



ICEG EUROPEAN CENTER

2006 ANNUAL REPORT



WELCOME THOUGHTS



Pál Gáspár
Director

2006 was a very fruitful year for our Institute. We were able to increase significantly the number of our full time researchers, as well as carry out more projects and conferences compared to 2005. In addition, and judging from the reactions of our clients, we succeeded in creating high quality output from all major research activities undertaken. Those activities took on an increasing international flavour, and ranged from academic research and mentoring to organisation capacity-building and dissemination activities through publications and conferences.

At home, our Institute participated in several research projects and contributed to discussions on challenging policy issues. We advised a number of national authorities on these questions. We continued to publish our regular quarterly forecasts on Central and Eastern European economies, the monthly overviews of macroeconomic developments in Southeast Europe and the CIS, and regular sector analyses and forecasts. All-in-all, ICEG European Center achieved significant progress in the overall scope and quality of its activities.

We look to 2007 with high expectations. Our Institute would like to continue its contribution to the discussion of policy issues affecting Central and Eastern European economies, and to develop further its views on issues of mainstream European and Hungarian economy. We see 2007 as a year when we expect to broaden significantly the scope of our international research projects by involving more European and overseas institutions in our research activities and becoming partners in others' research endeavours. We plan to develop further our existing research networks, to join high-quality networks, and to establish new ones where necessary. We expect to increase significantly the number of publications produced from our on-going research projects, broaden the scope of our regular quarterly and monthly publications and launch new publication series.

We are therefore fully open to the idea of broadening and deepening our scientific relationships. If after examining the details of our 2006 Annual Report, you find our research activities interesting and challenging, please feel free to contact us. We would be delighted to engage with you in discussing scientific and policy-related questions, establishing research partnerships or developing new and challenging project ideas.

WHO WE ARE: ICEG EUROPEAN CENTER

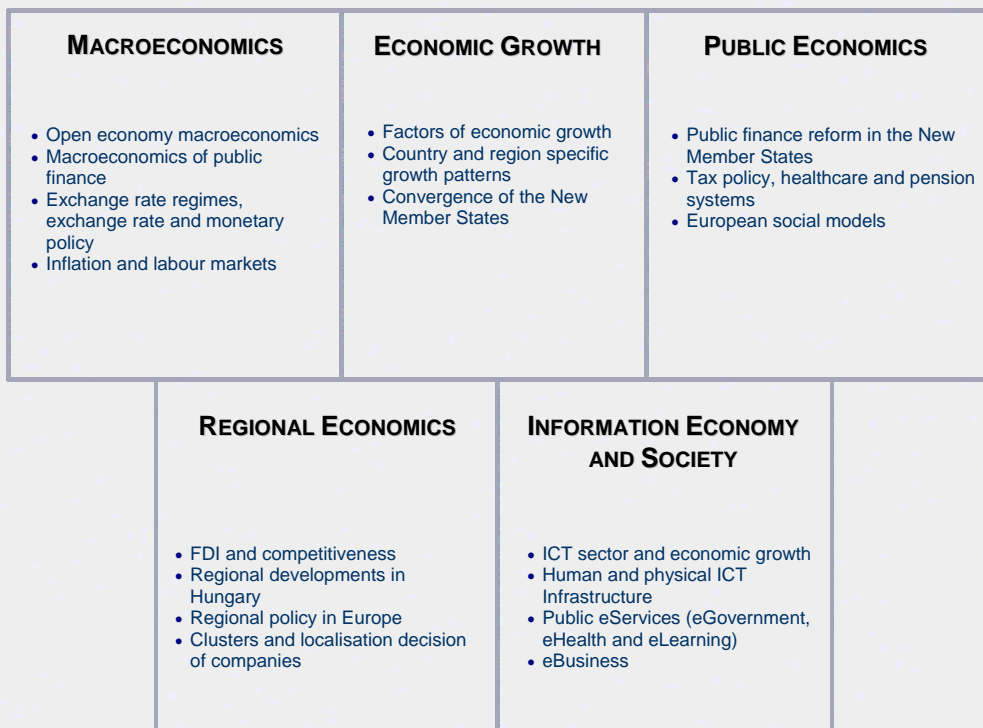
RESEARCH PROFILE

ICEG European Center is a Hungarian research institute, carrying out economic research, preparing regular macroeconomic and sector forecasts, providing policy advice and disseminating research results through conferences and publications.

