the opinions and series of technical proposals by the affected social sub-systems and relevant organised groups, as well as non-governmental organisations (NGOs) can be articulated and presented to the public, and become part of public-policy and political decisions during the course of the decision-making process at different levels of the political system.
4. *Assuring the exercise of democratic rights* – The government capability characterising this sector manifests itself as one of the elements of the rule of law, in the assurance of the exercise of democratic rights and the defence of democratic freedoms, which can be ensured by the functioning of the system of institutions and instruments in Hungary that guarantee the requirement for equal treatment.
5. *Assuring the freedom of the press and of free speech* – The government capability belonging to this sector is the assurance of the most effective and most useful means for dialogue between government and governed, as well as freedom of the media, which also performs the function of social control.

Conclusions.
With regard to political competition, it can be established that, despite the downward trend in Hungary over the past decade and a half, the number of registered parties can still be considered to be relatively high. From 2004, in at least two consecutive election cycles, the political foundations of parties forming parliamentary factions have also been able to partake in state support, and therefore the financing of political organisations has grown by a significant amount. The number of parties on the national list was at its highest in 2014 as a result of a revamping of the regulations regarding fielding nominees and lists.
With regard to political participation, it can be stated that in Hungary, the level of participation in elections has, since the regime change, never reached the four-fifths level that is typical of numerous countries. In this country, the political cultural and institutional medium that would inspire direct participation has not yet been developed. Observations from recent years indicate that approximately half of the Hungarian electorate considers it their task to play a role in selecting municipal representatives and mayors, and the data shows that a significant majority of Hungarian voters (still) do not truly believe that politics at the European level has a real and actual impact on their lives.
Ensuring that social dialogue takes place requires the existence of non-profit advocacy organisations, and the government has contributed adequate financial support to such organisations in recent years. In the past four years, the number of volunteers working with non-profit bodies active in political, economic and professional advocacy has risen continuously, and thereby the desire on the part of citizens to dedicate a portion of their free time to active participation in social dialogue. At the same time, based on the clearly increasing trend in the number of organisations participating on preparatory analysis regarding municipal decisions, which indicates a foundation of local social dialogue, it can also be established that social dialogue is showing development at the local level.
Measuring the level of trust in the political system is a matter of great necessity, and of the indicator's results, it is apparent that confidence felt in the political system is greatest among the youngest (ages 16-24) and oldest (over 74) age groups. With respect to the democratic exercise of law, one can conclude that the proportion of the population that has suffered discrimination has not risen to a substantial extent in recent years, and this clearly indicates that government efforts aimed at curbing adverse discrimination have been successful.
Based on the indicators relating to free of speech and of the press, one can state that the proportion of radio and television programmes concerned with public affairs topics has been growing continuously in Hungary's electronic media. The media presence allotted to opposition politicians on the chief news programmes fell under 30% after the change of government in 2010, but since 2014 it has been at a high level, around 40%. In addition to all this, it is also reassuring that the reading of online news, newspapers and other electronic periodicals is growing steadily among all age groups.

D.1. Political Competition Dimension

The fair and unrestricted competition of political alternatives, programmes and organisations is one of the fundamental conditions for the existence of political pluralism and democracy. The following indicators make it possible to measure the political competition dimension:

Key indicator: NUMBER OF REGISTERED POLITICAL PARTIES

- The number of organisations legally registered in the administrative databases in the given year (i.e., in possession of a Tax ID No.) and qualifying as political parties according to their official classification. The indicator shows the extent of the range of potential participants in political competition. Source: CSO

Sub-indicator 1: (REGULAR) STATE SUPPORT FOR POLITICAL PARTIES AND PARTY FOUNDATIONS (million HUF)

- The extent of state support as specified in the Budget Act for political parties and party foundations pursuant to Act XXXIII of 1989 on the Operation and Financial Management of Political Parties and its Amendment of 2004 on Budgetary Financing of Foundations Aiding the Operation of the Parties and Conducting Scholarly, Information-Dissemination, Research and Educational Activities. The indicator does not include the sums provided as campaign support during the period of the parliamentary elections. Source: Payments performed as per the Budget Act (Act on Execution).

Sub-indicator 2: NUMBER OF POLITICAL PARTIES FIELDING NATIONAL LISTS FOR PARLIAMENTARY ELECTIONS

- The number of parties capable of fielding a national list in the given election year. Up until 2121, it was possible to field a national list if a given political party was able start in at least seven regional lists. Regional lists were done away with with the entry into force of Act CCIII of 2011, and therefore from 2014 it became possible to vote directly for the parties' national lists. 93 of the 199 parliamentary mandates can be won in this way. The condition for fielding a national list if for the given organisation to be able independently field a candidate for 27 individual constituencies in nine counties and Budapest. The number is one of the indicators of the exclusionary mechanisms prevailing in the electoral competition: the smaller the value (in principle), the stronger the exclusionary effect. Source: NEO

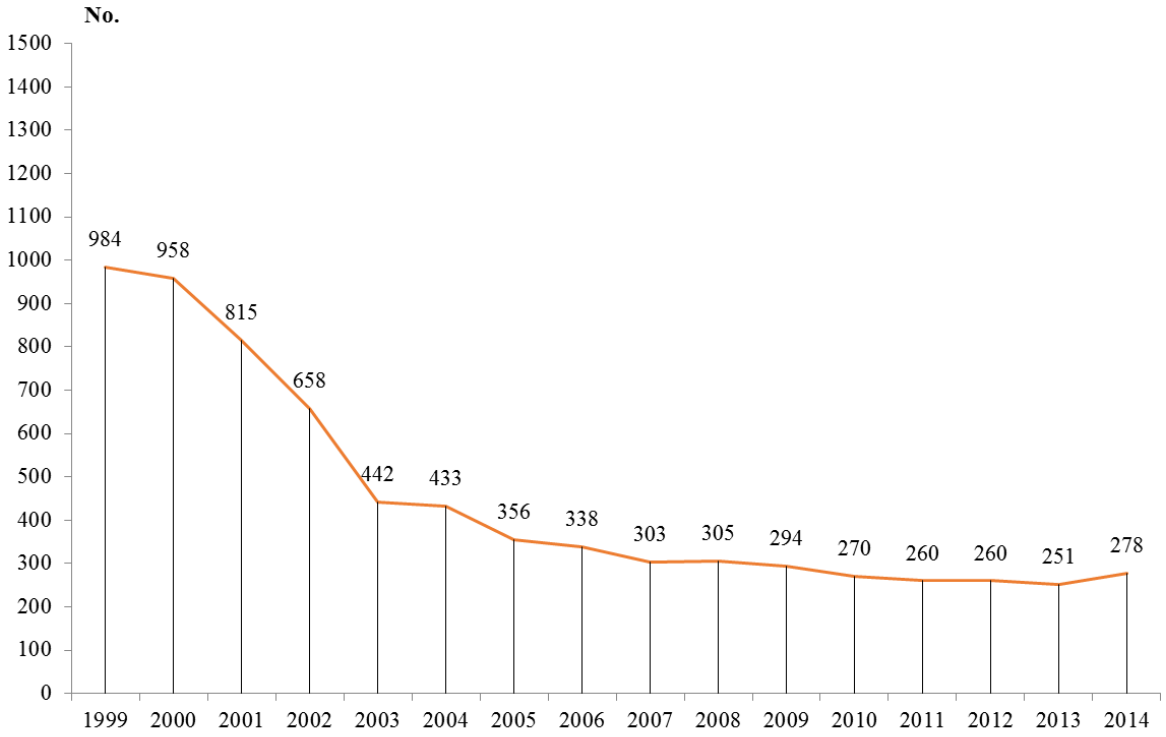
Sub-Indicator 3: EFFECTIVE NUMBER OF POLITICAL PARTIES

- The effective number of parties running in parliamentary elections. The number of effective political parties is the number of theoretically created parties of equal size there would be in the (electoral) party system based on the share of votes casts. The indicator is the second indicator of the exclusionary mechanisms prevailing in the electoral contest: the lower the value, (in theory) the stronger the exclusionary effect. Source: calculations (based on data from the National Election Office)

Sub-Indicator 4: EFFECTIVE NUMBER OF PARLIAMENTARY PARTIES

- The effective number of parties with parliamentary representation. The number of effective parties is the number of theoretically created parties of equal size there would be in the (electoral) party system based on the share of parliamentary mandates. The indicator is the third indicator of the exclusionary mechanisms prevailing in the electoral contest: the lower the value, (in theory) the stronger the exclusionary effect. Source: calculations (based on data from the National Election Office)

D.1.1. Number of registered political parties



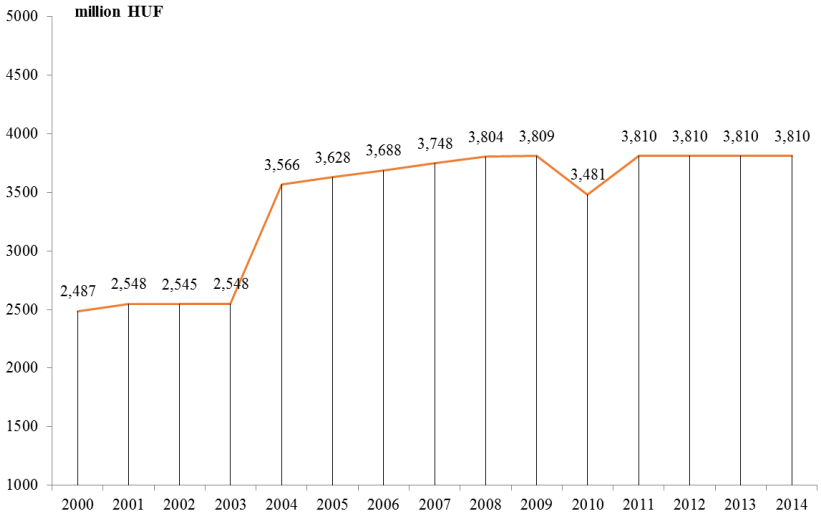
Political parties are players of crucial importance in modern politics. The play the role of intermediary between society and the state, represent the interests and needs of the citizens, provide the opportunity and motivation to participate in public life, as well as constituting the most important channel for selecting political officials and filling political offices. The freedom to form political parties is the qualitative test of a democracy and the minimum condition for political competition.

In Hungary at the end of the 1980s, it was no longer possible for the state party leadership to disband the parties that were being formed one after the other, and therefore the (de facto) multi-party system had already, for all practical purposes, come into existence before the first free elections. In the course of the democratic transition, the number of registered parties shot up to a number that would have been unimaginable previously, and then stabilised at this high level in the 1990s. This was a result, on the one hand, presumably of the sense of expanded horizons offered by the "euphoria of freedom", and on the other hand, of the conditions for forming parties being ones that could easily be met. The regulations required only an application to be made, which was registered at a court; no authorisation or permit was needed. Unlike the practice in other states, no special provisions were formulated that differentiated the basic regulations for political parties from those of other social organisations. In the first decade after the regime change, the practice of founding parties that did not seek to exercise exclusive power and which respected the Constitutions and the rule of law, therefore, became free, open and widespread.

From the end of the 1990s, the number of registered parties began to fall decisively and dramatically. From a high of over one thousand parties in 1998, their numbers dwindled to under half that within five years. This trend continued for the following ten years, even if in a somewhat less striking manner: the number of registered political parties, which hovered over 400 in 2003 and 2004 had fallen to around 250 by 2013. This trend can be related, on the one hand, to the waning "euphoria" surrounding the formation of political parties, and on the other hand, by the coming into force of regulatory solutions that allow courts to find, at a prosecutor's initiative, that parties that have not fielded candidates in two consecutive parliamentary elections have ceased their operations as parties. While there was some cautious movement in a positive direction in 2014 (the number of registered parties rose over 270), it can neither be considered to be of great magnitude nor necessarily deemed to be the start of a trend in the opposite direction.

Despite a decade and a half of a downward trend in Hungary, the number of registered parties can still be considered to be quite high.

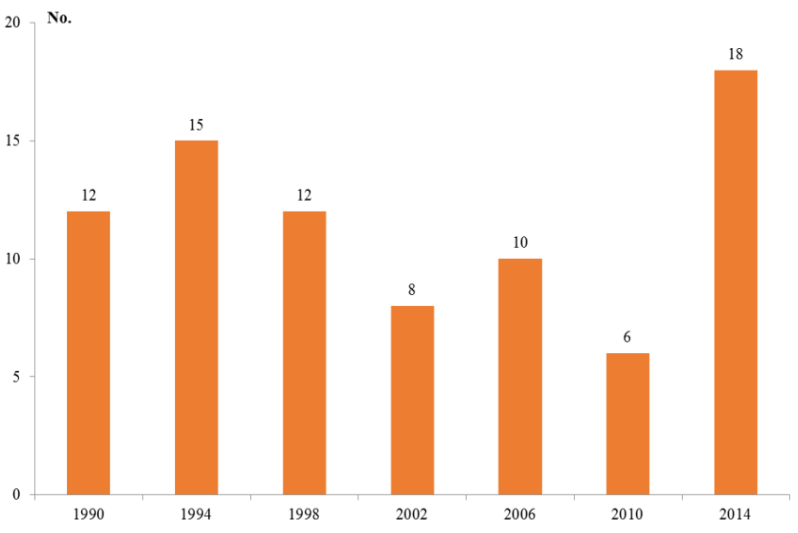
D.1.2. (Regular) state support for parties and party foundations (million HUF)



State support for parties is a solution for the financing requirements of political organisations in modern democracies that attempts to limit the advantage that parties with some kind of dominant position (e.g. a large membership and membership dues, wealthy donors, etc.) enjoy in the political contest. The Hungarian regulations that were developed at the time of the regime change attempts to ensure financing for relevant parties that have real support in society. Parties are entitled to budgetary support if they won at least one percent of the vote in the most recent parliamentary elections. 25% of the amount that can be spent on support must be divided – in equal proportions – among the parties that have gained mandates on the national list. The remaining 75% goes to the parties on the basis of the electoral results, in the proportion of votes cast for the party's nominees.

Since 2004, in at least two consecutive election cycles, the foundations of faction-forming parties have also been eligible to receive state support, and therefore the financing of political organisations has grown by a significant amount.

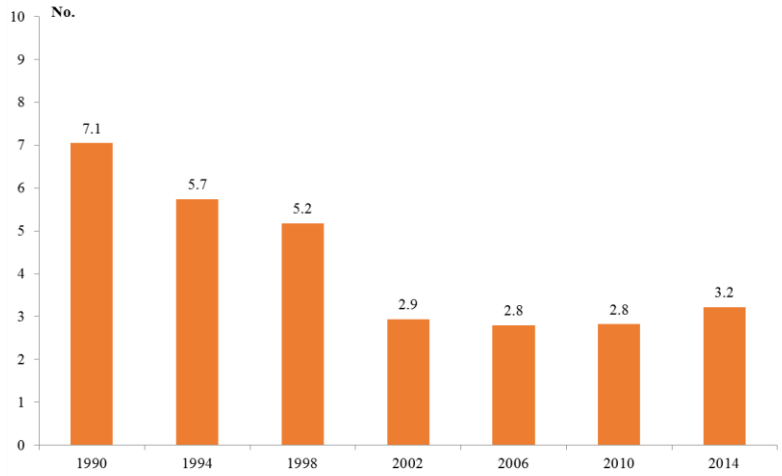
D.1.3. Number of parties fielding a national list for parliamentary elections



The most important phase of the democratic political contest is the election race. The number of parties reaching the point where they can field a national list expresses the chance of entering and influencing the race, the fairness of the rules and the fact and extent of the ability to cross a lower-level (i.e. fielding nominees) threshold. At the same time, from the logic of the indicator, it also follows that, on the one hand, only the extreme, and in particular, extremely low values (of two or one) indicate the anomalies related to the conditions of running. On the other hand, a change in one direction or the other which does not reach extreme levels in terms of extent does not necessarily mean that there has been a qualitative change in competitive conditions. The fact, therefore, that this number has exhibited appreciable fluctuation between its 1994 peak of 15 and its nadir of six in 2010 during a period while the electoral system remained substantively unchanged, can be placed in the context of changes in social support for different political alternatives.

The number of parties with national lists reached its highest level in 2014 in the wake of revamped regulations for fielding candidates and lists.

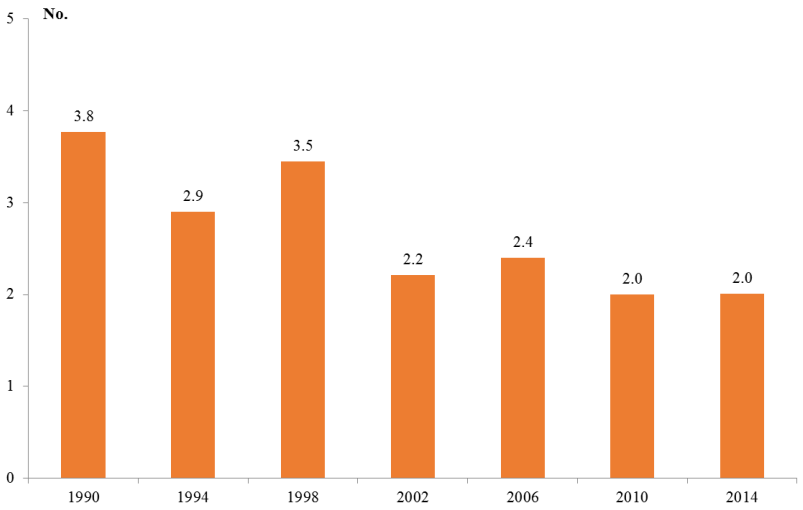
D.1.4. Effective number of electoral parties



Another indicator serving to describe the conditions for and the dynamic of the electoral contest – alongside the number of parties capable of fielding a national list – is the effective number of parties participating in parliamentary elections. This indicator expresses the combined institutional (that is, arising from the regulations and procedures) and psychological (that is, manifesting in the behaviour of the voters) components of the electoral contest relative to the power relationships developing between the parties. The changing trend in the distribution of votes cast among parties during the period following the democratic transition is relatively clear. The number, based on the share of the votes, of theoretically viable parties displays a markedly decreasing trend line, deviating from that of the changes in the number of parties fielding national lists and falling from a value of 7.1 in 1990 to 2.8 in 2010. Slight growth (to 3.2) in 2014 does not substantively affect the trend.

The change in the number of effective electoral parties between 1990 and 2014 shows a decrease in the number of organisations capable of substantive influencing the electoral contest, as well as in the concentration of votes.

D.1.5. Effective number of parliamentary parties



The third indicator related to the electoral contest process is meant to express, above all, its output, the effect on composition of the legislature. In accordance with this, the number of effective parliamentary parties, as an indicator, reflects through the movement in the share of mandates, first of all, the power relationships that have developed between the political organisations that have succeeded in getting into the parliament. This indicator has so far never moved together with the number of parties fielding national lists or the number of effective electoral parties. In the former case, the threshold to get into parliament, and in the latter case, the (relative) disproportionate nature of the electoral system might have been the institutional cause for the dispersion of the trends. In the 1990s, the number of effective parliamentary parties fluctuated in a band between 2.9 and 3.8, while in the 2000s the number never exceed 2.4. Ín the wake of the results of the 2010 and 2014 elections, it seems to have stabilised at a value of 2, the lowest of the last 20 years.

The indicator shows that, since the 2000s, and especially since 2010, significantly more unequal power relationships have developed between the parties getting into parliament as a result of the electoral contest than previously.

