

HUNGARY

Hungary continues to catch up to living standards in other OECD countries, and productivity has grown at an annual average of 4.3% from 2001 to 2006. However, progress has been offset by unstable public finances, which have undermined business confidence and prompted firms to focus on the short term to the detriment of longer-term goals such as investment and innovation. Ongoing reforms to restore predictability in the macroeconomic and regulatory environment are an essential prerequisite for improved innovation performance.

The country's structural features have strongly shaped its innovation system. The economic opening begun in the early 1990s saw inflows of foreign direct investment and sharp growth in the number of small and medium-sized enterprises. However, institutions and governance structures are still evolving, and innovation activity remains concentrated both geographically and in terms of ownership. It takes place mainly in central Hungary and 75 to 80% of domestic business R&D expenditure comes from firms with foreign majority ownership, predominantly manufacturing firms.

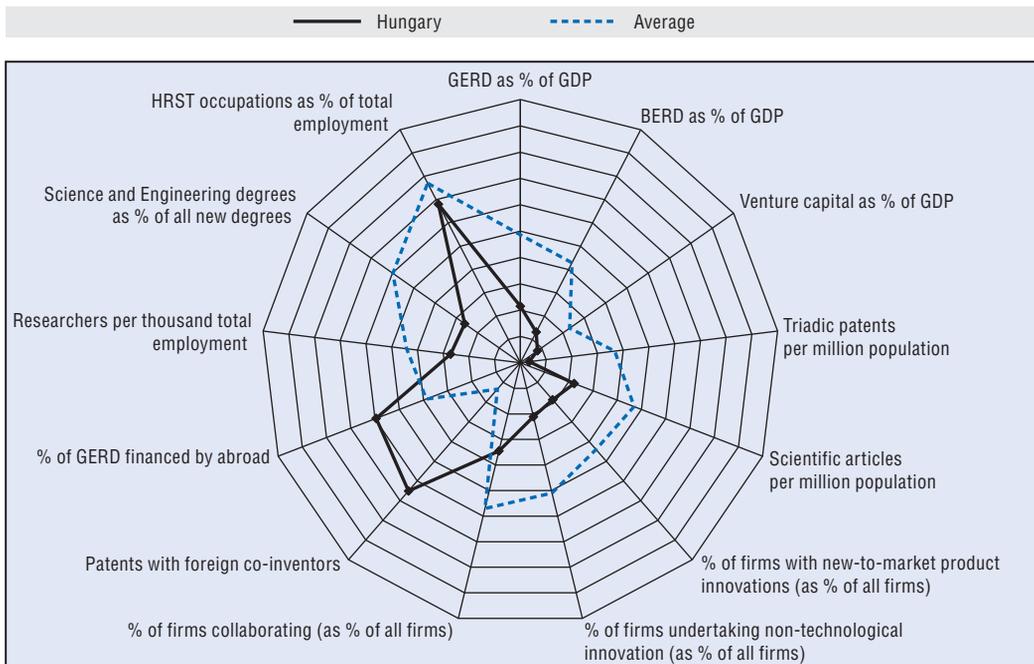
In 2006, gross domestic expenditure on R&D (GERD) was 1% of GDP, well below the OECD average of 2.26%. Industry was responsible for 43%, compared to an OECD average of around 64%. Hungary has set a target for GERD of 1.4% of GDP in 2010, rising to 1.8% in 2013, with business financing 45% and 50%, respectively. Currently, the EU provides significant funding for R&D.

Hungary's R&D personnel per 1 000 total employment were just over half the EU27 average in 2006, with recent increases offsetting some of the losses suffered in the early 1990s. Tertiary level educational attainment of the working age population is still low and Hungary produces fewer science graduates relative to its population than any other OECD country. However, the situation is improving, with six times as many science graduates in younger age groups than in older ones. By international standards, the activity of Hungarian firms and research units as measured by intellectual property rights is low, but publications per researcher are close to the EU15 average, as are citations per publication.

Hungary's science, technology and innovation policy strategy aims to make knowledge and innovation the driving force of the economy. From 2007, to complement existing R&D tax incentives, the government established co-financing programmes to encourage private-sector R&D. Also under way are reforms to the innovation system, including harmonisation of the responsibilities of various public bodies and strengthening of the institutional system of regional innovation.

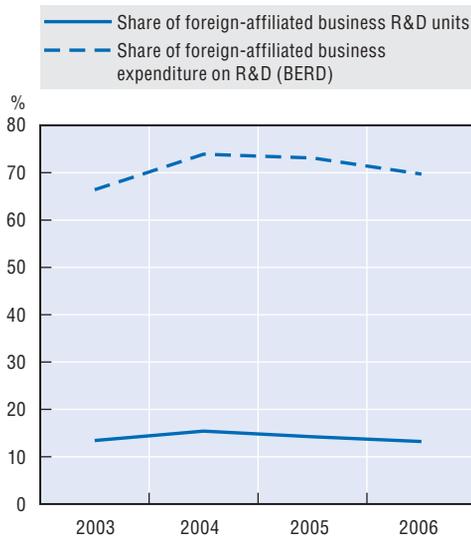
Key policy challenges include increasing the diffusion of innovation throughout the economy and encouraging greater co-operation between academia and industry, so as to improve the innovation performance of firms. Strengthening the capacity of the education sector to provide both skilled human resources and R&D and innovation outputs is a further challenge.

Science and innovation profile of Hungary



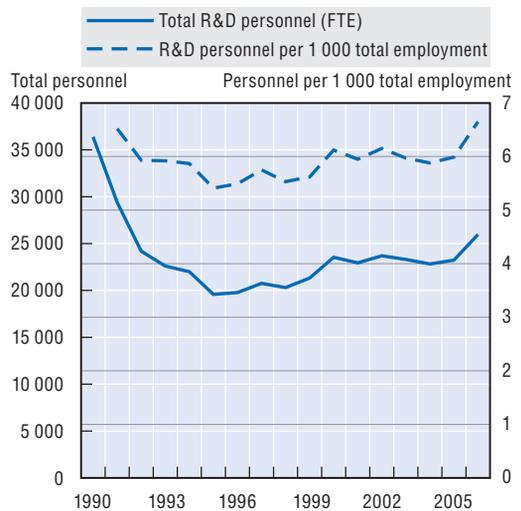
StatLink <http://dx.doi.org/10.1787/452746886078>

Foreign involvement in R&D, 2003-06



StatLink <http://dx.doi.org/10.1787/452758383407>

Total R&D personnel 1990-2006



StatLink <http://dx.doi.org/10.1787/452787143608>