While research at ICEG European Center has Europe-wide orientation, most of the research activities are concentrated on analysing economic

developments of Central and Eastern Europe.

Economic research at ICEG European Center focuses on five areas. Three of them are traditional domains of economics: macroeconomics, economic growth and public economics. Besides these we are active in the newly developing domains of information economy and society and we also conduct research on regional economics.



RESEARCH NETWORKS

Economic research at ICEG European Center is based on established and emerging networks as we have widespread institutional contacts in and outside Europe. We are members of various research networks (including Economic Policy Institutes Network (EPIN) run by UNDP), and we co-ordinate three thematic networks: ICEG (International Center for Economic Growth), IESP (Information Economy and Society Partnership), and SEEN (South Eastern European Research Network).

International Center for Economic Growth

ICEG is a worldwide network of research institutions dealing with global and regional aspects of economic growth. The network established more than two decades ago was taken over by ICEG European Center from the founders in 2006. The current activity is directed at redesigning the network and reinforcing partnerships among the members.

Information Economy and Society Partnership

IESP is a network of Central and Eastern European research institutes working on information economy and society issues. In 2006 we jointly carried out one of our key projects, *Next Steps in Developing Information Society Services in the New Member States: The Cases of eGovernment, eHealth and eLearning*, which is a unique international stocktaking project.

Southeast European Network

SEEN is based on the co-operation of ICEG European Center and various research institutions from Southeast Europe. The network focuses on the analysis of key policy issues related to the development, transition, convergence and eventual accession of Southeast European countries to the European Union. In 2006 part of the network actively participated in the preparation of studies for the OECD in a project co-ordinated by ICEG European Center.

WHO WE ARE: ICEG EUROPEAN CENTER

MAIN PARTNERS AND CLIENTS

ICEG European Center has participated in various international and national research programmes either as an independent research institute or as a head of a consortium of several research institutions.

In national projects our main partners have been chambers and associations (AMCHAM, Hungarian Business Leaders Forum, Hungarian Economists Association), research institutions (GKI Energiakutató Kft, MTA Világgazdasági Kutató Intézet), universities (Central European University) and consultancy companies (Ernst&Young, KPMG).

In international projects our main co-operating partners were international research centres including IDATE, the Vienna Institute for International Economic Studies (WIIW), the Tinbergen Institute, the Austrian Institute for SME Research (KMU Forschung).

We also co-operated with international organisations including the Institute for Prospective Technological Studies (IPTS DG JRC EC), the United Nations Development Programme (UNDP), the International Monetary Fund (IMF) and the World Bank. Besides them, we worked together with our stable members of networks run by ICEG European Center.

In international projects the major clients of ICEG European Center were international institutions (IMF, OECD, UNDP), foundations and non-profit organisations (Ford Foundation, Global Development Network) and Directorates General of the European Commission.

In national projects the major clients included ministries (Hungarian Ministry of Informatics and Telecommunications, Ministry of Economy and Transportation), regional and development agencies (Hungarian National Development Agency, Hungarian regional development agencies), chambers like AMCHAM, Confederation of Hungarian Employers and Industrialists (MGYOSZ) and major international and domestic banks and companies (Erste Bank, OTP Bank).

MACROECONOMICS



In recent years our research on *Macroeconomics* has been directed at analysing macroeconomic developments of Central and Eastern European economies. This characterised 2006 too, when research focused on fiscal and current account imbalances, inflation and exchange rate developments, preconditions and problems of entry to Euro zone, and macroeconomic implications of financial deepening. Most of the research activity concentrated on the Eastern Member states of the European Union and Southeast Europe, but we paid increased attention to the CIS countries, especially to the Central Asian region.

One of the key projects in 2006 was the regular publication of our three Quarterly Forecasts and Analyses on

the New Member States, on Southeast Europe and on Hungary. These quarterly studies review the major underlying macroeconomic developments and policies in a unified structure, and make forecasts concerning the short- to medium-term macroeconomic developments in these countries.

An important project on Good Practices Consultant for the Investment Reform Index co-ordinated by the OECD focused on the determinants of investment climate and foreign direct investments in Southeast Europe. We compiled a comprehensive list of good practices from Central and Eastern Europe on investment, tax, competition and trade policies among others.