D.2. Political Participation Dimension

Although modern mass democracies are essentially indirect in nature, meaning that their functioning is primarily based on the principle of representation, citizens' participation in managing public affairs and making decisions that involve the public and choosing public officials to exercise authority over society are a necessary condition and important qualitative test of these systems. The following indicators aid in measuring the political participation dimension:

Key Indicator: PROPORTIONALITY OR DISPROPORTIONALITY OF THE ELECTORAL SYSTEM (Loosemore-Hanby Index)

- The Loosemore-Hanby Index is an indicator giving the share (as a percentage) of mandates obtained in the parliamentary elections that were not in proportion to the votes cast. In this way, the indicator expresses the strength of the distorting effects manifesting during the conversion of votes into mandates in the electoral system. (A greater value indicates a greater degree of disproportionality.) Source: calculation (based on NEO data)

Sub-Indicator 1: PARTICIPATION RATE IN PARLIAMENTARY ELECTIONS (%)

- The proportion of people, as a percentage of all eligible voters, voting in general elections of members of parliament held every four years. The indicator is one of the indexes showing an area of key importance of political participation and electoral participation. The source for the data is the National Election Office (the numbers for the years 1990-2010 reflect participation in the first round of elections.)

Sub-Indicator 2: PARTICIPATION RATE IN REFERENDUMS (%)

- The proportion of people, as a percentage of all eligible voters, voting in referendums. Referendums were held in 1990, 1997, 2003, 2004 and 2008. The indicator is an index showing citizen participation in direct political decision-making. The source for the data is the National Election Office.

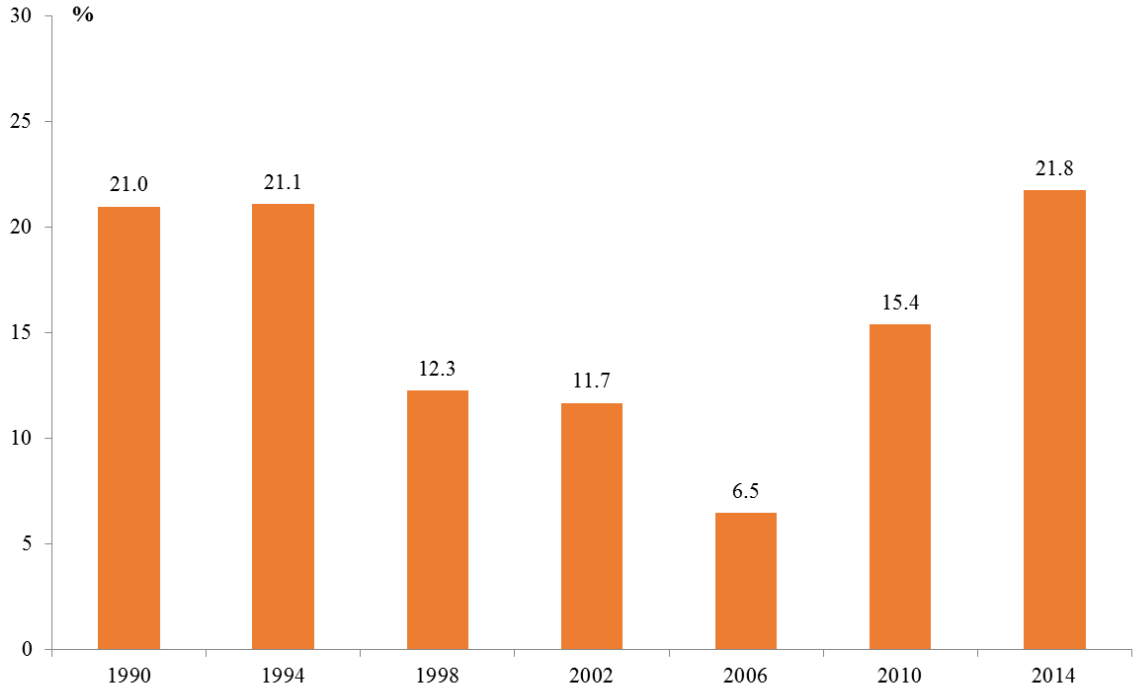
Sub-Indicator 3: PARTICIPATION RATE IN MUNICIPAL ELECTIONS (%)

- The proportion of people, as a percentage of all eligible voters, voting in general elections of municipal representatives and mayors held every four years. The indicator is another of the indexes showing an area of key importance of political participation and electoral participation. The source for the data is the National Election Office (the numbers for the years 1990-2010 reflect participation in the first round of elections).

Sub-indicator 4: PARTICIPATION RATE IN EUROPEAN PARLIAMENT ELECTIONS (%)

- The proportion of people, as a percentage of all eligible voters, voting in elections of members of the European Parliament held every five years. The indicator is the third index showing an area of key importance of political participation and electoral participation. The source for the data is the National Election Office.

D.2.1. Proportionality or disproportionality of the electoral system (Loosemore-Hanby Index)



Political participation is a set of phenomena that is essential to the functioning of democracies, but which is at the same time quite diverse, including many types of political behaviour. Although the increasing spread of and emphasis on novel, non-conventional forms of political participation (petitions, boycotts, sit-down strikes, street performances, flashmobs, etc) and the decline of the level of participation, evident even in certain states whose democratic form of government is of long standing, in elections, which constitute the traditional, conventional form of participation, both constitute international trends, the latter type of participation has nonetheless retained its key role in the functioning of democracies.

The qualitative characteristics of electoral systems, the features of the rules, procedures and formulas employed in the course of elections, are therefore, with regard to voter participation, structural conditions and components of formative influence. Of special significance among these features are the nature of the relationship between the act of participation (casting votes) and the result of the act of participation (the distribution of mandates) and the proportionality or disproportionality of the conversion of votes into mandates.

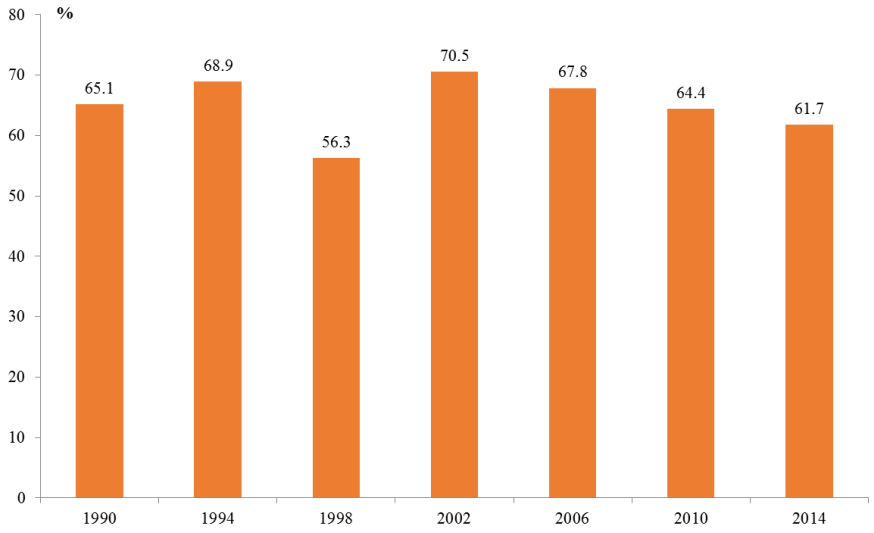
The Hungarian system developed on the West German model at the time of the regime change can be classified as a mixed system. As a result of this, it attempts, at the same time, to meet both the requirement of representativeness, that is, accurately expressing the will of the voters, and the need to ensure viable governance.

However, as the indicator constructed around the Loosemore-Hanby Indey also shows, in the course of the seven parliamentary elections following the regime change, the system's functioning has not been at all free from distorting influences.

A perceptible disproportionality between the will of the voters expressed in votes and the final results manifesting as mandates became evident as early as the first two elections: both in 1990 and 1994, the share of MP seats that were not distributed in proportion to the votes cast was over 20%. Although the degree of disproportionality receded sharply over the course of a decade and a half, with the value of 6.5% recorded in 2006 even coming close to the 5% line that marks the upper limit of proportionality, but after 2010 an increase in the percentage value could be detected once again. In the 2014 elections – in the wake of the restructuring of the election system – disproportionality greater than a fifth (21.8%), in fact the highest level since the regime change, was shown in the distribution of mandates.

The distorted proportionality occurring in the conversion of votes to mandates is a feature of the Hungarian election system that could have repercussions on both parties' strategies and voters' motivation to participate.

D.2.2. Participation rate in parliamentary elections (%)

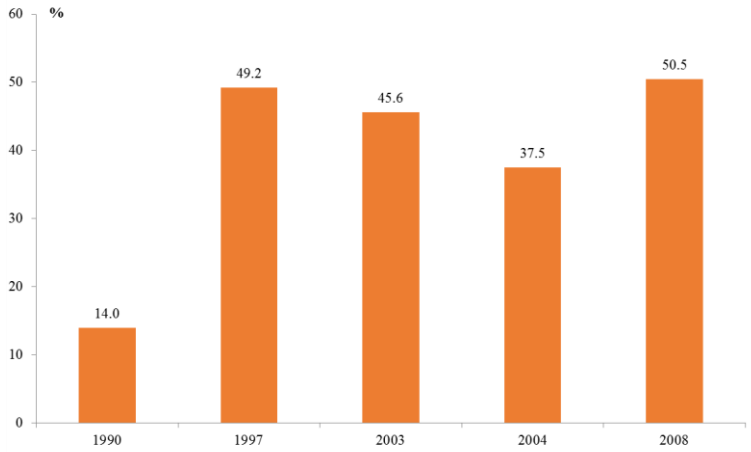


Participation in parliamentary elections in Hungary has, following the democratic transition (up until 2010 taking into account only the data from the first round) moved in a band between 56% and 71%. The average value of the participation rate, coming in at under two-thirds, can be considered rather low by international comparisons, and also lags behind the averages of some of the countries of Central and Eastern Europe.

At the same time, significant differences can be observed, with respect to certain factors, in the participation in elections of the eligible voting population. A higher degree of willingness to participate can be noted among those with a higher level of education and older citizens, as well as among those with a stronger ideological commitment and those placing a higher value on the functioning of democratic institutions. Trends show a higher degree of participation in Budapest and in the country's western counties than in the eastern part of the county. A portion of those abstaining from voting (according to some estimates, a quarter of those eligible to vote, that is, two million people) are consistently non-voting, politically passive citizens.

Since the regime change, the election participation rate in Hungary has never reached the four-fifths level typically found in a number of countries.

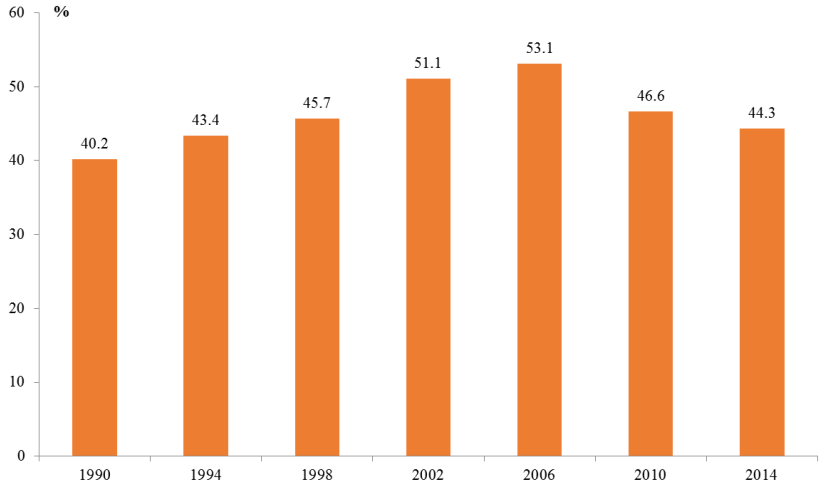
D.2.3. Participation rate in referendums (%)



In the period following the regime change, referendums have been held three times (in 1990, 2004 and 2008) at the initiative of citizens' signature campaigns, and twice (in 1997 and 2003) in the wake of parliamentary decisions. With one exception (2008), the participation rate in these did not reach 50%. It is no surprise that of the five referendums, two (on the direct election of the president of the republic and on the questions of hospital privatisation and dual citizenship) had no effect. It cannot be stated of this core institution of direct democracy, therefore, that it plays an especially important role in the composition of Hungary's public life. At the same time, the relatively low degree of direct popular participation can be explained by, in addition to the unique characteristics of the political culture, certain aspects of the regulatory environment. The relatively wide range of banned subjects, as well as factors reducing the chance of making the initiative successful (the required number of signatures, the time-frame for the signature campaign, the number of votes needed to make the referendum effective) can even have exert a restraining effect.

A political-cultural and institutional agent that stimulates direct popular participation has not yet been developed in Hungary.

D.2.4. Participation rate in municipal elections (%)

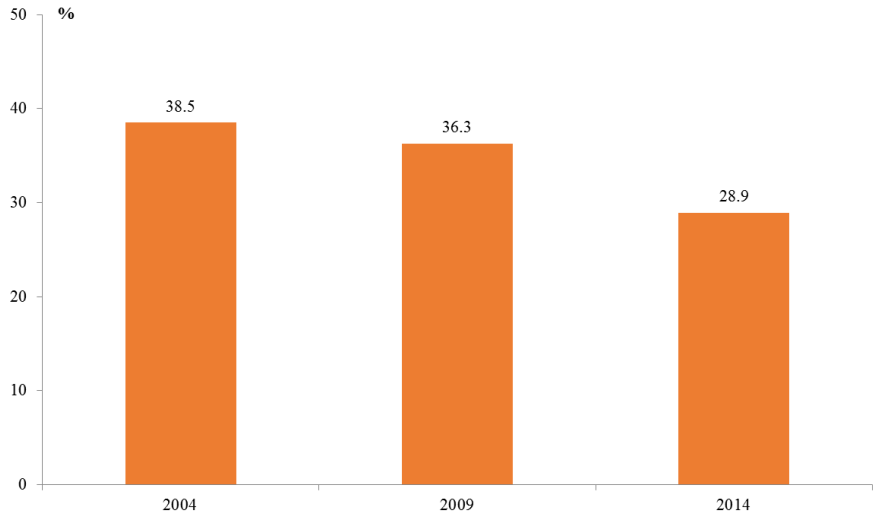


In the two and a half decades following the democratic transition, the participation rate in general elections held every four years to elect local municipal representatives and mayors (up until 2010, taking into consideration only the first round of elections) exceed the 50% level (in 2002 and 2006) on only two occasions, and in the other instances remained in a band between 40% and 46%.

This data set – similarly to the participation rates in parliamentary elections – shows much lower willingness to participate in local politics compared to the values measured in certain countries in Western Europe, in other parts of the world, and in the former socialist bloc. By comparing it to the other indicator portraying Hungary's election turnout, it remains apparent that the number of those who refrain from participating in electing local officials is even greater than that observed abstaining from national elections, constituting a group of around four million people.

According to the experiences of the recent past, half of the Hungarian electorate considers participating in the election of municipal representatives and mayors to be a chore.

D.2.5. Participation rate in European Parliamentary elections (%)



Although of all the indexes expressing election participation, this third indicator measuring the percentage of people turning out in European Parliamentary election records the lowest values, an international comparative analysis paints a slightly different portrait of the level of activity of Hungarian citizens, since although in 2004 only 38.5% of eligible voters came out to the polls, a figure which fell to 36.3% in 2009 and to 28.9% in 2014, these are not a glaringly low numbers by European standards. In fact, from a regional perspective, comparing it with the data of other formerly socialist countries that have recently become members of the European Union, this value proves even more favourable (that is, it is higher than the participation level of a number of countries). The clear declining trend seen in voter turnout rates does not differ from the trends observed in a significant number of European Union member countries.

The data shows that a significant majority of Hungarian voters do not (yet) take the view that politics at the European level has any real effect on their lives.

D.3. Social Dialogue Dimension

This dimension the degree to which we can talk about a living, organic and reflexive connection between political institutions participating in passing legislations (the parliament, municipalities, the government, etc.) and organised interest groups and social organisations (NGOs). The institution of social dialogue is one of the tools of parliamentary democracy that – when it exists – assures an increase in the efficiency (output) of political decision-making. In consensual social models, beyond the separation of powers, the historical traditions of the given country (e.g., federal state), its structure as a society (cooperating social groups, the existence of a national minimum, etc.), its social structure (social market economy, decision-making by general consensus or by bi- or tri-partite decision making, etc.) and its political culture all determine the manner and extent of social dialogue.

Key Indicator: NON-PROFIT ORGANISATIONS ENGAGED IN POLITICAL ACTIVITY OR ADVOCACY

- The number of non-profit organisations functioning in the given year whose activity falls under the scope of political, professional or economic advocacy based on the classification system for non-profit organisations. Source: CSO

Sub-Indicator 1: NUMBER OF PEOPLE PERFORMING VOLUNTEER WORK AT NON-PROFIT ORGANISATIONS ENGAGED IN POLITICAL ACTIVITY OR ADVOCACY

- The number of people performing, in the given year, volunteer work at non-profit organisations that are functioning in the given year and whose activity falls under the scope of political, professional or economic advocacy based on the classification system for non-profit organisations. Source: CSO

Sub-Indicator 2: STATE SUPPORT FOR NON-PROFIT ORGANISATIONS ENGAGED IN POLITICAL ACTIVITY OR ADVOCACY

- The total amount of state support in the given year for non-profit organisations functioning in the given year whose activity falls under the scope of political, professional or economic advocacy based on the classification system for non-profit organisations. Source: CSO

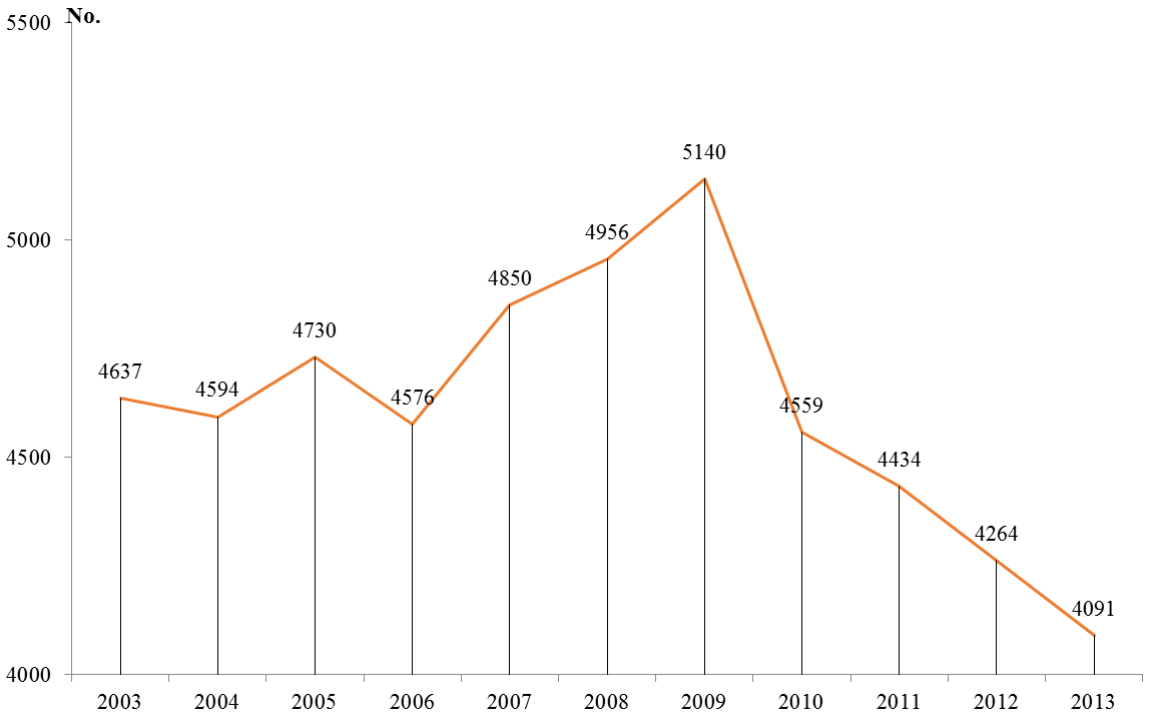
Sub-Indicator 3: NUMBER OF NON-PROFIT ORGANISATIONS ACTIVELY PARTICIPATING IN THE POLICY ANALYSIS WORK OF LOCAL (COUNTY OR METROPOLITAN) MUNICIPALITIES

- The number of non-profit organisations participating (based on self-reporting) occasionally or regularly in the policy analysis work of local (county or metropolitan) municipalities. Source: CSO

Sub-Indicator 4: NUMBER OF CASES SUBMITTED TO THE EQUAL TREATMENT AUTHORITY

- The number of complaints submitted to the Equal Treatment Authority in the given year. Source: ETA

D.3.1. Number of non-profit organisations engaged in political activity or advocacy



The social dialogue government capability is shown by the extent to which, during the course of the political decision-making process, the opinions and sets of technical proposals of the affected social subsystems and relevant organised interest groups, as well as non-governmental organisations (NGOs) can be articulated, appear in the public sphere, and become part of various public-policy and political decisions during the course of the decision-making process at the various levels of the political system. Required in order for such opinions to be expressed, and in order for them to make it from the representatives of society to the political decision-makers, are organisations that undertake the task of articulating and advocating interests.