We also participated in the *EPIN* Research Capacity Development project run by UNDP, which included mentoring research projects on the macroeconomic effects of labour migration and associated remittances, on macroeconomic implications of privatisation and SME development in Central Asia and other CIS countries.

ECONOMIC GROWTH

Research on *Economic Growth* focused on factors of growth, links between productivity and growth, analysis of the convergence of Central and Eastern European economies, closely related to them the assessment of the implications of the Growth and

Jobs strategy for these countries. Besides these issues our research in 2006 concentrated on the relationship between growth and macroeconomic developments, financial sector



RESEARCH HIGHLIGHTS 2006

deepening and capital flows. One of the projects in 2006 commissioned by the Ministry of Economy and Transport was the contribution to the re-examination of the Hungarian National Action Plan (NAP) submitted to the European Commission. A study was prepared focusing on the microeconomic chapter of the NAP, including systems of indicators for R&D, innovation, ICTs and proposals on future measures to improve Hungary's position in these areas. The project included consistency checks between the macroeconomic,

microeconomic and employment chapters of the Action Plan.

Another project commissioned by the Institute of International Technology assessed the various aspects of the Lisbon strategy, its links with the competitiveness of the Hungarian economy, the role of social models in meeting Lisbon targets. Special attention was devoted to the analysis of the contribution of ICTs to economic growth and competitiveness of Hungary.

RESEARCH ON PUBLIC ECONOMICS



Similarly to the previous years our research on *Public Economics* focused on fiscal developments in the Eastern Member States and on public finance reform. The output of this research was published in our regular quarterly forecasts and analyses, in periodical publications on public finances in Hungary. Besides that policy papers were written on tax policy issues, health and pension reforms.

Focusing on the fiscal and macroeconomic consequences of the inflow of EU Structural Funds, research was directed at analysing these impacts in Hungary and other

recipient countries. In 2006 several workshops and conferences were organised on the fiscal implications of absorbing EU funds and on the main areas of public finance reform in Hungary.

One project commissioned by the Hungarian Academy of Sciences and carried out together with the Central European University focused on the determination of strategies and priorities concerning the new EU Financial Perspective 2007-2013.

Another project carried out with the IMF dealt with the macroeconomic effects of absorbing the Structural Funds in the New Member States (NMS). The workshops and conferences organised around this issue discussed both the theoretical implications and the empirical lessons of the NMS in this area.

REGIONAL ECONOMICS



In 2006 within the research on *Regional Economics* we carried out research projects on the regional evolution of foreign direct investments, factors influencing FDI, localisation decision of companies and the links between FDI and competitiveness. Our research related to regional policy included the assessment of regional developments in Hungary and the evaluation of regional policy and planning. As participants of several domestic and international research programmes we analysed the preconditions and consequences of clusterisation in Hungary and in the neighbouring countries.

Commissioned by the West Pannonia Regional Development Agency we provided cluster expertise for the CEE Cluster Network project financed by the EU FP6. The project included comparative analysis of clusters operating in Central and Eastern Europe, an assessment of national and regional cluster policies and an elaboration of common quality guidelines for effective cluster management.

The project on the Conditions and possibilities of clusterisation in the household appliances industry in Northern Hungary aimed at identifying the main networks among household appliances manufacturers and their main suppliers, local governments and other public actors in the Northern Hungary region. The project proposed several recommendations for the Hungarian decision makers to provide better conditions for clusterisation in order to increase local value added.

RESEARCH ON INFORMATION ECONOMY AND SOCIETY



In the previous years, our Center has worked intensively on various issues of *Information Economy and Society*, examining key trends of

access to and usage of ICTs and preparing general stock-take about information economy and society developments in the New Member States and Candidate Countries.

In 2006 our research focused on the evolution of eServices in the NMS. As the line between the 'e' and non-'e' aspects of these services is often a question of definition, the development of eGovernment, eHealth and eLearning required detailed analysis of these sectors. Therefore the work on eServices coincided with an

intensive research on the evolution of, challenges to and restructuring of public services and the contribution of ICTs to this process in the NMS.

The key project was granted by IPTS, DG JRC, European Commission (Next Steps in Developing Information Society Services in the New Member States: the Cases of eGovernment, eHealth and eLearning), co-ordinated by our Center with the help of national partners from ten countries.

Besides eServices, we also kept an eye on the ICT sector by preparing our regular sector-analyses. We carried out a project for the Hungarian Ministry of Informatics and Communication on the ICT sector and trade in Southeast Europe and Far East and its connection to the Hungarian ICT sector, and another one on the changing international labour division in the ICT sector, with regards to the positions of the EU, the NMS and Hungary.

EVENTS

ICEG European Center regularly organises seminars, workshops and conferences both in Hungary and abroad on major research issues. In 2006 we organised twelve conferences and workshops: some of them were big events with more than 200 participants, others were smaller ones, often organised in the framework of a project. The topics discussed at

the events included among others the challenges of Lisbon strategy and European competitiveness, the public finance reforms in Hungary, macroeconomic effects of absorbing Structural Funds in the New Member States, macroeconomic developments in the EU 8+2, the evolution of European eServices and innovation.

Financial Summit

We organised our regular *Financial Summit* with HBLF (Hungarian Business Leaders Forum) twice. These summits bring together the key actors in Hungary's fiscal policy and aim at conducting professional dialogue about public finance reform. Acting and former government officials, international experts, leading economists and business sector representatives exchanged their views



on fiscal policy and structural reforms.

ICEG EC Annual Conference

In 2006 we organised our first *ICEG EC Annual Conference*, which promises to become a respected annual scientific event with a thematic orientation focusing on the underlying key research areas of our institute.

This event showed our capacities to organise an internationally interesting conference, we invited speakers from leading research institutes, international organisations and the

business sphere. The conference focused on four major issues vital for growth and competitiveness of Europe and within that the New Member States.

These issues included the evolution of growth and productivity in the enlarged Europe, the reform of public finances, the impact of information society developments on European competitiveness and growth, and the contribution of future enlargement to European competitiveness.

Krynica Economic Forum

ICEG European Center also continued the organisation of sessions at the *Krynica Economic Forum*, a regular large conference in Southern Poland.



In 2006 we organised a two and half days' programme, under the title *Europe Towards eServices, Innovation and Growth*, within the *New Economy* track of the Forum. Our co-organising partners were the IMF, the World Bank and the Institute for Prospective Technological Studies, DG JRC, European Commission.

The successive panels aimed at better understanding and identifying Knowledge Society strategies for the European countries, that would support their economic and social development. In particular, the panels addressed the question of the development trajectories of the New Member States and Candidate Countries towards the Knowledge Society, taking into account both their present specificities and the changing global context.

PUBLICATIONS

PUBLICATION SERIES

Some of the publication series of ICEG European Center are published regularly, while others periodically, reflecting the output of ongoing research projects. The major publication series among periodical ones published in English are *Working Papers*, *Trends in the Region* and *ICEG EC Opinion*. In 2006 ICEG European Center published two *Conference Proceedings*, which included the output of two scientific conferences.

Conference Proceedings



One of them was on Knowledge Economy, Innovation and Growth in Europe, with chapters analysing the trends and effects of information economy uptake in the NMS and Asia, the implications of knowledge generation and innovation on economic growth and the links between growth and patterns of the European social models.

Another *Proceedings* was also published in 2006 on Economic and Political Relations after the EU Enlargement analysing the economic and political links between the Eastern Member States and the CIS countries.

Working Papers



In our *Working Papers* series (also in Hungarian as *Munkafüzet*) ICEG European Center publishes scientific and policy oriented research

studies based on the output of its research programs.

Our English language *Working Papers* in 2006 focused on the macroeconomic issues of Central Asia, links between privatisation and financial sector development and economic growth, while the ones in Hungarian on cluster development, European social models, the contribution of ICTs to the 'Growth and Jobs' agenda and on SME financing.

ICEG EC Opinion



We also publish *ICEG EC Opinion* (also in Hungarian as *ICEG EC Vélemény*), which contains short policy oriented studies on economic issues reflecting the opinion of the research staff of our Center. Our *Opinions* in 2006 dealt among others with wage and cost competitiveness of the NMS, FDI and relocation in Europe, development of clusters in Hungary.