The number of non-profit organisations engaged in political, economic and professional advocacy in Hungary grew continuously, with the exception of 2006, from 2003 until 2009. In 2009 and 2010 there was a significant decrease, with the number of organisations falling from 5,141 to 4,559 a year later, and with this number diminishing even further every year after 2010. Between 2009 and 2013, the number of non-profit organisations engaged in political, economic and professional advocacy dropped by more than a thousand.

The majority (85-90 percent) of the examined organisations engage in professional or economic advocacy, and only a small portion of them conduct political advocacy. At the same time, it is important to emphasise that the indicator does not differentiate based on the size of the non-profit organisations, and thus no clear conclusion regarding trends in social dialogue can be drawn from this indicator.

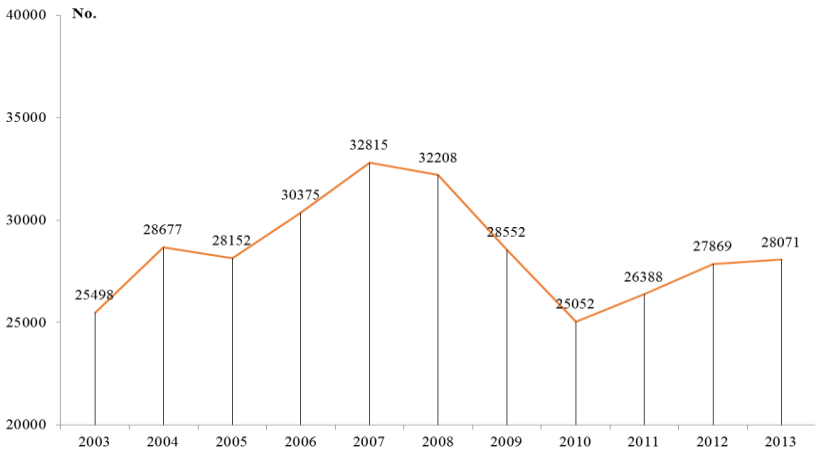
In order to make a precise assessment about this, we would need to know how significant and how active those organisations that shut down during the aforementioned time period were.

It is possible that those organisations that played an effective role as intermediaries have remained, which would mean that the quality and intensity of social dialogue has not deteriorated significantly.

The number of non-profit organisations engaged in political activity and advocacy grew continuously between 2003 and 2009 (with the exception of 2006), and has fallen by more than a thousand since then.

D.3.2. Number of people performing volunteer work at non-profit organisations engaged in political activity or advocacy

The amount of volunteer work performed for non-profit organisations engaged in political, professional and economic advocacy is important data that shows the citizenry's willingness to participate in the democratic system and its level of activism.



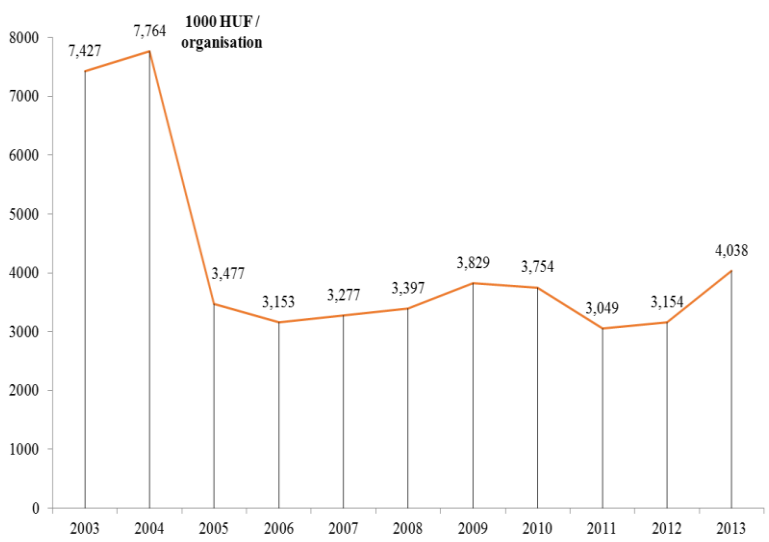
The majority of volunteers (approximately 80 percent) carry out their activities with non-profit organisations engaged in economic or professional advocacy.

The number of volunteers by and large followed the trend in the number of organisations until 2007. Between 2007 and 2010, the number of volunteers declined despite the fact that the between 2007 and 2009 the number of non-profit organisations rose. From 2010, the number of organisations declined; however, the number of volunteers increased, that is, fewer organisations utilised a greater number of volunteers.

The number of volunteers working for non-profit bodies engaged in political, economic and professional advocacy has increased continuously over the last four years, and thereby, the need felt on the part of the citizens to commit a portion of their spare time to active participation in the social dialogue.

D.3.3. State support for non-profit organisations engaged in political activity and advocacy

State support for non-profit organisations engaged in political, professional and economic advocacy directly contributes to the functioning of the organisations, and thereby indirectly facilitates social dialogue, which is one of the basic elements of democratic political systems.



State support for such organisations fell dramatically, by more than half, between 2004 and 2005.

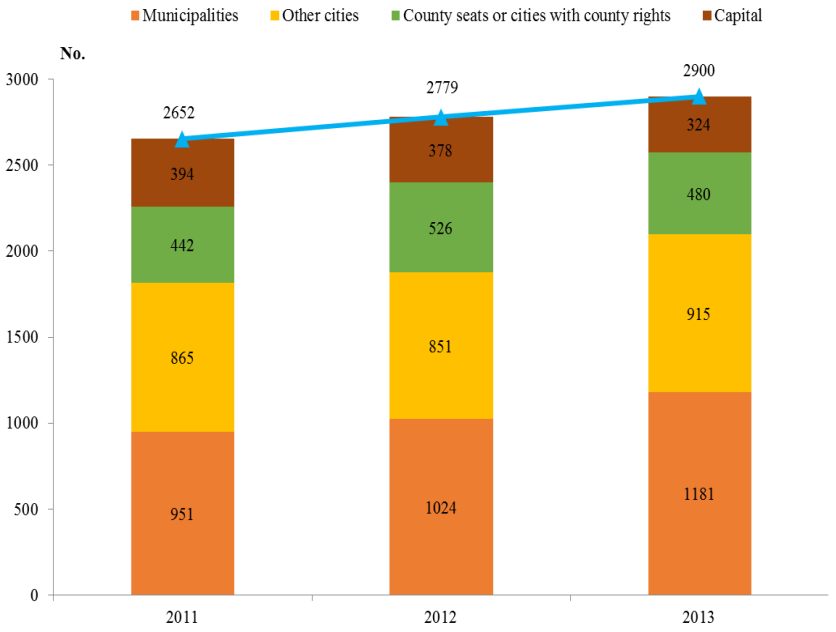
Then, starting from 2006, slight but continuous growth could be observed until 2009. In the 2010 and 2011, state support for these organisations again fell, albeit moderately, and then from 2012 began to grow again.

Assuring social dialogue requires the existence of non-profit organisations engaged in advocacy. With its financial support for these organisation, the government has contributed in recent years to ensuring that they are adequately funded.

D.3.4. Number of non-profit organisations actively participating in the policy analysis work of local (county or metropolitan) municipalities

Non-profit organisations actively participating in the policy analysis work of local (county or metropolitan) governments are a cornerstone of the development of social dialogue at the local level.

Generally speaking, citizens tend to be more easily mobilised, and in larger proportions, in local affairs than in national matters. This is also due to the fact that the voter turnout rate is generally higher for local elections than for parliamentary elections. This indicator clearly shows that the number of active local non-profit organisations is growing continuously, with their number growing by nearly 300 over the past three years. Most such active organisations can be found in rural areas, with the second greatest number in the towns. In Budapest and in the county seats, there were fewer organisation participating in the policy analysis work of municipal government.



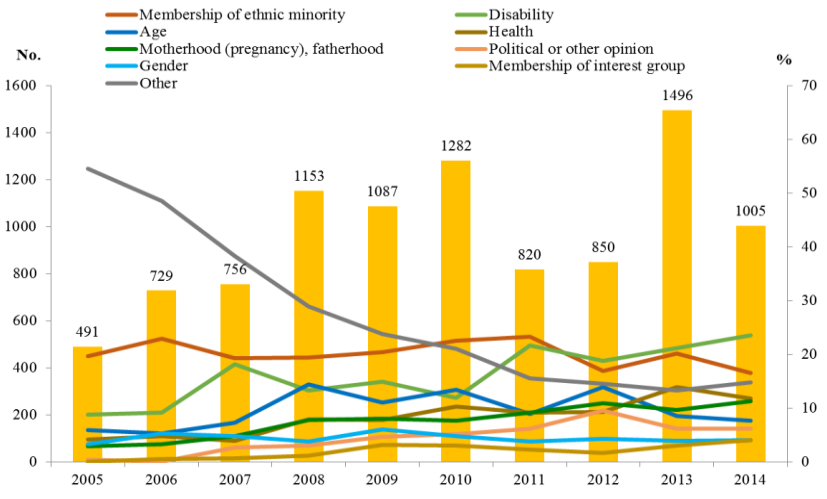
Based on the clearly upward trend in the number of organisations participating in the policy analysis work of municipal governments, and thereby constituting a foundation for local social dialogue, it can be established that this indicator shows social dialogue developing at the local level.

D.3.5. Number of and grounds for cases submitted to the Equal Treatment Authority

Complaints may be submitted to the Equal Treatment Authority by those who feel that, due to a protected characteristic, they have been treated less favourably than other people in a similar situation. The law grants protection for the following characteristics: gender, ethnic origin, race, skin colour, age, mother tongue, disability, state of health, motherhood (pregnancy) or fatherhood, family status, sexual orientation, gender identity, social origin, financial status, religious or ideological conviction, political or other opinion, part-time status or fixed-term of employment relationship, membership in an advocacy organisation, or other status.

The greatest number of complaints were submitted with regard to ethnic origin or disability.

Fewer complaints submitted to the Equal Treatment Authority means that the population is affected by less discrimination. Less discrimination is linked to the government's relevant capability to assure and protect fundamental rights.



It is important to stress that the number of complaints submitted to the authority declined significantly, by more than 48%, between 2013 and 2014.

D.4. Democratic Exercise of Law Dimension

The examination of the issues of the rule of law, democratic core values and human rights, which can be related to the meso-level concept of "liberal" democracy, is of fundamental importance from the point of view of the citizens' democratic exercise of law and of the reliable democratic functioning of the individual legal institutions. However, as a factor, it has a large-scale impact on political participation (either promoting and encouraging participation, or restricting and hindering it), and thus its measurement is likewise not without use. The indicator takes as its basis the exercise of law by the domestic institutions charged with the protection of human rights, an index describing the internal state of the system, characterising its procedures and measuring the functioning of the legal statutes, which takes into account the existence and proper functioning of institutions guaranteeing the enforcement of human and minority rights, as well as the range of international commitments made on the subject of human rights.

Key Indicator: NUMBER OF COMPLAINTS SUBMITTED TO THE OMBUDSMAN

- The number of complaints submitted to the Office of the Ombudsman. Source: OCFR

Sub-Indicator 1: TRUST IN THE POLITICAL SYSTEM

- Indicator generated from answers to the question, "On a scale of 0-10, how much trust do you personally have in the political system?" Source: CSO

Sub-Indicator 2: ADVERSE DISCRIMINATION IN HUNGARIAN SOCIETY

- Proportion of people age 19-61 who have, based on self-reporting, experienced adverse discrimination in seeking employment, official administration, termination of employment, or in (any) other life situation. Source: CSO

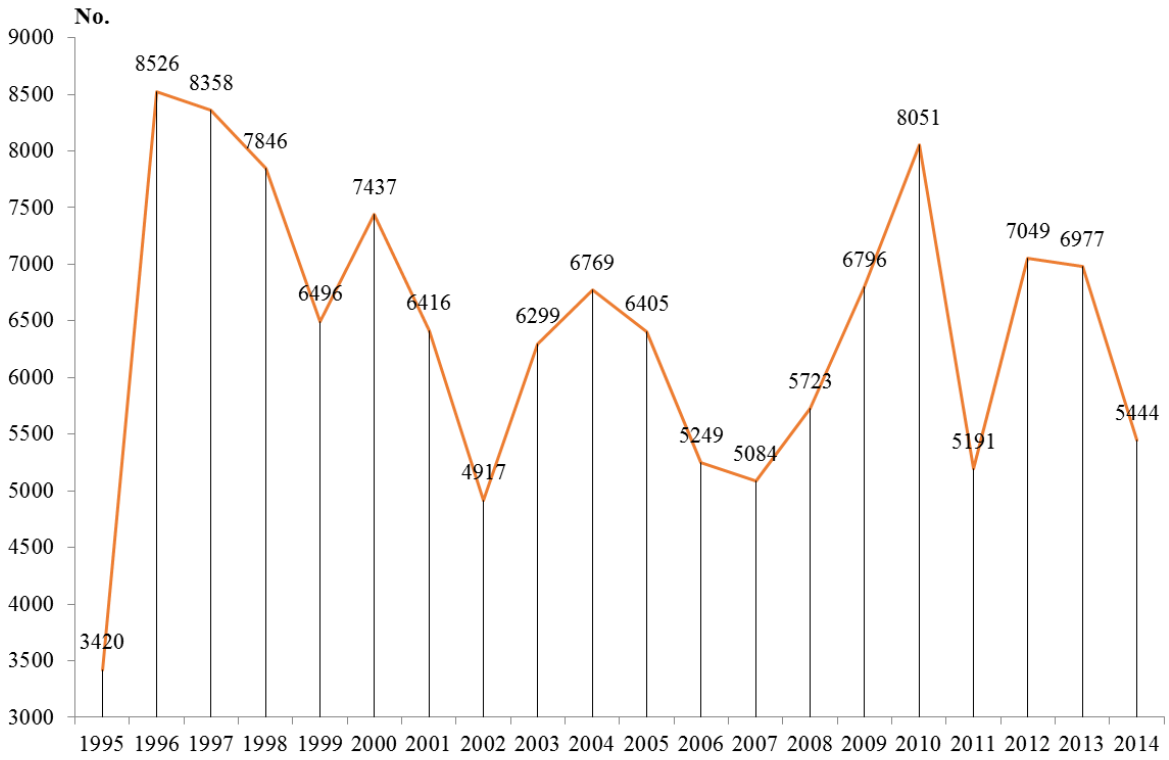
Sub-Indicator 3: NUMBER OF CONSTITUTIONAL COMPLAINTS SUBMITTED TO THE CONSTITUTIONAL COURT

- Number of constitutional complaints submitted to the Constitutional Court in the given year. Source: SEO

Sub-Indicator 4: THE EXERCISE OF THE RIGHT OF ASSEMBLY IN HUNGARY – REGISTERED PEACEFUL GATHERINGS, MARCHES AND DEMONSTRATIONS

- The number of peaceful gatherings, marches and demonstrations (hereinafter together: events) registered in the given year as part of the exercise of free assembly (pursuant to the act on the right of assembly) in which the participants may freely air their opinions. This does not extend to:
  - meetings related to the election of members of parliament and council members, or to reporting meetings of members of parliament and council members;
  - religious ceremonies, events and processions organised in the are of legally recognised churches and religious denominations;
  - cultural and sporting events;
  - events related to family events.
- Source: Hungarian National Police Headquarters

D.4.1. Number of complaints submitted to the ombudsman



The fundamental criterion for the rule of law is that state power must operate according to specified legal norms, and this must also be assisted by the operation of "self-regulatory mechanisms" established by the state power itself. The government capability is exhibited in the manner in which and the extent to which democratic core values manifesting themselves as an element of the rule of law can act in the protection of democratic freedoms. Making up important parts of this action are the aforementioned "self-regulatory mechanisms", and especially among these, one of the main elements of the system for the protection of basic rights is the institution of the ombudsman.

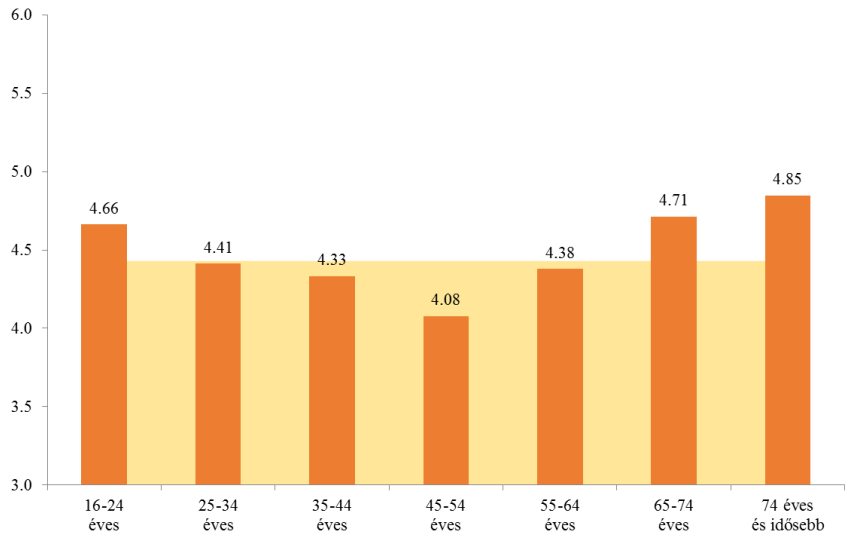
The main function of the institution of the ombudsman is to react, from an alternative, human-rights-based approach, to abuses related to constitutional rights. Although the institution of the ombudsman was significantly restructured pursuant to the fundamental law of 2012, it retained its aforementioned main function after 2012 as well.

The key indicator of the democratic exercise of rights shows the number of complaints submitted up until 2011 to the Parliamentary Commissioner for Citizens' Rights and, pursuant to the restructurings, from 2012 to the Commissioner for Fundamental Rights. Prior to 2012, four Parliamentary Commissioners functioned: the Parliamentary Commissioner for Citizens' Rights, the Parliamentary Commissioner for National and Ethnic Minorities, the Parliamentary Commissioner for Future Generations and the Commissioner for Data Protection. Starting from 2012, the legal successor to the first three was the Commissioner for Fundamental Rights, while the role of Commissioner for Data Protection was taken over by the newly created Hungarian National Authority for Data Protection and Freedom of Information. Thus, it is only to a limited extent that data from prior to 2012 can be compared with the values of the period since then.

The index data linked to the key indicator is available for the years 1995 through 2014, and the data shows a quite variable picture. The number of complaints to the ombudsman reached its highest level in 1996, with a total of 8526 complaints, although based on the declining trend over the following years, it is possible to conclude that this outlying number could be explained by the novelty of the institution.

It is important to emphasise that the average annual number of complaints, in the 5,000-7,000 range, indicates continuous and active operation on the part of the institution.

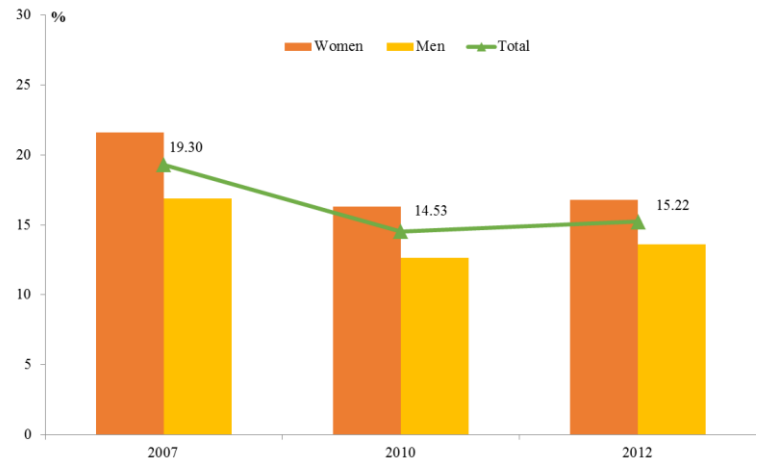
D.4.2. Trust in the political system



This indicator reflecting the subjective opinion of the population is one for which data only exists with respect to 2013. This new indicator differs from earlier ones in that it does not differentiate between the individual elements, institutions and actors in the political system, but instead measures confidence in the political system as a whole. At the same time, it is important to emphasise that the indicator does not specify what is meant by the "political system", and so it is possible that the respondents interpret the question "How much trust do you personally have in the political system?" differently. This indicator becomes suitable for measuring government performance if it applies not to trust in the entire political system, but rather to trust in the government. The previous trust index, in different breakdowns, examined the institutions of the police and the justice system and political institutions (such as the parliament, the President of the Republic, and the government), and in the former two case found generally higher levels of confidence. There is great need for a measurement of the level of confidence in the political system; however, in order to set up a realistic index of trust, it would be necessary to differentiate the indicator and specify the exact content.

From the results of the indicator, it appears that trust in the political system is felt most strongly by the youngest (age 16-24) and oldest (74 and older) age groups.

D.4.3. Adverse discrimination in Hungarian society

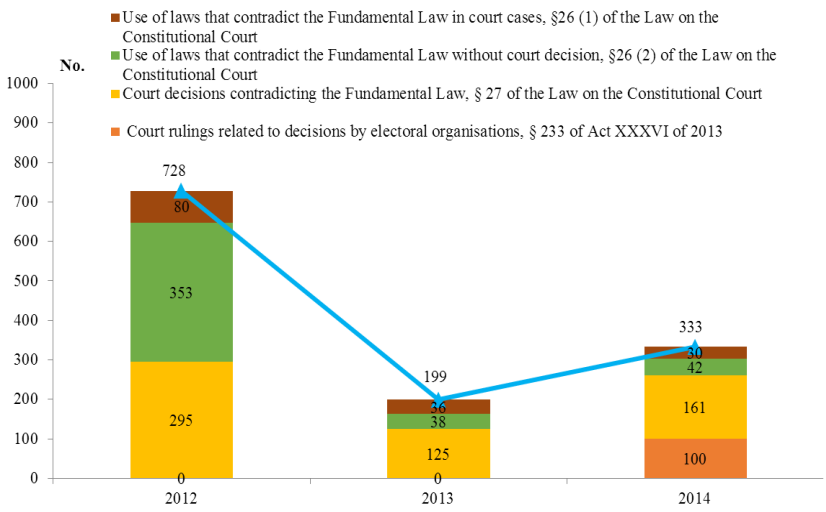


This indicator shows the proportion of people age 19-61 who have experienced adverse discrimination in any life situation and for any reason as a percentage of the population of the same age range. The survey is based on self-reporting. The proportion of people experiencing adverse discrimination decline by close to five percent between 2007 and 2010, while between 2010 and 2012 it rose again to a very minimal extent of 0.71 percent. The trend is the same for both genders, although it can be concluded that in all three reporting years women experienced 3-5% more often than men did.

The discrimination ratio is highest among the active population, that is, those in the 35-54 age group. At the same time, the geographic distribution shows a changing picture, since in 2007 most discrimination took place in towns, in 2010 it was primarily found in Budapest, and in 2012 primarily in rural areas.

A very slight increase between 2010 and 2012 indicates that the percentage of the population that has suffered discrimination has not risen to an appreciable extent in recent years, and this is a clear indication of the success of government activity aimed at curbing adverse discrimination.

D.4.4. Number of constitutional complaints submitted to the Constitutional Court



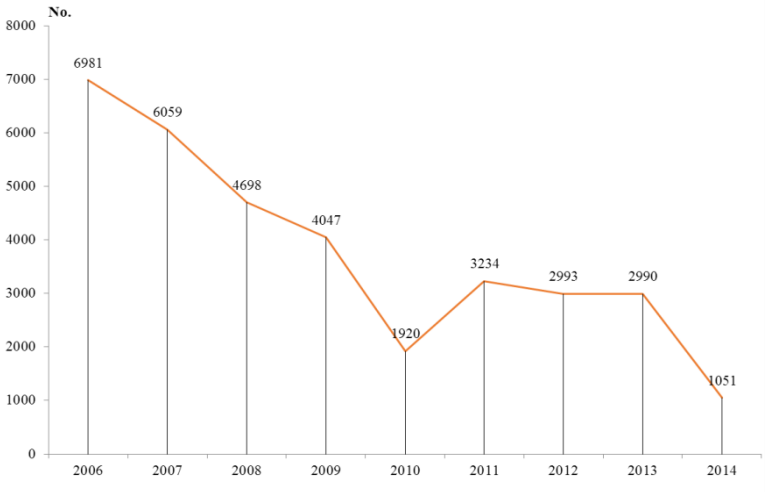
Starting in 2012, the Fundamental Law and the Constitutional Court Act passed in relation to it introduced – alongside the type that could be submitted earlier as well against the application of laws violating the Fundamental Law – the so-called "genuine constitutional complaint". Able to make a constitutional complaint are those whose rights assured by he constitution have been infringed by the application of a law that violates the Fundamental Law, and they are no longer able to seek any other legal remedy.

The institution of the constitutional complaint is of key importance because it opens the opportunity for the Constitutional Court to examine the activity of other courts, including from the point of view of the constitution. Between 2012 and 2013, the number of complaints submitted dropped significantly, by 73.7 percent, and then in 2014 the number started to rise again, by 67 percent. 2012 was the year when the most complaints were submitted owing to a violation of rights committed directly by virtue of the application or the bringing into effect of statutory provisions violating the fundamental law, without a judicial decision.

It was in 2013 and 2014 when the most complaints, in contrast to the above, were submitted due to a judicial decision violating the fundamental law. It is important to emphasise that in the 2014 election year, a significant number of complaints, 100 altogether, were submitted against a judicial decision passed in a procedure seeking legal remedy in relation to a decision by the electoral body, which accounted for 30% of the total complaints for 2014.

The decrease in the number of constitutional complaints shows a lessening of the number of statutes violating the fundamental law, which from the point of view of the democratic exercise of rights is of key importance.

D.4.5. The right of assembly in Hungary – registered peaceful gatherings, marches and demonstrations



The exercise of the right of assembly is an important element of the exercise of democratic rights through which the citizens actively take part in democratic public life and express their opinions. These forms of formulating and expressing opinions are especially important in the period between elections, when it is among the principal means for declaring one's opinion.

This assertion is also underpinned by the by the indicator data, which clearly shows that in the election years of 2010 and 2014, the number of events decreased significantly. The election year of 2006 is an exception to this, since this is the year during the examined period when the greatest number of events were held. However, the reason for this was the leaking of then-Prime Minister Ferenc Gyurcsány's speech at Őszöd and the demonstrations that ensued in the following months. In order for the indicator to give a truly realistic picture of the citizenry's pro-activeness in this regard, it would be necessary to differentiate, because this indicator makes no distinctions between events in terms of number of participants.

The number and development of activities shows the leven of interest in politics among citizens.

D.5. Freedom of the Press and Freedom of Speech Dimension

The freedom of the press and freedom of expression – which is recognised as a universal value both by numerous international conventions, as well as by Hungary's Fundamental Law, is an extremely important element of democracy. A free media serves not only to provide information free of interference, but also to monitor whoever is currently in power.
We can divide the forms of the mass media, according to the means by which they appear, into the print media and the electronic media.
In recent years, the electronic media has become dominant, but the printed press still retains significant influence.
In a participatory democracy, adequately informed citizens are an essential requirement. The single key indicator and four sub-indicators below serve to show the factors influencing the extent to which the citizenry is well-informed.

Key Indicator: PROPORTION OF PROGRAMMES FOCUSING ON NEWS, CURRENT EVENTS, POLITICS AND ECONOMICS AS A PROPORTION OF TOTAL TELEVISION AND RADIO AIRTIME (%)

- The "Proportion of Programmes Focusing on News, Current Events, Politics and Economics as Proportion of Total Television and Radio Air Time for the Entire Year" key indicator shows, based on the air time announced and broken down by content by radio and television broadcasters, the proportion of programmes concerned with the subjects indicated in the title as a percentage of total annual air time. Data source: The CSO's annual sample survey regarding radio and television broadcasters..

Sub-Indicator 1: PROPORTION OF MEDIA TIME ALLOTTED TO OPPOSITION POLITICIANS AS A PERCENTAGE OF TOTAL SPEAKING TIME ALLOTTED TO ALL POLITICAL PARTIES ON THE PRINCIPAL NEWS PROGRAMMES

- The proportion of media time allotted to opposition politicians as a percentage of total speaking time allotted to all political parties on the principal news programmes. Based on speaking time, the ratio of the presence of opposition politicians on the principal news programs relative to all parliamentary politicians features. The source of the data is the National Media and Infocommunications Authority.

Sub-Indicator 2: PERCENTAGE OF THE POPULATION AGE 16-74 THAT READS ONLINE NEWS, DAILY NEWSPAPERS OR PERIODICALS (%)

- The percentage of the population age 16-74 that reads online news, daily newspapers or periodicals. The ratio of people 18 and older who search for information on the internet (online news, daily newspapers or periodicals) among the entire population in the same age group (living in private households). The source of the data is the CSO's annual sample survey regarding radio and television broadcasters.

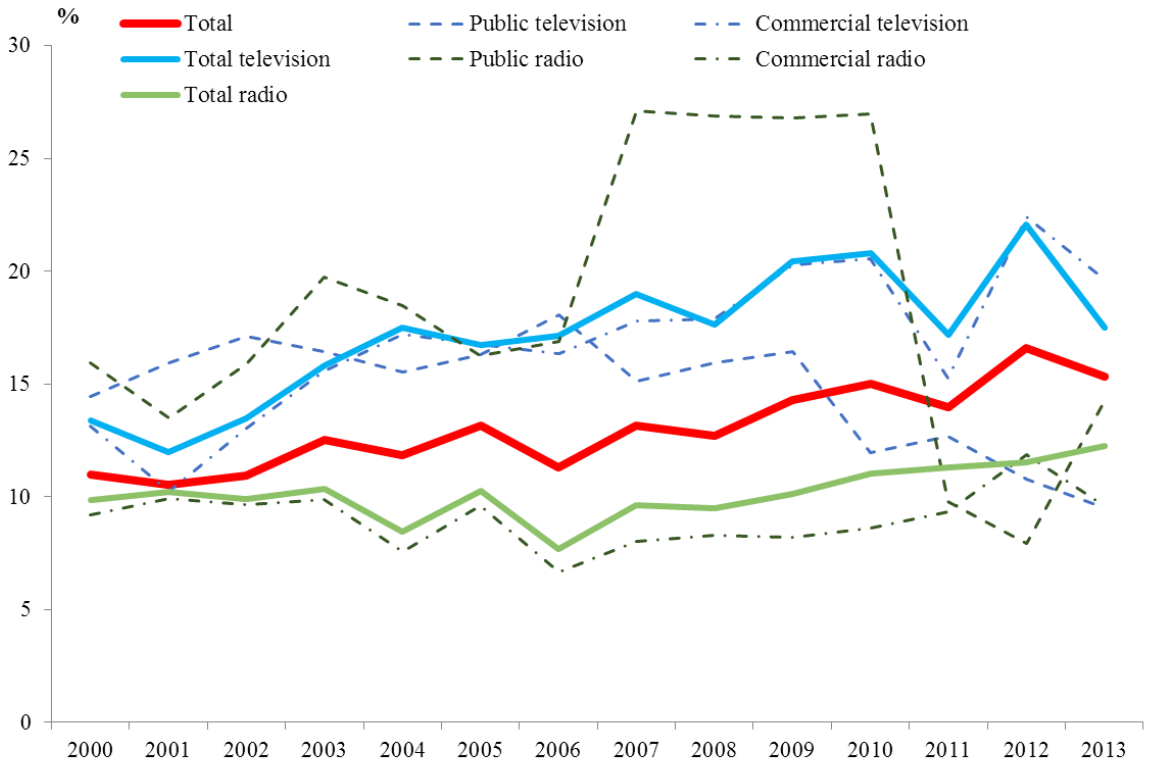
Sub-Indicator 3: NET ANNUAL CIRCULATION PER CAPITA OF DAILY NEWSPAPERS COVERING POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENTS (No./capita)

- The net annual circulation per capita of daily newspapers covering political, economic and social developments. The annual net number of copies is a share of the population as of January 1 of the given year. The source for the circulation data is the CSO's quarterly survey regarding business entities engaged in media publishing.

Sub-Indicator 4: THE NUMBER OF ENTERPRISES ENGAGED IN PERIODICAL PUBLISHING, PROGRAMME PRODUCTION AND BROADCASTING

- The number of enterprises involved in periodical publishing, programme production and broadcasting. Based on statistical core activity, the number of functioning enterprises in the given year engaged in publishing newspapers, magazines or other periodicals or radio or television programming and/or broadcasting. The comprehensive data set was created from the CSO's database containing structural information on businesses (SBS) operating in the given year, whose source is annual data collections and tax information on business statistics.

D.5.1. Proportion of programmes focusing on news, current events, politics and economics as a proportion of total television and radio air time for the entire year (%)



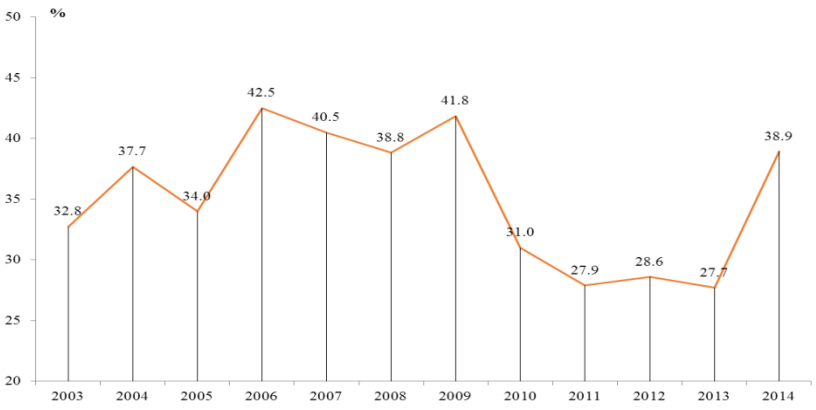
The percentage of television programmes focusing on public affairs increased from 12% in 2001 to 17% in 2013; at the same time, we can also observe several spikes: in both 2009 and 2010 it exceeded the 20% level, and in 2012 reached its peak value with a ratio of 22.1%. It is remarkable that the spikes, which indicate a higher level of news concerning public affairs, do not show any correlation with either parliamentary elections or referendums: in the election year of 2006 and in 2008, which saw a referendum being held, these appeared at a rate of 17% in the electronic media. At the same time, the proportion of public affairs programmes is growing continuously on commercial television: from 10.3% in 2001, it grew to 19.6% in 2013; while a decrease in public service television is evident: in 2001, 16% of programmes were concerned with these topics, but by 2013 this ratio had fallen to 9.5%.

An increase is also shown in the ratio of broadcast radio programmes dealing with politics and economics, although at the same time, the growth is not on the same scale as in television; it shows steady growth free of spikes: the proportion of public affairs programmes as a share of total programmes grew from 10.2% in 2001 to only 12.2% in 2013. Examined separately, the ratio of political and economic programmes in commercial radio has scarcely changed at all in recent years: whereas in the millennial year, 9.2% of programmes dealt with these topics, by 2013 this number was only 9.6%. On public service radio stations, however, we can detect significant and continuous growth: as late as 2001, only 13.5% of programmes involved public affairs, whereas after after 2007 the ratio was regularly around 27% before starting to decrease after in 2011 to 2013's ratio of 14.2%.

At the same time, the data takes into account the amount of air time, not the viewership or listenership, and thus certain more popular mediums (e.g. RTL Klub) carry the same weight as services reaching a small audience.

The proportion of radio and television programmes dealing with public affairs topics is growing continuously in Hungary's electronic media.

D.5.2. Proportion of media time allotted to opposition politicians as a percentage of total speaking time allotted to all political parties on the principal news programmes (%)



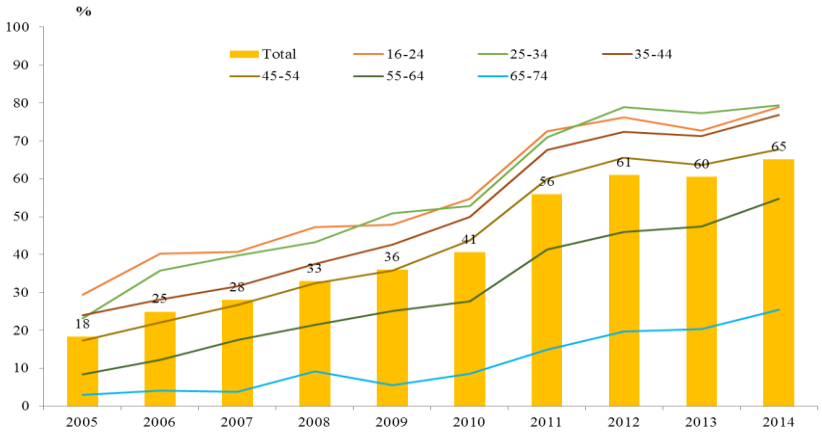
In every democratic system, the objective of the system is to monitor the current government and to find political alternatives. In accordance with this, one condition for the existence of democracy is for opposition politicians to appear in the media. According to the National Media and Infocommunications Authority's sample monitoring of the media, examined on the basis of speaking time on the main news programmes, the proportion taken up by by opposition politics – relative to that of all parliamentary politicians – is consistently high, fluctuating in the range of 30-40%. At the same time, over the last ten years the media dominance of governing politicians has not been successfully broken even once, meaning that the ratio of speaking by opposition politicians has never exceeded 50%, and its maximum value of 42.5% dates from 2006.