PUBLICATIONS

QUARTERLY REPORTS

ICEG European Center prepared three different macroeconomic analyses and forecasts in each quarter of 2006. One focused on the eight New Member States of the European Union, another one on the Southeast European economies, while the third one on Hungary. Covering three-four years of economic development, all macroeconomic forecasts are prepared in the same structure: regional overviews are followed by country analyses supplemented with a detailed presentation of a special topic. The country analyses assess demand and supply side evolution of GDP, monetary conditions, fiscal developments, balance of payments and labour market developments.



The *Quarterly Forecast on the New Member States* included as special topics the price and wage convergence to the EU-15, the causes and

consequences of the delay in euro zone entry.



The special topics in the *Quarterly Forecast on the Southeast European economies* were the analysis of CEFTA and the new round of EU Enlargement.

From 2007 the regional orientation of the analyses changes slightly as the *Forecast on the NMS* changes to Eastern Member States by incorporating the newly acceded Bulgaria and Romania, while the Southeast European one changes to *Quarterly Forecast on Western Balkans and Turkey* to reflect better the geographical orientation.

MONTHLY PUBLICATIONS



ICEG European Center publishes *Southeast European Monitor*, a monthly publication analysing economic trends and policy issues in Southeast Europe, which regularly contains three or four shorter studies. The monthly analyses in 2006 focused on accession process of Romania, Croatia and

Bulgaria, on labour market developments, on exchange rate policies in Southeast Europe, on the evolution of trade patterns and regional trade integration and on fiscal issues.



Another region of research focus for ICEG European Center is the CIS. We publish monthly our *News of the Month* publication in which short studies are written on the

PUBLICATIONS

macroeconomic developments in the CIS and NMS countries.

Our short studies in 2006 focused on economic growth, dependency on oil

and other natural resources, FDI inflows, inflation targeting for the CIS, on nominal convergence, prospects of Euro adoption and public debt and exchange rate developments.

SECTOR ANALYSES



ICEG European Center prepares sector analyses, assessing the main trends of the selected sectors. These sector studies have a uniform structure allowing for inter-sectoral comparisons as well. In 2006 we issued our usual annual sector analyses covering seven major sectors (banking, ICT, machinery, food industry, tourism, electric energy, logistics) of the Hungarian economy. Besides the overall studies we usually publish selected topics about these sectors. In 2006 we focused on labour market developments in the machinery industry, pharmaceuticals, tourism and electric energy industry.

Besides these standardised analyses, ICEG European Center regularly prepares tailor-made sector analyses covering market developments, regulatory changes and sector performance. The main sectors covered by tailor-made analyses in 2006 included pharmaceuticals, chemical industry, ICTs and electric energy industry. One project focused on investment opportunities in the energy sectors of Southeast

European countries, while another one on strategic oil stock policy in Croatia, Hungary, Romania and Slovakia.

KEY DATA FOR 2006

HUMAN RESOURCES

The core staff of ICEG European Center in 2006 consisted of:

Pál	GÁSPÁR	Director
András	BAKÁCS	Researcher
Barbara	BARCZA	Office Manager
Péter	BILEK	Researcher
Tamás	BORKÓ	Researcher
Kinga	ENDRÉSZ	Project Manager
Emese	FRECOT	Website Editor
Renata Anna	JAKSA	Project Leader
Ágnes	MAGAI	Researcher
András	OSZLAY	Researcher
Gábor	PELLÉNYI	Researcher
Magdolna	SASS	Researcher
Zsuzsanna	SZALKAI	Project Assistant
Mária	THUMA	Office Manager

FINANCIAL HIGHLIGHTS

ICEG European Center recorded a significant increase in its revenues in the 2004-2006 period. During these years our overall turnover increased by 228% with 2005 growing by 144% and in 2006 increasing by an additional 38%.

About half of the revenues are generated from international projects, while the other half is produced by

domestic research and consultancy activity. Significant part of revenues is generated by projects in the area of information economy and society, macroeconomics and regional analysis, though other pillars contribute as well. The revenue base of ICEG European Center is diversified, increasing the stability of its financial position.

CONTACT DETAILS

ICEG European Center
6/B Dayka Gábor Street,
Budapest H-1118 Hungary
Phone: +36 1 248 1160, +36 1 248 1161
Fax: +36 1 319 0628
E-mail: office@icegec.hu
Website: www.icegec.org