In election years (2006 and 2014) the presence of opposition politicians is typically quite high. Interpreting the difficult is slightly impeded by the fact that in 2010 it was not entirely clear which parties counted as the opposition, and as a result of the reversing ratios resulting from the change in government, the value was 31%.

Following the 2010 change in government, the proportion of media time allotted to the opposition decreased, and for three years in a row did not exceed 30%, with the reason for this phenomenon being the spate of government initiatives launched during this period. At the same time, this value again grew in the election year of 2014, to 38.9%.

The media presence of opposition politicians on the main news programmes fell under 30% after the 2010 change in government, but has again been at a high level of around 40% since 2014.

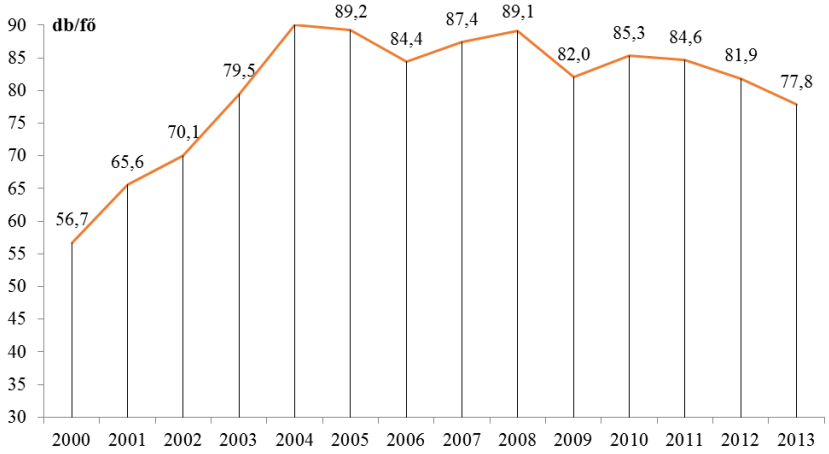
D.5.3. Percentage of population aged 16-74 that reads online news, daily newspapers and periodicals (%)



Based on the CSO's sample survey entitled Information and Communication Technology, it can be established that in recent years the proportion of those who read news on-line has increased continuously among the adult population. This process is taking place in the context of a transformation of media consumption habits and a diminishing of traditional, print media. While in 2005, on average no more than 18.3% of the adult population followed the news on the internet, by 2014 the figure would be 65.1%, or two-thirds of the population. Examining the 2014 data by age group, 79.4% of those age 25-34 and 78.9% of those 16-24 consume news on line, which is a significant increase over ten years previously, when the same age groups measured values of 35.7% and 40.2% respectively. Numerous factors play a role in the growth: the generational openness to new technologies, modern devices that enable news to be read, and the spread of broadband internet service. At the same time, it can also be said that the rate of on-line news consumption has also grown significantly among the 65-74 age group as well: from 3% in 2005 to 25% in 2014. That is, reading the news online has become increasingly popular among seniors as well.

In every age group, the reading of news, newspapers and periodicals online is growing continuously.

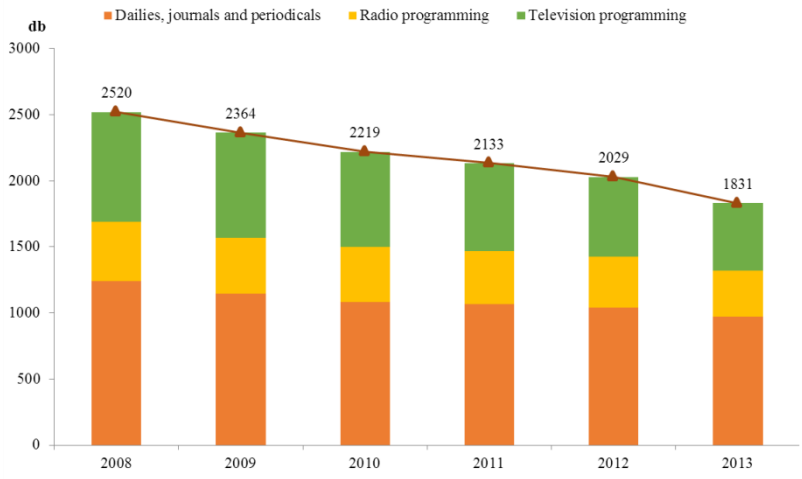
D.5.4. Net circulation per capita of daily newspapers covering politics, economics and social development



Relative to the value measured in the year 2000 (56.7 per capita), the per capita circulation of newspapers covering public affairs started on a path of rapid growth in the early 2000s, reaching its peak in 2004 at 90 per capita. Following this, a slight downturn in 2006 can be seen turning into a period of stagnation lasting until 2008, throughout which the figure fluctuates in the 85-89 per capita range. Starting in 2008, a slow but continuous decline started, caused by, on the one hand, the effect of the global recession on the media market, and on the other hand, a slow decline in interest in the printed press. This all exists in the context of the increasing popularity of reading online (see Indicator D.5.3.). In 2013, 77.8 newspapers covering political, economic and social development were printed per capita, which despite the decline of recent years, still significantly exceeds the values measured at the turn of the millennium.

The circulation per capita of daily newspapers dealing with public affairs shows a slow decline over recent years.

D.5.5. Number of enterprises engaged in periodical publishing, programme production and broadcasting



Since 2008, the number of professional media providers shows a slow decline according to measurements of economic statistics. The shrinking of the media market is continuous, and in the last six years there has not even been temporary growth in the number of enterprises operating in this sector. While in 2008 there were 2,520 such enterprises in Hungary, by 2013 there were only 1831, that is, during the course of the last six years the market declined by close to 28%. The drop, although it applies to ever sector – television, radio and print media – is not uniform in extent across them. While the number of enterprises engaged in publishing printed publications dropped from 1,241 to 974 by 2013, that is, it shows a decline of 21%, the number of television programming providers fell from 828 to 510 in that period, which entails a decrease of 38%. The number of radio programming providers decreased from 451 in 2008 to 347, or in other words, it shows a drop of 23%.

This reason for this process again is to be found in the economic recession's effect on the media market and the restructuring of the Hungarian domestic sector. At the same time, it can be stated that there is still a significant number of Hungarian and multinational companies active in this sector and providing sufficiently diverse and colourful television and radio programming and print media products..

The number of enterprises engaged in periodical publishing, programme production and broadcasting has – especially in the television programme production and broadcasting sector – decreased steadily over the past six years.

Effective public administration

Summary

The aim of this area of influence and points of connection.
The effective public administration area of influence was defined in the Good State conceptual system to be of a horizontal and supplementary character in comparison with the other areas of influence.
In our interpretation, administration here refers to the narrower role that describes the steering mechanism serving as the infrastructure for the state's operation. Therefore, when we wish to measure the efficiency of administration, in addition to rethinking the classical concept of performance, we must regard public administration not as a provider of public services, but rather as their infrastructure. Public administration enables other actors to more effectively perform their functions of directing society and providing public services. To measure the effectiveness of public administration performance, therefore, it is this position, which impacts every part of the public sector, that must be placed at the centre. At the same time, this “behind the scenes” position is not an exclusive one, since public administration also comes into direct contact with the citizenry, who manage affairs and acquire rights and obligations through it; that is, they too utilise the public administration infrastructure. It is important, however, to point out that this “use” is also a tool for further enforcing citizens' claims and respecting rights, which can already be construed and investigated within the spheres of the other areas of influence.
The aim of the effective public administration area of influence, therefore, is to assess and measure:
(1) whether public administration processes enable the individual sectors and industries to grow,
(2) whether public administration products and services enable individual citizens and enterprises to enforce their individual claims, and finally,
(3) what (organisational and personnel) resources the public administration utilises in order to maintain these processes and provide these services.

Criteria for determining the dimensions.
The individual dimensions portray the effective public administration capabilities that are perhaps akin to the concept known from the public policy literature as administrative capacity. The building and expansion of the latter (administration capacity building), also as a requirement for the public administration of European Union member states, is from time to time formulated along the following principles: raising the standard of administrative services, reducing the burdens on clients and assuring respectful treatment of them, and efficient use of assets and resources. It is as an analogy for this and in line with the objectives that we have specified the 4+1 dimensions of the area of influence, that is, the most important capabilities of public administration:
(1) Accessibility. With this dimension, we examine how the state strives to dismantle obstacles to access to public administration services arising from individual life-situations, and how it exploits advantages arising from them. With the unprecedented pace of development and dissemination of information and communications technology, the digitalisation of public administrative processes has today become the norm, rather than the exception to the rule or a movement toward modernisation. We measure the features of this normalisation, both from the supply and demand sides of public administration, what channels for administration are available that differ from the traditional, and at what level of development they are , and to what extent these services are utilised by customers.
(2) Customer load. This dimension measures the same relationship as the previous dimension: examining the the system of relationships between public administration and customer with the aim of identifying and measuring stresses arising when customers conduct their administrative affairs, as well as considering services that reduce the load on public administration. These so called "e-services" in support of the forward progression of administrative affairs no longer simply widen the traditional administrative channels for core services, but are now expressly aimed at reducing customer loads with a pro-active approach.
(3) Resource management. The principles of utilising public funds, budget constraints, and the demands of society all necessitate the prudent and cost-effective husbandry of personnel and financial resources. It is apparent that the previous two dimensions, with their largely resource-intensive development, compete (in the sense of a trade-off) with the aims of this dimension. The main driver of administrative reorganisation is the faith placed in increased efficiency, and for this reason, here it is not merely from the point of view of economic consideration that we examine the related capabilities, but from criteria of effectiveness in light of the other dimensions as well.
(4) Preparedness. In addition to the processes and organisation, the third great subsystem of the framework of the comprehensive examination of public administration is human resources. The preparedness of personnel making up the public administrative staff determine the quality of public administration and the performance-capability of the organisations in a fundamental way. A staff of prepared and adequately motivated professionals is capable of smoothing out fluctuations in performance even among conditions of diminishing resources and worsening environmental conditions, in addition to providing resilience.

(+1) Satisfaction. Evaluating the public's perception of the four dimensions listed above is the function of this dimension, which measures and accounts for the capability of public administration to manage its services, organisations and personnel at an adequate level of social embeddedness. We seek the answer to whether the public knows, understands and uses public administration, as well as to whether their expectations are being met, whether their expectations match their requirements, and finally, whether they are satisfied with the public administration. In the current phase of the Good State research programme, surveys conducted on representative samples that would provide data on the satisfaction dimension are not yet available.

Criteria for selecting key and sub-indicators.
Similarly to the other areas of influence and owing to the complexity of the subject under assessment, we have attempted to strike a compromise between the precision of measurement and the intelligibility of the narrative. It is important, however, to point out that the selected indicators only provide characterisations of the given administrative capabilities, and do not provide a seamless and comprehensive analysis of them. Bearing this in mind, we have undertaken to shed light on as many aspects as possible of the concept of public administration performance explained above. Proving to be a limitation in doing so was the (lack of) availability of data and its reliability, as well as the constraints of scale that arise from the evaluation method.
Pursuant to the above, in order to characterise the individual dimensions, we use both perception-based (e.g. H.1.1. and H.2.4.) and hard (e.g. H.1.4., H.1.5., and H.2.5.) outcome indicators, specific performance indicators (e.g. H.3.4. and H.3.5), and indexes based on complex calculation methodologies (e.g. H.1.3. and H.2.2.), and macroeconomic indicators (e.g. H.3.1. and H.3.2.).

Setting the focus of the assessment also offers diverse solutions. While we have attempted to present a direct or representative picture of the entire population, certain curtailments had to be decided on in the interests of measurability. Hence, in order to characterise the administrative procedures, we took as a basis a "basket" of services most frequently used by customers (the citizens), with the presumption that this narrower set is able to provide data valid for the predominate majority of use (e.g. the values related to the 10 services account for more than 90% of total use).
The ability to detect changes in the capabilities also appeared as a criterion, because of which we did not wish to "blur" the data of a single critically important area simply for the sake of comprehensiveness, and so we closely examined the area of administrative public services and tax administration.
Another important criterion in selecting the indicators is reported in The Good State's initial thesis that assigns value to the indicators and the changes in their values over time. This added value serves the narrative in how the individual dimensions of areas of influence of effective public administration are able to contribute to increasing (or decreasing) the related governmental capabilities.

H.1. Accessibility dimensions

Key indicator: USERS OF DEVELOPED E-GOVERNMENT SERVICES AS A PROPORTION OF INTERNET USERS (%)

- The indicator shows the percentage of internet users (i.e., those who have used the Internet within the past 12 months) aged 16-74 who have on at least one occasion in the past 12 months filled out and uploaded an electronic form in the course of communicating or managing affairs with any authority. The indicator is part of the EUROSTATE data provision service measuring the use of information and communications technology among individuals and households, which takes as its basis the Hungarian National Statistical Office's questionnaire survey of a representative population.

Sub-indicator 1: NUMBER OF TYPES OF AFFAIRS THAT CAN BE ARRANGED AT GOVERNMENT WINDOWS

- The cumulative number of types of affairs (coherent or related groups of individual affairs as defined by the competence and jurisdiction of the administrative body) that can be – as provided for by the legislature – arranged by customers at government windows operating as customer service organisation units at regional government offices. Source: relevant legal regulations

Sub-indicator 2: AVERAGE DISTANCE BY ROAD TO THE NEAREST GOVERNMENT WINDOW (km)

- The average driving distance from the centre of communities in Hungary's counties to the nearest government window in the same county. Source: own calculations based on data from Google Maps

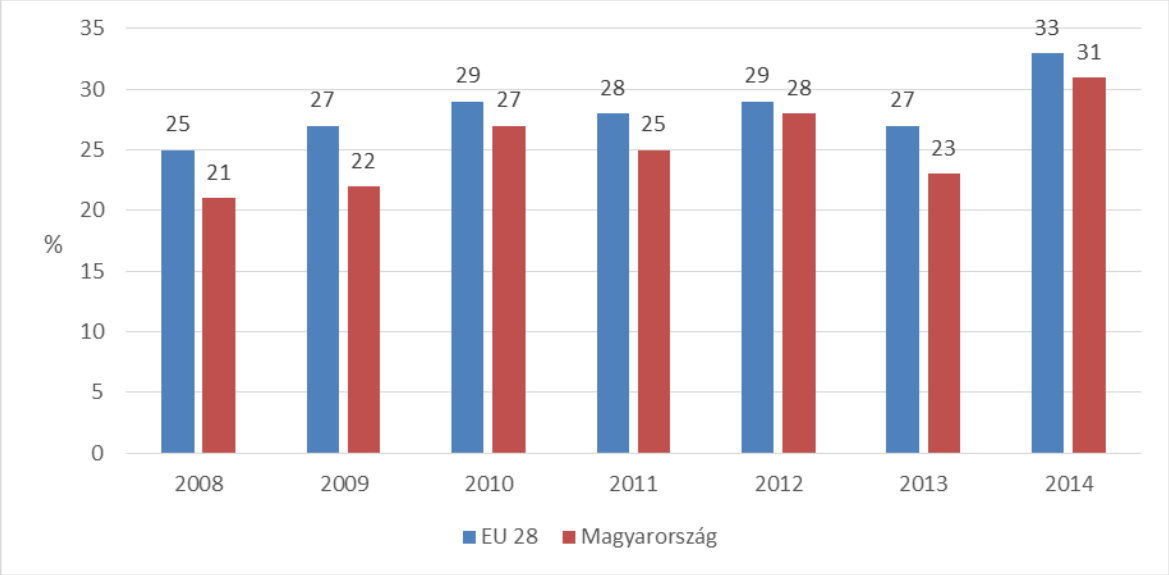
Sub-indicator 3: NUMBER OF ELECTRONIC DOCUMENTS UPLOADED AT CUSTOMER PORTALS

- A Magyarorszag.hu kormányzati portálon elérhető Ügyfélkapu szolgáltatásra regisztrált felhasználók által adott évben, Ügyfélkapu azonosításon keresztül, az intézményeknek elküldött dokumentumok mennyiségét mutatja. Forrás: Magyarorszag.hu havi statisztikai adatközlése

Sub-indicator 4: NUMBER OF CALLS TO THE NTCA CUSTOMER INFORMATION AND ADMINISTRATION SYSTEM THAT END WITH AN ADMINISTRATIVE AFFAIR BEING SUCCESSFULLY COMPLETED

- The annual number of customer calls received by the Customer Information and Administration System (ÜCC) operated by the Hungarian National Tax and Customs Administration (NTCA) that after successful telephone identification are concluded with the definitive completion of a customer service. Source: NAV yearbooks 2010-2014

H.1.1. Users of developed e-government services as a proportion of internet users (%)



The development of digital administration (e-government) has been a strategic direction on the agenda of both the EU and the Hungarian government for the past decade and a half. The continuous technological development since the beginning has made the exact definition of e-administration, and consequently its measurement as well, a difficult thing. From the outset, however, experts have agreed that although, broadly interpreted, all customer-side (C2G) or government-side (G2C) activities conducted in the course of arranging administrative affairs that take place with the use of information and communications technology can be considered to be electronically administered affairs, significant differences can be discerned in the level of development of the individual methods used.

Based on the methodology developed by CapGemini in the 2000s and endorsed by the European Commission, it is possible to differentiate, at the time of using the administrative services (in the course of communicating with the government authority or arranging affairs), among four so-called maturity levels: (1) obtaining information via the internet; (2) downloading forms; (3) electronically submitting forms downloaded electronically; (4) the possibility of comprehensively transacting the entire service on-line without making a personal appearance.

Of the indicators characteristic of the "presence" of e-government, we can make a fundamental distinction between capacity (i.e. measuring services made available and accessible by the public administration entity) outcome indicators and the demand (i.e. the act usage of the service on the part of customers) outcome indicators.

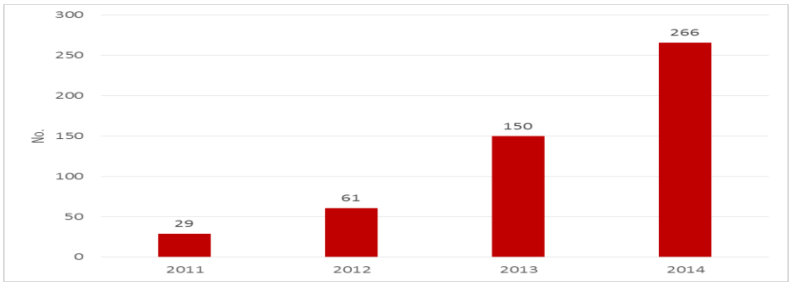
The indicator selected to be the Key indicator of the Accessibility dimension is the use of e-government services by the public (specifically the submission via internet of electronically filled-out forms), and therefore primarily measures the demand (take-up), at the same time giving us an indirect picture of the supply side as well, since in the absence of an available service, there will obviously be no use. We employed a similar approach in narrowing the focus to a higher level of development, since the use of a more mature level of service is presupposed, without room for doubt, on the use (or the capability to so) of levels of lower complexity. This is supported by the statistics verifying a negative correlation between the development level of the given service and the extent of use.

Another criterion playing a role in the selection of indicators was for us, as much as possible, to reduce the reasons for non-usage to those involved in public administration. This is why, on the one hand, we narrowed the age group under analysis to those between 16 and 74, who may potentially make independent use of services for arranging administrative affairs, and on the other hand, the studied population is made up of citizens who currently use the Internet (thus eliminating reasons for non-use that are related to digital illiteracy).

The graph shows how the Hungarian population self-reports its use of third-maturity-level services in comparison with EU data. According to it, as a result of a growing trend, in 2014 almost every third internet user submitted an electronic form online at least once in the previous 12 months (in 2008 this was true only for every fifth computer-literate user), which shows a deviation of only 2 percentage points from the EU average.

As a result partly of growth on the take-up side that can be explained by demographic processes, and partly on the supply side thanks to the development of e-government systems, the usage of complex e-government has shown a positive tendency and a convergence with the EU average.

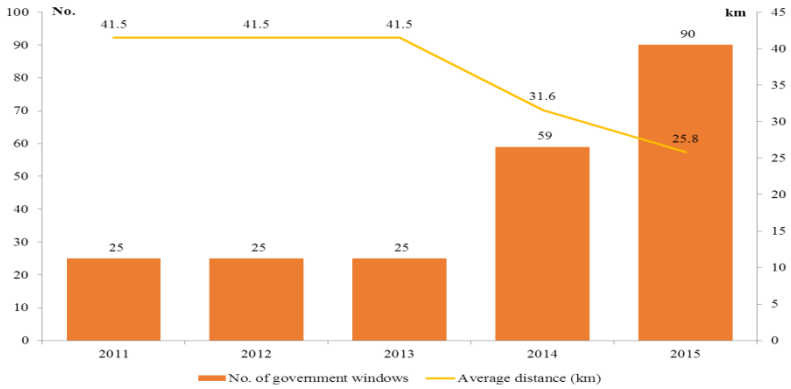
H.1.2. Number of types of affairs that can be arranged at government windows



From the point of view of customers' access to services, the simplification of administrative processes is of high importance, and in this, among the currently known models, the so-called "one-stop shop" system of arranging affairs at government windows (hence, the possibility of taking all actions relating to the procedures and concerning the greatest possible number of types of administration) is the most suitable. Since the introduction of the government windows in 2011, the number of administrative areas that can be arranged has grown steadily, with the Government setting them forth in an comprehensively listed decree. When interpreting the indicator, it is important to note that with respect to the covered administrative areas, services of varying complexity and type are available as per the following: (1) submitting petitions and receiving and sending notifications; (2) providing information regarding the progress of the procedure; (3) administrating affairs immediately or within one's own competence; (4) supplementary services to administrating individual affairs. The changing classification of legal statutes does not allow for the indicator to be further broken for chronological comparison, but based on the 2014 service portfolio, it can be stated that more than half of the types of administration involve sending material, another third is composed of definitively concluded administration, and the remainder of approximately 15% is exclusively for information provision.

The continuous expansion and ever growing extent of the number of types of administration that can be arranged at government windows entails development in quality as well as quantity in the area of integrated governmental customer service, which is due primarily to the 2014 integration of offices of government issued documents.

H.1.3. Average distance by road to the nearest government window (km)

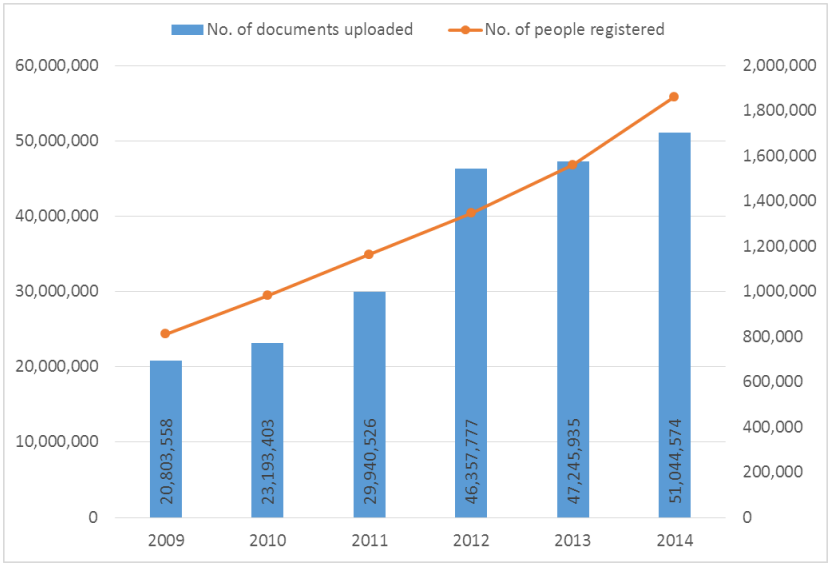


Fundamentally determining accessibility, alongside the expansion of the number of types of administrative affairs that can be arranged at government windows, is the geographic distance from the physical customer service points. Naturally, the administrative service points operate in parallel with the government windows, and this Sub-indicator at the same time – in light of government intentions – focuses on model government windows that are modernly equipped, possess highly trained staff and provide barrier-free equal opportunity. At the time when these were physically situated, one of the criteria was that they be installed in locations that are easily accessible for the customers (e.g. railroad stations, near busy public spaces). The gradual expansion of the number of government windows has made access to administrative services easier for the rural population. Serving as an index for this is the Google Maps road distance measurement application, which aided the calculation of the distance between the centre of all of the communities in a given county and the closest government window belonging to that county, and then the national average of all such county information (not including data from Budapest). In this way, the Sub-indicator is able to give a more rounded look at geographic access, and although it is easy to see that the growth of the number of government windows automatically reduces the value of the Sub-indicator, it can also be applied as a useful outcome indicator of the uniformity of network development.

In April of 2015, the average distance to travel to the second generation government windows continuously being constructed on the basis of offices of government issued documents was 25.8 km, which is a good reflection of the positive shift relative to customer service(s) – situated primarily in county seats – and, thereby, the bringing of integrated management of administrative affairs even closer to the public.

H.1.4. Number of documents uploaded through the Customer Portal

The Customer Portal is the Hungarian government's electronic customer log-in and identification system. It allows users, after verifying their personal identity for a single session, to securely communicate with bodies that electronically provide administrative management and services. Since its launch in 2005, it has continuously filled the dominant role in handling administrative tasks, and at the same time, as a result of recent development, the number of alternative identification methods is expected to grow. Similarly to the dimension's Key indicator, the Sub-indicator measures usage of e-government services, with two important differences (which also are what justifies its being included in the indicator system). While the Key indicator is based on a subjective survey taken from a sample, the portal statistic is taken from Mo.hu's operating log database. The other difference can be found in the range of users: companies also appear among the Customer Portal users.

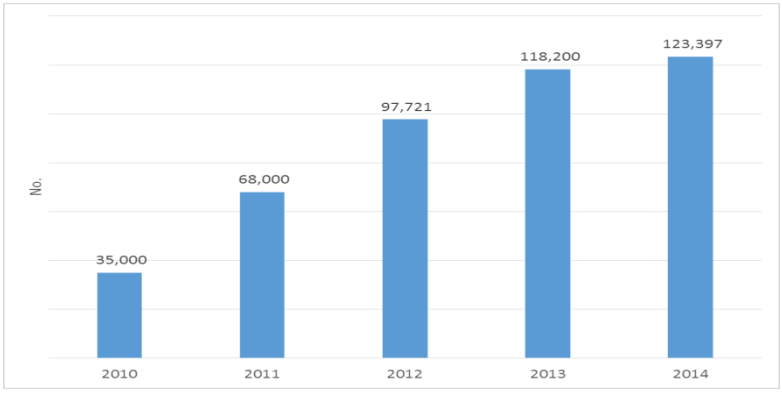


With the growth in the supply of e-government services, the number of Customer Portal registrations and traffic data have also grown steadily, with more that 1.9 million users making use of 87 different services requiring registration on Customer Portal. A major portion of the uploaded documents are related to data provision by companies for the purpose of tax administration.

The use of the Customer Portal in and of itself indicates that more advanced e-government services are being used, since it includes transactions with the authorities in which the customer is required to identify himself. In addition to the demographic processes and the rise in service level, the requirement for companies to fulfil their obligations via e-government also contributes to the positive trend.

H.1.5. Number of calls to the NTCSA customer information and administration system that end with an administrative affair being successfully completed

With the online and personal administrative channels already analysed and assessed previously, this sub-indicator shows the telephone administration service used by the NTSCA. In order to meet increasing requirements from taxpayers, the tax authority introduced the so-called Administration Contact Centre from the second half of 2009 as a new service. Taxpayers and taxpayers' representatives, after identifying themselves with a private PIN code, can administer individual affairs and request that information classified as confidential tax information be provided to them.



Of the cases administered, 60-70% of taxpayer calls related to tax returns, about 15-20% to the registry of taxable entities, and 10-15% of taxpayers sought administrative assistance and information in relation to current accounts.

Use of the telephone administration channel operated by the tax authority has shown continuous growth since its introduction. The expanded available access or taxpayers also reduces the administrative burden on the administrative side with respect to personal customer service.

H.2. Customer burden dimension

Key Indicator: NUMBER OF SERVICES SUPPORTING THE ADMINISTRATIVE PROCESS (points)

- The ten case types for which administration is most frequently sought were specified based on a special system of statistical data – which contains the data of all customer service centres conducting Office of Government Issued Documents administration – related to the administration of these national document offices. The key indicator shows the availability (and annual traffic data of their utilisation of "load-reduction" services supporting the administrative process of these cases. Source: Central Office for Administrative and Electronic Public Services

Sub-Indicator 1: EXTENT TO WHICH THE ADMINISTRATIVE BURDEN IS INCURRED BY THE POPULATION (HUF; minutes)

- The value – based on estimates from experts – cumulative by case number, of monetized and time expenditures for the performance of information obligations incurred by citizenry arising from 44 selected administrative procedure statutes. Source: the Ministry of Public Administration and Justice's Simplification Programme

Sub-Indicator 2: AMOUNT OF ADMINISTRATIVE SERVICE FEES AND STAMP DUTY MOST FREQUENTLY PAID BY CUSTOMERS (HUF)

- This indicator shows the amount of procedural stamp duty stipulated by legal statue of the ten case types – not free of stamp duty or fees – for which administration is most frequently sought.

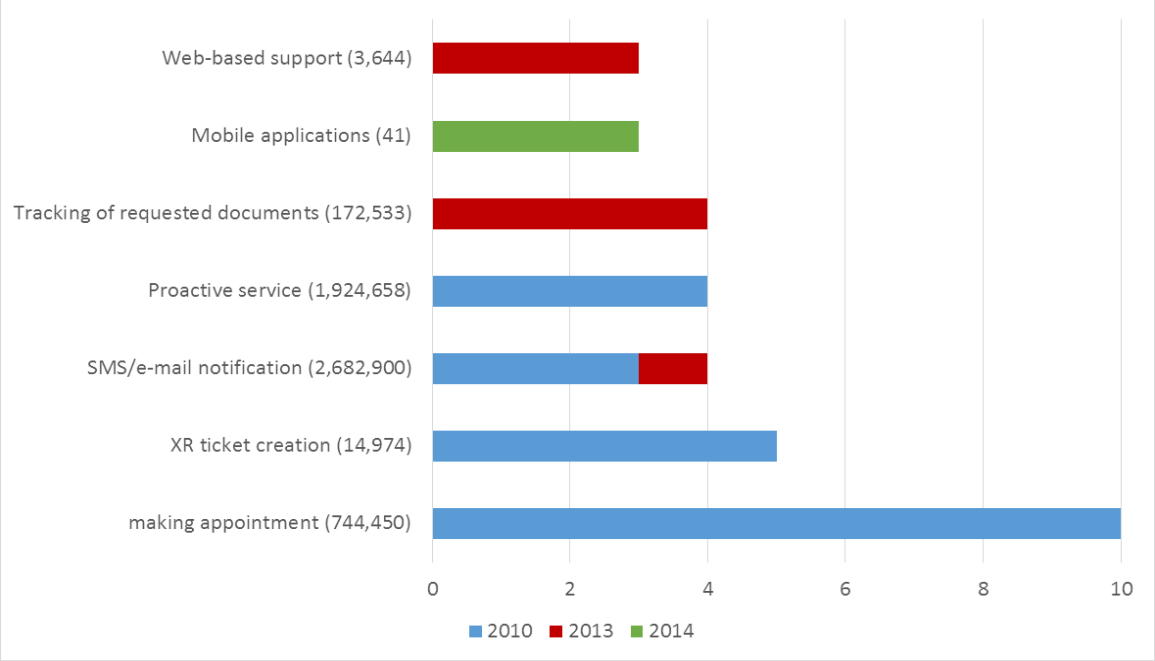
Sub-Indicator 3: AMOUNT OF TIME SPENT BY CITIZENS ON ADMINISTERING AFFAIRS (minutes)

- This indicator indicates the average time expenditures of those actually conducting the given activity, calculated in minutes. Approximately 10,000 households took part in the time-use survey, which the designated household members age 10-84 had to fill out over the course of four days. Source: CSO

Sub-Indicator 4: PERCENTAGE OF SIMPLIFIED PERSONAL INCOME TAX RETURNS (%)

- The proportion of "E"-type (prepared by the tax authority) of simplified tax returns submitted to the state tax authority as a percentage of all person income tax returns submitted in the given year. Source: NTSCA Yearbook

H.2.1. Number of services supporting the administrative process (points)



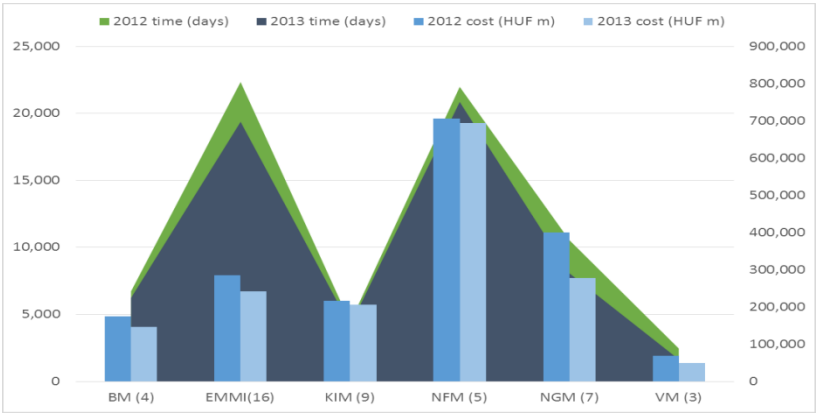
The key indicator examines a new dimension of administration, that of "customer service", and continues the evaluation of the level of public administration service at the point where the access dimension left off. While the H.1.1. indicator measured level 3 of developed government services, with this we attempt to assess the two other levels: comprehensive online administration and so-called proactive/targeted, or personalised, services.

Services provided by public administration are able to substantively improve citizens' sense of comfort if they keep pace in their level of development and efficiency with the simple, transparent and efficient devices to which users are already accustomed to in the course of everyday life. This is why it is essential to keep up with constantly changing customer needs, which can be achieved by developing and simplifying existing services, introducing new services, and with added convenience provided in the course of customer service and allowing procedures to be performed electronically.

As the basis for the assessment, we selected the document office administration – calculated based on the special statistical system for 2014 – of the ten case types for which administration is most frequently sought. These procedures serve as a kind of "statistical customer basket", which on the one hand simplifies the measurement, and on the other covers more than 80% of the volume of cases, thus making it suitable for filtering out overall valid consequences. With respect to the key indicator, we are therefore examining the proportion to which the available convenience services are present when projected on these ten procedures. Convenience services are those that offer the user of the service some kind of extra service that goes beyond the basic service, thereby reducing administrative burdens. The figure clearly shows a gradual expansion of convenience services to the administrative process. In 2010, only four such services were as yet available to customers: the practice of booking appointments in order to reduce time spent waiting in lines was the sole universally available function; one could initiate cases with data that was filled in automatically via the XR, that is, the internet document office, the text message or e-mail alerting one of the completion of a personal document, and as a pro-active service, one could receive an e-mail regarding an expiring document. 2013 saw the introduction of two new burden-reducing services: the web-based case assistant enables comprehensive online administration of cases, up to and including payment of the service fee via bank card, with the customer able to track the case's progress and current status. The newest innovation is the mobile application known as the OkmányApp (DocumentApp), which in line with modern technology allows for document administration and information provision (linked to user identification) on smart phones, which are quite widely used in Hungary. The statistical data from the special system also confirms the increasing utilisation from year to year of services, with decline only detectable where the given convenience function – e.g. in relation to personal administration – is reduced as an effect of the online administration developed in the meantime.

The so-called convenience services supporting the administrative process no longer simply broaden the basic services' traditional range of administrative possibilities by adding an electronic channel, but from an expressly proactive approach are aimed at reducing the administration-related burdens on customers. The indicator shows that, projected on the ten most common document office case types, the seven currently available services reached a level of 22 points in 2010, 30 in 2013 and 33 points in 2014.

H.2.2. Extent to which the administrative burden is incurred by the population (HUF and days)



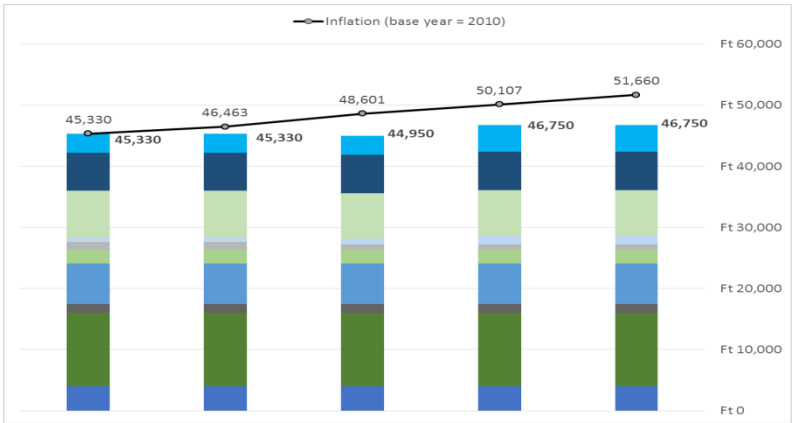
The term "household administration burdens" refers to all expenses that arise from the statutory information obligations of household customers. The measurement of the administrative burdens takes place based on the Standard Cost Model (SCM) as follows:

- The total administration burden caused by the legal statute is equal to the amount of the time spent on and expense incurred from the information obligations.
- The time of administrative active is equal to the product of the time per unit and the annual number of administrative activities (TxQ), and its cost is the product of the amount of the unit cost and the number of times it is incurred annually (CxQ).

The administrative burden of household cases is an aggregation of two measurements. (1) on one hand, the costs linked to administering the case (e.g. direct costs and travel expenses); and (2) on the other hand, the time required to administer the case. The model therefore separately measures the expenditures of time and money, which is why it is not possible to add them together. As part of the Ministry of Public Administration and Justice's Simplification Programme, an expert estimate was carried out in 2012 (ex-ante) and 2013 (ex-post) on a sample, proportionate to the types and numbers of the cases, of the 228 procedural areas represented in the Programme, which reported that, according to the above methodologies, burdens had been reduced in 44 administrative procedures.

Prior to the substantive deregulation targeted by the Simplification Programme, the total (annual), cumulative by case number, cost burden arising from regulations relating to the 44 procedures came to 51,413,000,000 HUF and 2,465,370 days on the customer side, which later decreased to 44,917,000,000 HUF and 2,172,898 days, thereby achieving reduction in administrative burdens in the amount of 12.6% and 11.9% respectively.

H.2.3. Amount of administrative service fees and stamp duty most frequently paid by customers (HUF)



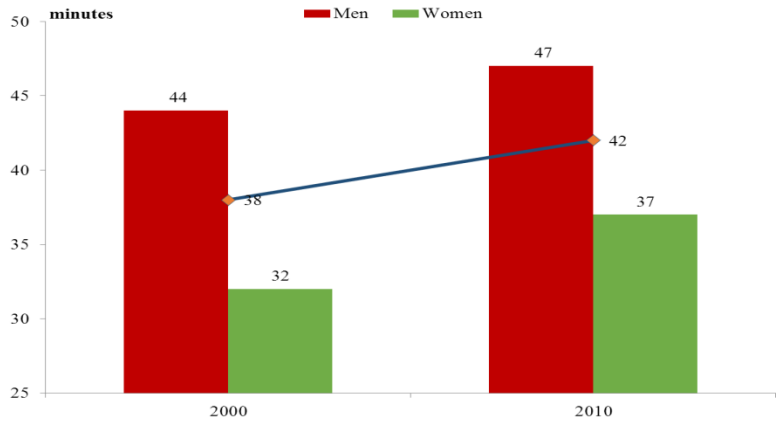
As we did with the key indicator, we used the ten most frequently administered types of cases for measuring the relating stamp duty and service fees. The indicator therefore takes into account payment obligations arising as direct costs in the cases of the following procedures: renewing a driver's license, vehicle registration, replacing an identity card, registering a property, temporarily withdrawing a vehicle from circulation, meat inspection, and procedures related to issuing a student ID card, passport, a copy of a title deed or a certificate of good conduct. Procedures free of charge or stamp duty were not included in the sample.

It can be seen that the fees to be paid have increased marginally since 2010, growing from 45,330 HUF to 46,750 HUF. This can be explained by the increase in charges for the issuance of student ID cards and certificates of good conduct. (It should be noted that in the latter case, the disincentive created by the alternative of issuing the certificate electronically also played a role.)

In the area of stamp duty and service fees, costs have not rises substantially for customers over the past five years. If the amounts are adjusted with the current consumer index for services, then it becomes evident that they have remained under the imaginary real value.

H.2.4 Amount of time spent by citizen on administering affairs (minutes)

This indicator comes from the CSO's survey of time use, which is essentially an examination, repeated roughty every ten years, of the population's use of time. The essence of the examination is for approx. 10,000 people in the 10-84 age group to keep a journal of the activities they have performed on specified dates of the year, and a record of how long they spent on them. A defined element of the administrative burdens for customers (See section 2.2.) is the amount of time spent on administration, regarding which a relative accurate picture emerges as a result of the representative survey. Administration, at the same time, is not defined as a precise activity, and thus must be interpreted to include postal and banking administration as well.



The time use survey calculates three indicators in relation to each activity, and so in the case of administration for the 2009/2010, the survey yields the following data as a result:

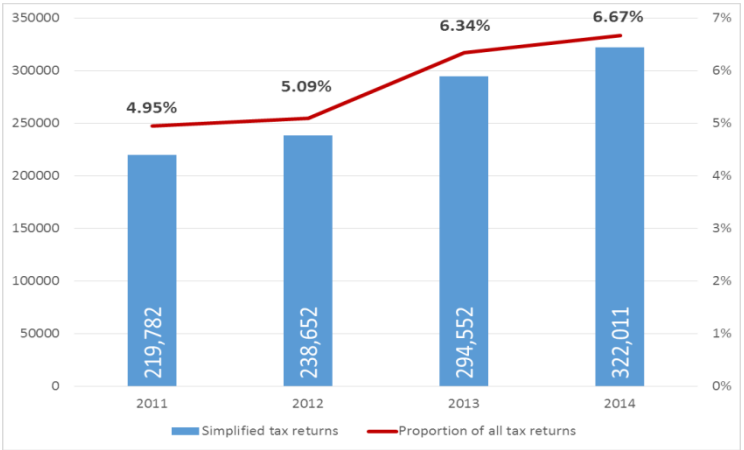
(1) the average daily time expenditure for the total population is two minutes/person;
(2) proportion of people engaged in the activity on a given day: 4.7%;
(3) the average daily time expenditure of people engaged in the activity: 42 minutes/person.

It is also interesting to note that the amount of time spent on administration is highest in Budapest, and declines along with the size category of the community.

The cost model of administrative burdens of customers as per the expert estimation can be usefully supplemented by the subjective survey that measure the perception of the amount of time spent on administration. Although the time survey applies a broad category with respect to administration, the movement in the direction of more time spent on administration across the horizon of ten years can be considered to be significant.

H.2.5 Percentage of simplified personal income tax returns (%)

The procedural burden arising from the annual tax return preparation obligation of four-five million private individuals is without a doubt one of the most significant points of contact between public administration and its customers. This is why there is an important role to play for any measure that reduces the administrative burdens on taxpayers. The simplified tax return is a form of self-tax assessment which offers the opportunity to file an individual income tax return prepared and individualised by the state tax authority based on a preliminary declaration on the part of the private individual.



The popularity of the measure is borne out by the data, especially if one takes into consideration the fact that the absolute share of simplified tax returns is growing as a proportion of all tax returns, which are themselves increasing in nominal terms as well. The annual pace of growth was 5-7% over the last four years. In 2014, of 4,830,638 personal income tax returns, 33% were basic tax returns, 41% reduced information content tax returns, 18% employer tax returns and 7% simplified tax returns..

Behind the result indicator proving the actual decreasing trend in the administrative burdens on customers is the clearly demonstrable administrative intention for the state to "assume" from the customers the burden of performing tasks, even if this results in an increased burden on the public administration side.

H.3. Resource efficiency dimension

Key indicator: PERSONAL COMPENSATION STIPULATED IN THE PUBLIC ADMINISTRATION BUDGET RELATIVE TO GDP (%)

- The ratio of personal compensation stipulated in the elementary-level budget for public service officials of organisations belonging to the public administration and municipal sub-system in proportion to GDP. Source: Hungarian State Treasury

Sub-indicator 1: GROSS AVERAGE WAGES OF KNOWLEDGE WORKERS EMPLOYED IN PUBLIC ADMINISTARTION COMPARED TO THE AVERAGE FOR THE NATIONAL ECONOMY (%)

- This indicator shows the gross monthly average wages of knowledge workers employed in the activity classification of general administration (TEÁOR: 8411) as a percentage of the average for the national economy. The data was issued by the Hungarian State Treasury and originates from a comprehensive institutional report provided by the public administration bodies (OSAP2238).

Sub-indicator 2: COST OF COLLECTION RATIO FOR THE TAX ADMINISTRATION (%)

- Proportion of administrative costs related to the collection of tax by the tax administration organisations relative to the total tax collected. Source: OECD

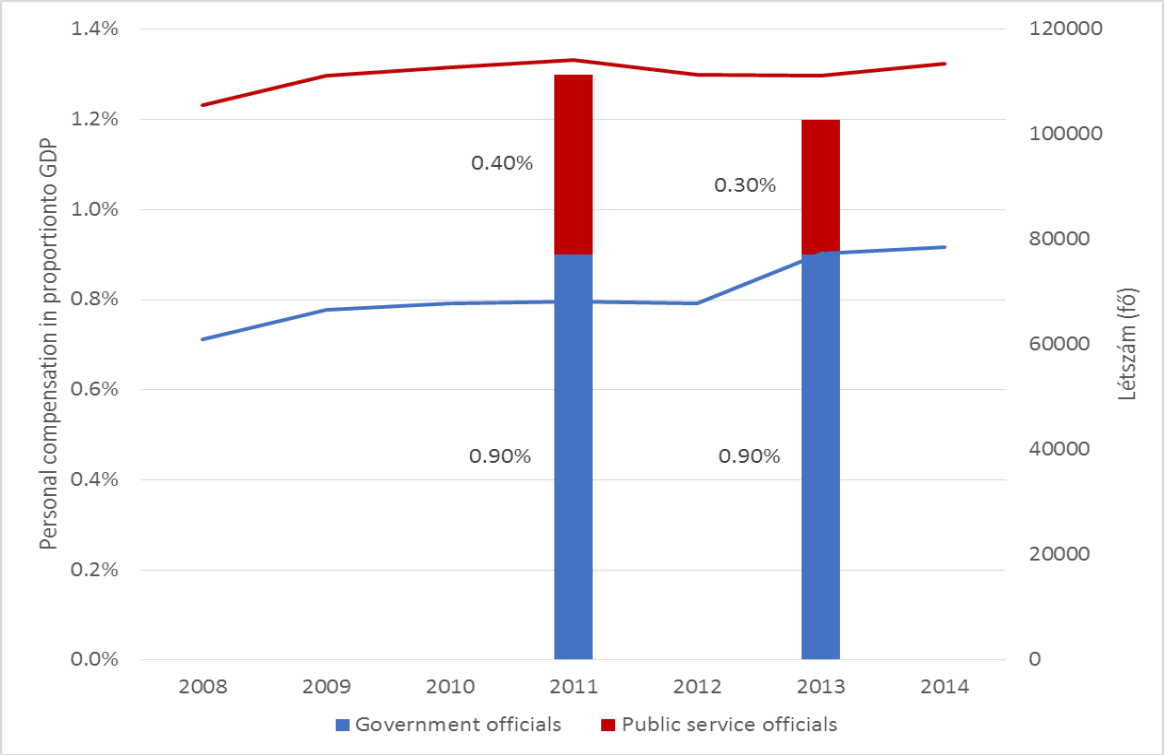
Sub-indicator 3. AVERAGE NUMBER OF ACTIVITIES PER DOCUMENT OFFICE WORK STATION (No.)

- The ratio of total administrative units (activities) of document office customer service activities recorded in the computer system during the course of the given year to the number of hardware infrastructure units (work stations) installed for conducting customer service activities. Source: Central Office for Administrative and Electronic Public Services

Sub-indicator 4. AVERAGE NUMBER OF PRIMARY DOCUMENTS PER REGIONAL GOVERNMENT OFFICE OFFICER (No.)

- The number of primary documents for each county (or metropolitan) government office official. Source: official OSAP statistics

H.3.1. Personal compensation stipulated in the public administration budget relative to GDP



International comparative measurements tend to use the number of employees in the budgetary sector as an indicator of the size of the given country's public sector. This allows one to make conclusions about how big the state's presence is and what human resources it is capable of providing. For our own part, in addition to the reason of the obvious difficulties of comparison (e.g. a country's size, state organisation and constitutional structure and employment structure), we also did not select the size of the budgetary sphere as the subject of our analysis because it is in and of itself difficult to assign an efficiency value to any potential movement. Whether we link a public service to a broader (budgetary) or narrower (public administrative) area, its number of staff, despite the constant fluctuations, shows a stable, gently increasing trend, that is, "it changes without changing". The administrative reforms that started in 2011 have also resulted in significant internal reorganisation: the re-tuning of local administration has involved a major regrouping of tasks between municipal governments and state administration (district offices). Owing to the change affecting the legal status of officers, government officials working in this state administration and most municipal officials are also reflected in their staffing figures.

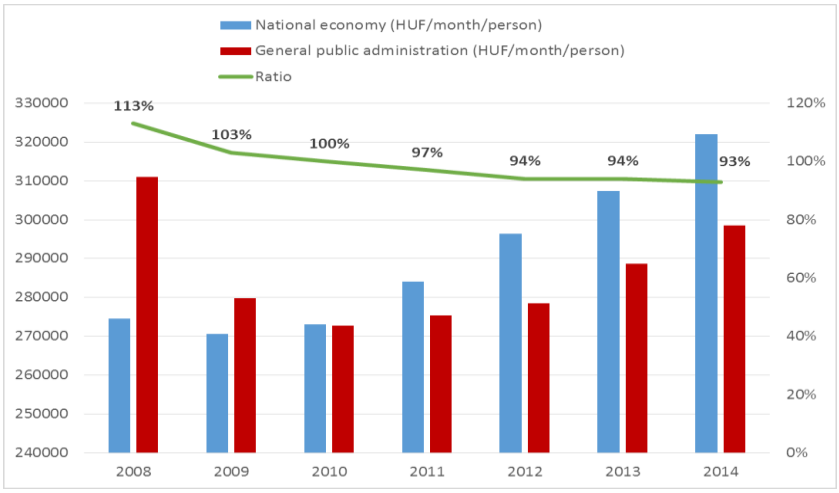
As the key indicator of the resource efficiency dimension, we have chosen the ratio of the amount of personal compensation paid to officials in the primary budget to gross domestic product (GDP). The figure contains the ratios from both before and after the entering into effect of the new municipal government system, on which basis it can be established that despite modest growth in GDP (from 27,635 billion HUF to 29,203 billion HUF), the value decreased from 1.3% to 1.2% (with the decline primarily in local government, where it dropped from 0.4%-0.3%.

With the reorganisation of the public education and health-care systems, we can see a more marked difference in the broader budgetary sphere: the share of the municipal level shrank from 3.6% to 1.6%.

With respect to the personal compensation of public service officials, by analysing the processes of the general wage policy for the past two decades, it can be established that the budgetary sphere overall is characterised by a substantively less favourable income position than competing spheres. The shortfall in public-sphere wages compared to the private enterprise sphere – among comparable jobs – stood in 2009 and 2010 at an average of 34%. The deterioration in the situation of the public sphere can be ascribed to, among other things, the virtually constant freezing of the salary chart since 2006, the reduction of income in addition to the monthly salary, and the elimination of the 13th monthly salary payment, whereas the wage compensation used as a partial replacement has been reduced, whereas in the competing sphere, a continuous – although at a slackening pace during the years of the crisis – growth in income has taken shape.

We have performed an experiment in order to show and quantify, at the macro level, the effectiveness of the personnel who count as the foremost resource of public administration. The system-level reform of the distribution of public administration tasks has, through organisational concentration, internal rationalisation and maintaining the level of wages, made it possible to achieve an initial boost in efficiency.

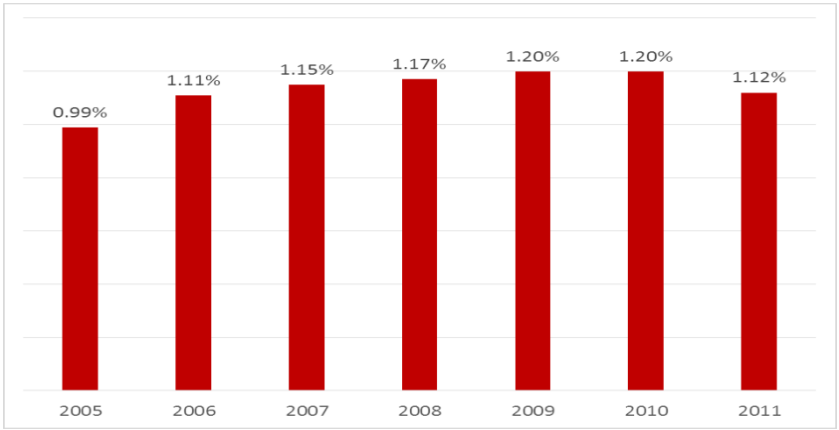
H.3.2. Gross average wages of knowledge workers employed in public administration compared to the average for the national economy (%)



Similarly to the key indicator, this sub-indicator measures the efficiency of human resource management, but at the same time paints a picture of the budgetary ratio of personal compensation not at the macro level, but rather projects average monthly salary onto the indicators for the average income for all employees. We investigated only the earnings data for knowledge workers broken down by the type of work they do in light of the fact that in public administration, they make up more than 90% of the workers. Based on the international benchmark data, the income data for the public sphere typically remains below than the values for the private-sector (and thus of all employees) sphere. On the one hand, this shows the direction of thrifty and efficient use of public funds, an on the other hands, draws ever greater attention to the effects of negative demographic processes of European public service, including the favourable image of public service as an employer. Accordingly, the sub-indicator affects two diverging interests, whose optimum value is aligned to the average level of the national economy. If the two values are identical, however, this allows for both competitiveness in the public administration labour market and appropriate labour costs in relation to the labour market to exist at the same at the same time.

Pay for knowledge workers is lower in public administration than the in the national economy overall. The ratio has been dropping steadily since 2008, which despite showing more efficient use of public funds, has a negative effect on the labour-market competitiveness of a career in public administration.

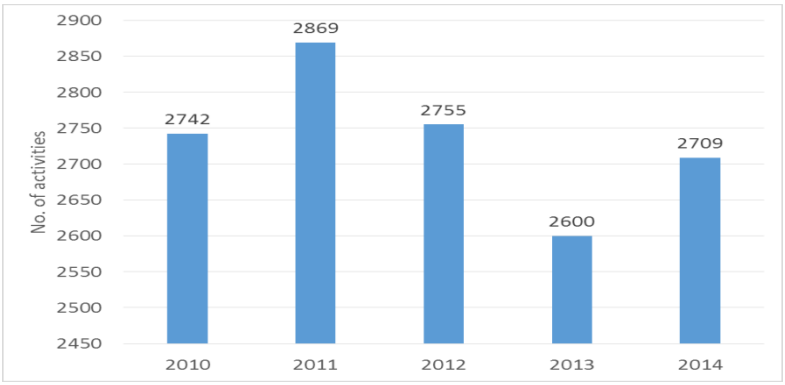
H.3.3. Cost of collection ratio for the tax administration



In its work comparing tax administration systems, the OECD employs this cost-efficiency indicator. The indicator examines the relative administrative costs in the case of public administration organisations that acquire – for example, in the form of tax collections – revenue. Although the cost structure of these organisations can change dynamically depending on the revenue generated, an efficiency indicator can thereby be determined that projects the administrative costs of collection per unit of net collected revenue. Since 2005, the OECD has collected this information annually from the tax authorities of member states. Hungary has a negative development curve behind it, meaning that more and more is spent to collect the same amount of tax revenues. The trend can be seen to turn in 2011. In interpreting the sub-indicator, we consider it important at the same time to point out the data can be examined ceteris paribus, since it is influenced in a fundamental way by changes in the tax system or tax policy.

An example of the meso-level measurement of – sector/policy – efficiency is the projection of administrative costs of tax collection results. Prior to the crisis of 2008, a negative trend had been in place, which ceased to exist in 2011.

H.3.4. Average number of activities per document office workstation

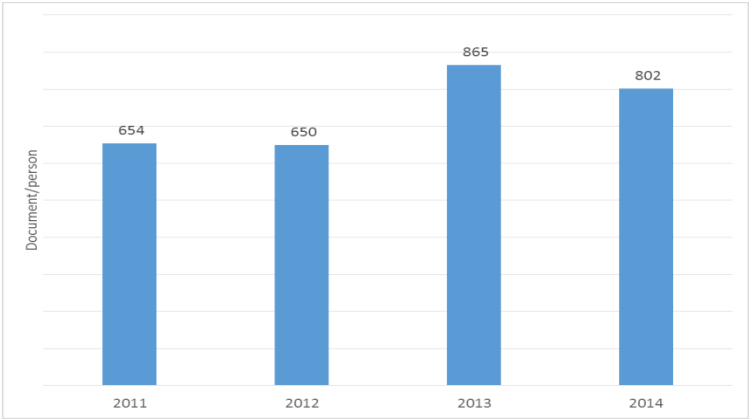


This specific performance indicator based on the statistical data of the national network of document offices shows the average annual distribution of 8,500,000 activities (that is, ever affair that is managed and recorded in the computer system) being performed at more than 3,200 work stations. It must be taken into account from several points of view in order to determine the optimal number of customer service administrators and work stations. In essence, the number of workstations that is needed is the number that is required for customer-friendly and efficient operation, taking into account opening hours, the physical layout and customer needs.

At present, there are more work stations nationally than there are administrators, which indicates, on the one hand, a lack of administrators and, on the other hand, the underutilisation of available IT resources. The number of activities per work station reveals the load on each work station and the differences in customer services arising from that (utilisation of IT resources). With respect to personal customer services, at the national level, in approx. 40% of instances, the number of administrators is lower than the number of work stations. To reach 100% of capacity, however, even having one administrator per work station would not be sufficient, since when specifying the number of administrators, since legal statutes regulating working hours and the time required to be spent on back-office activities also must be taken into account. What all of this means is that to have work station fully staffed for 40 hours of customer service per week, 1.4 administrators would be required, whereas for 60 hours of customer service per week, the figure jumps to two administrators.

While the aggregate data is suitable for deducing the capacity utilisation at the national level, with an unchanged number of activities (the larger the value of the indicator, the more efficient it is), at the same time, the regional comparative data indicates the possible ways forward for genuine improved efficiency. The fluctuations seen in the figure were in part a result of the crisis (e.g. the "wish" to purchase a vehicle, and in part by the infrastructure development consequences related to the integration of government windows.

H.3.5. Average number of primary documents per regional government office officer



The establishment of metropolitan and county government windows on 1 January 2011 brought to a close a decentralisation project lasting for nearly two decades and involved 253 organisations at 14 bodies, as well as 23,000 government officers. The horizontal and, at the same time, operational integration implemented at the regional level ensures efficient utilisation of a uniform organisation – in a single budgetary organ – in each country and in the capital. As with the number of work stations, we can project the number of case numbers gained from the authority's statistics on to the number of government office administrators. The number of so-called primary documents in the special administrative areas managed by government office fluctuated between 16 and 22 million over the four years. The staffing numbers, however, relate to the number of government officers within the staff at the government offices.

The main aim of the regional state administration reorganisation was to eliminate duplication and redundancy. The specific indicators of the administrative activities of government officers reveal a positive efficiency yield from the integration of professional management bodies.

H.4. Preparedness dimension

Key indicator: NUMBER OF TEACHING HOURS PROVIDED IN THE PUBLIC SERVICE ONGOING TRAINING SYSTEM

- The cumulative number of teaching hours from teachers provided by the National University of Public Service in the ongoing training system mandatory for public service officers. Source: NUPS

Sub-indicator 1: RATIO OF PUBLIC SERVICE OFFICERS WHO HAVE EARNED A DOCTORATE (%)

- This indicator expresses the percentage of government and public officers employed either full-time or part-time by public administration bodies who fall under the Category I classification, meaning that they possess a professional higher education degree prescribed for their job description. Source: Ministry for National Economy, National Employment Services

Sub-indicator 2: NUMBER OF MINISTERIAL OFFICERS WITH ACADEMIC DEGREES

- The number of ministerial government officials in possession of an academic degree: Source: Government Human Resources Management System, based on data provided from the ministries.

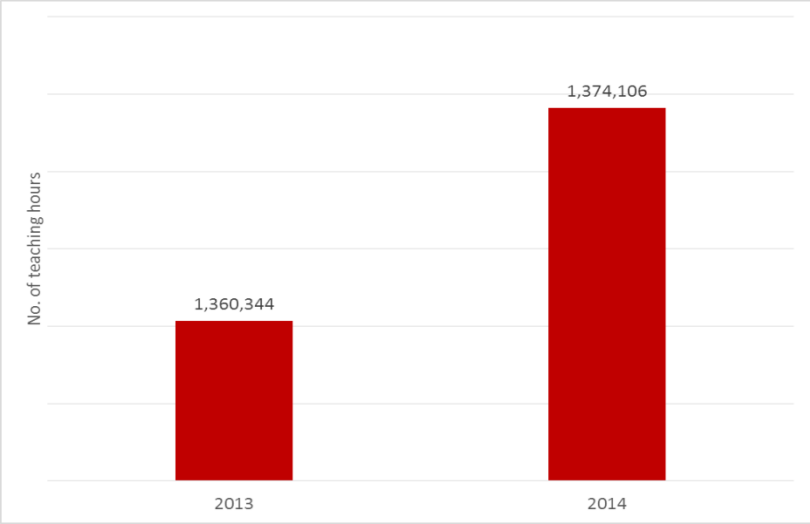
Sub-indicator 3: PROPORTION OF PUBLIC ADMINISTRATION EMPLOYEES WHO REPORT FEELING COMMITTED (%)

- This indicator shows the proportion of workers in public administration who reported feeling a sense of commitment to their work in a questionnaire-based survey that they fill out independently.

Sub-indicator 4: PERCENTAGE OF SECOND-INSTANCE DECISIONS ALTERED BY JUDICAL OR SUPERVISORY BODIES

- Share of petitions for legal remedy against decisions passed by government offices as the result of a second-instance procedure that are altered, overruled, corrected, replaced or supplemented by the judicial or supervisory body or amended or revoked by the authority. Source: OSAP official statistics.

H.4.1. Number of teaching hours provided in the public service ongoing training system



In 2013, the public service training system was placed on a new legal and methodological footing. The previous two-stage examination requirement was supplemented with an ongoing training programme based on an academic point system to be completed in an individualised four-year cycle. The level of preparedness of public administration staff is therefore, fundamentally, determined by the training programmes developed and provided by the National University of Public Service, which entails two or three training programmes annually for each of 75,000 attending officers in the following training areas.

Programmes providing general public administration skills.
The ongoing training programmes proving general public administration skills consist primarily of the most important information in relation to the the organisational system and functioning of the state and public administration. In addition, they offer insight into both the key strategies and world of development concepts of Hungarian public administration in recent years (e.g. public administration and public service development, strategic renewal of the justice system, reform of public administration at the municipal, regional and state levels, etc.), and also present the regulatory background and organisation of tasks with respect to individual sectors (e.g. health care, education). Currently, the NUPA offers 208 such training programs.
Most of the training programmes providing general public administration information are worth 4-16 academic points, which officers can obtain by successfully completing the final examination. In addition to this, most of the training programmes are also accessible with the so-called "blended learning" version. In this, after mastering the e-learning educational materials, the officers take part in a 4-8 hour personal consultation.

Basic and advanced public administration examinations.
The two traditional elements of the public administration ongoing training are the exams required for remaining in public service. The former tests one's command of the most fundamental information and general literacy regarding public administration, and the latter examines one's professional knowledge at the skill level of the main sub-systems. Participation in a multiple-day preparation programme preceding the basic and advanced examination is not mandatory. 30 academic points can be obtained by successful completion of the advanced examination.

Specialised ongoing training.
The aim of the specialised ongoing training courses is for applicants (not just officials) to acquire multi-disciplinary and in-depth knowledge across a broad horizon in certain narrower areas of public service. Worth of note, in many respects, of the new specialised ongoing training courses, are the Integrity Advisor and the Government Window Administrator specialised ongoing training courses, in terms of their provisions stipulated by legal statute.

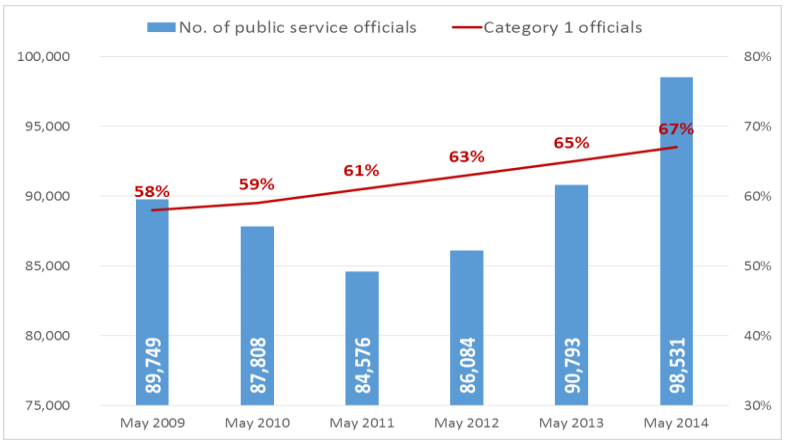
Applied methods.
The majority of the more than 200 training programmes – 114 ongoing training programmes altogether – are built on an e-learning curriculum. The estimate study time for the e-learning contents is 4-16 hours, and they are developed by NUPS' own e-learning development team. We basically use three different types of e-learning study material in the ongoing training system:

- traditional, presentation-based study material,
- study material based on a video presentation,
- animated study materials.

The final exam – with the exception of several special training programmes – can be attempted a total of three times, with a score of 60% required in order to successfully pass the exam.

Nearly 75,000 officials took part in the ongoing training programmes provided by the NUPS, the majority of them spending more than 18 hours each in-person or e-learning training sessions in order to fulfil their training obligation.

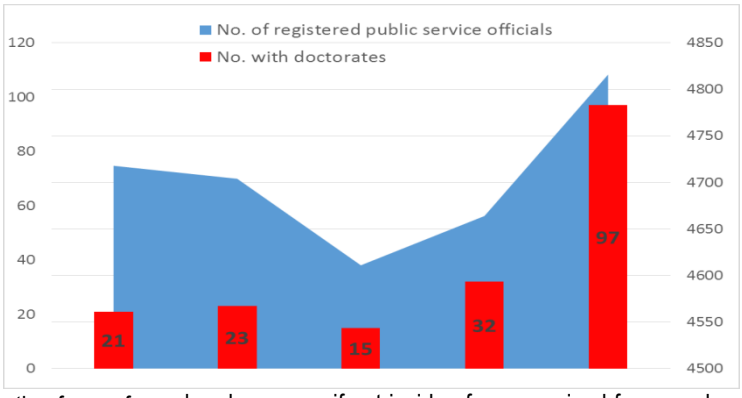
H.4.2. Ratio of public service officers who hold a higher education degree (%)



For many decades, the level of educational attainment of officials, and specifically the proportion of those with higher, secondary and only primary levels of educations have been considered, by the professional literature, to be a key indicator of the level of their skill and aptitude. From the very beginnings of their history, careers in public administration have been among those fields of employment that require knowledge-intensive and advanced skills of the type that continental Europe's closed public service systems have elevated to "model values". At the same time, effective human resources management also integrates the criterion into the system of requirements to which its personnel are held that officials should be in possession of an appropriate (and not necessarily the very highest level) of training for their jobs. This is why we narrowed the calculation of the sub-indicator in two ways: (1) we only took into consideration those employees with the status of public service officials who either make decisions or perform preparatory analysis with regard to such, and (2) we also only took into consideration those employees with higher education qualifications who possess qualifications prescribed for their positions. This group, for all practical purposes, consists of officials classified in category I, and excludes those who, while they may have higher education degrees, are performing work in category II that requires only a secondary qualification.

The number of public service officers carrying out the core activities of public administration bodies who possess specialise higher educational qualifications is showing a continuous increase both as nominally and as a proportion of the entire contingent.

H.4.3. Number of ministerial officers with doctorates

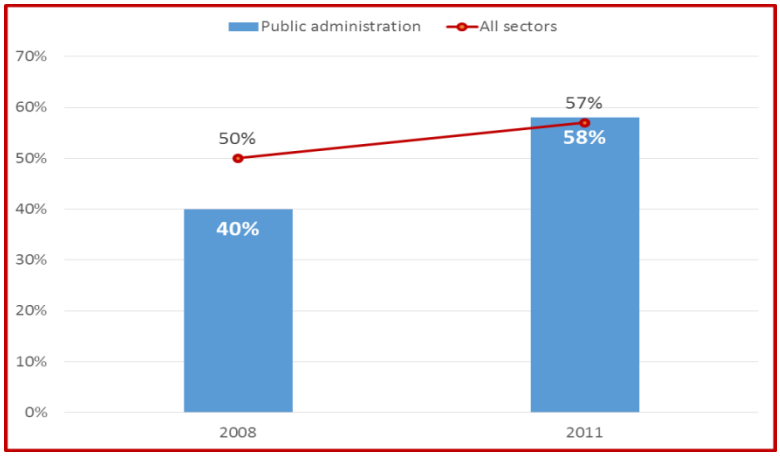


The channelling of the academic sphere and scholarly counsel into public policy processes is not a phenomenon of recent origin. International indicators also frequently examine how effectively a government is capable of making direct use of academic output in policy analysis. This can occur both through formal and informal consultative mechanisms, collaborative programmes and research projects. Perhaps the most intensive form is the application of academic research, which is also an approach that exists through the research institutes operating in the form of non-ministerial agencies. This sub-indicator examines how many ministerial government official possess a doctoral qualification. This is a new approach to the extent that, although in the course of filling their positions, they are not primarily engaged in conducting research, they presumably (although not demonstrably so) employ their specialized academic and methodological knowledge, whereby – even if not inside of an organised framework – academic scholarship can be directly implemented.

Starting in 2010, the number of staff at the ministries with these kinds of advanced degrees fluctuated between 20 and 30, a figure which tripled in 2014. Of the 97 officers, the great majority have a PhD or equivalent, while seven academic doctors are also present.

The number of ministerial officers who have earned doctorates has, owing to the frequent reorganisations of the ministries, changed from year to year. In all likelihood, it is as a result of the 2014 government restructuring that the value of the indicator tripled, as employees from certain non-ministerial agencies wound up in the ministerial organisational structure.

H.4.4. Proportion of public administration employees who report feeling committed (%)

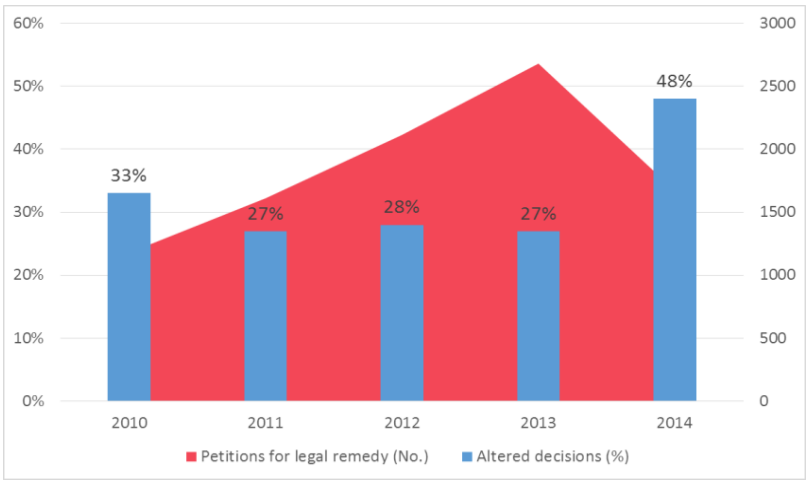


Commitment is the factor that shows the relationship employees have with the organisation and more than anything else contributes to its successful and performance-oriented operation. So far, two comprehensive representative surveys have been carried out in the public administration system to determine the level of commitment and motivation on the part of employees. In 2008, the questionnaire survey was conducted with 4,228 workers at 46 institutions (a 9.5% response rate), followed by another one in 2011 – with a set of identical or comparable questions – with 22,583 workers at 72 institutions (a 33.5% response rate). In 2008, 40% of respondents reported feeling entirely committed to their jobs. These results place public administration on the boundary between the "neutral zone" and the "uncertain zone". Although the willingness to remain employed with state administration bodies for the short term can be considered to be average, the willingness to remain for the medium- and long-term exceeds the average both for Hungary and for Central and Eastern Europe as a whole. With respect to willingness to remain until retirement, the results for public administration rank alongside other top jobs.

The data survey repeated in 2011 showed, in addition to a much greater willingness to respond, an enormous rise in the level of employee commitment which nearly reaches the threshold of the "performance zone" and exceeds the average for all employers by 1%, a figure which in 2008 was still higher than the value for public administration. The opinion of direct superiors and employees can be deemed outstanding, even if satisfaction with the amount of financial compensation declined relative to the data for 2008.

Although the level of commitment amount public administration staff started from a low level, by 2011 it had reached the Hungarian average. While one important factor in this might have been the government's emphatic handling of professional ethics in public administration, at the same time, the partial results of the survey anticipate the danger of adverse effects on commitment and motivation arising from dissatisfaction with personal compensation.

H.4.5. Percentage of decisions altered by judicial or supervisory bodies



An important measurement of staff preparedness is the proportion of petitions for legal remedy against administrative decisions are that are overruled by the body (court or supervisory body) overseeing the system that originally made them. The official statistics of government authorities provide detailed information on the review of all levels of decisions by municipal and state public administration.

This sub-indicator examines those petitions for legal remedy against second-instance decisions passed by general-purpose government agencies or specialised administrative bodies which have been required to undergo a review. The figure depicts the ratio of contested second-instance decisions that are are altered, overruled, corrected, replaced or supplemented by the judicial or supervisory body or amended or revoked by the authority.

Despite the growth in the number alongside the development of the government office system, a decreasing trend can be seen since 2010 with regard to the ratio of altered decisions. At the same time, in 2014 the figure grew from 30% to nearly 50%.

H.5. Satisfaction dimension

This dimension serves to examine the social perception in regard to the previous four dimensions, measuring and accounting for that capability of public administration which reflects whether its services, organisation and personal staff have been implemented with an adequate level of social embeddedness. In order to do this, we seek the answer to the questions of whether citizens are familiar with, understand and use public administration, and whether it meets their expectations, and whether their expectations meet their needs; and last of all, whether they are satisfied with public administration. In its current phase, the Good State research programme does not yet have available the surveys carried out on a representative samples of the population that would serve as the data for the satisfaction dimension.

Key indicator: CUSTOMER SATISFACTION INDEX

- A survey conducted on a large nationally representative sample of citizens (with participation by 1,500 people): a composite index showing the cumulative (point score) value of the four sub-indicators.

Sub-indicator 1: SATISFACTION WITH ACCESS

- A survey conducted on a large nationally representative sample of citizens (with participation by 1,500 people). Composite index (point score).

Sub-indicator 2: SATISFACTION WITH THE LEVEL OF ADMINISTRATIVE LOAD

- A survey conducted on a large nationally representative sample of citizens (with participation by 1,500 people). Composite index (point score).

Sub-indicator 3: SATISFACTION WITH RESOURCES

- A survey conducted on a large nationally representative sample of citizens (with participation by 1,500 people). Composite index (point score).

Sub-indicator 4: SATISFACTION WITH PREPARATION

- A survey conducted on a large nationally representative sample of citizens (with participation by 1,500 people). Composite index (point score).