



# 2007 ANNUAL REPORT



## WELCOME THOUGHTS



2007 was a successful year for ICEG European Center. We succeeded in creating high quality output in main research and consultancy activities, carried out more projects and conferences compared to the previous year, increased the number of full and part-time researchers working with us. Our research and consultancy activity remained internationally oriented, ranged from academic research, policy consultancy and mentoring to dissemination activities through publications and conferences.

ICEG European Center participated in several national and international research projects, in discussions on challenging European, Central and Eastern European and Hungarian policy issues. Besides our traditionally significant research on macroeconomics and information economy related issues, we increasingly participated in research on growth and competitiveness, and regional development. We continued to publish our regular quarterly forecasts on the Eastern EU Member States, on the Western Balkans and Turkey, the monthly overviews of macroeconomic developments in South-east Europe and the Commonwealth of Independent States (CIS), and regular sector analyses and forecasts. As a new area of activity we increasingly published regular publications on Central Asia and the Caucasus.

In 2008 ICEG European Center expects to broaden significantly the scope of its international research projects by involving more European and overseas institutions in its research activities, increasing the number of projects with international organisations, organising more seminars and conferences. We will deepen and expand our existing and newly established research networks, and plan to join new high-quality ones. We expect to increase the number of publications from ongoing research projects, broaden the geographical coverage and topic scope of quarterly and monthly publications.

As our activity is based on networks, on formal and informal linkages, we are always happy to broaden our scientific relationships. If after reading our 2007 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 project ideas.

Pál Gáspár  
Director

### 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.

<b>MACROECONOMICS</b> <ul style="list-style-type: none"><li>• Open economy macroeconomics</li><li>• Macroeconomics of public finance</li><li>• Exchange rate regimes, exchange rate and monetary policy</li><li>• Inflation and labour markets</li></ul>	<b>ECONOMIC GROWTH</b> <ul style="list-style-type: none"><li>• Factors of economic growth</li><li>• Country and region specific growth patterns</li><li>• Convergence of the Eastern EU Member States</li></ul>	<b>PUBLIC ECONOMICS</b> <ul style="list-style-type: none"><li>• Public finance reform in the Eastern EU Member States</li><li>• Tax policy, health care and pension systems</li><li>• European social models</li></ul>
<b>REGIONAL ECONOMICS</b> <ul style="list-style-type: none"><li>• FDI and competitiveness</li><li>• Regional developments in Hungary</li><li>• Regional policy in Europe</li><li>• Clusters and localisation decision of companies</li></ul>	<b>INFORMATION ECONOMY AND SOCIETY</b> <ul style="list-style-type: none"><li>• ICT's and economic growth</li><li>• Human and physical ICT infrastructure</li><li>• Public eServices (eGovernment, eHealth and eLearning)</li><li>• eBusiness</li></ul>	

### 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 coordinate 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 last years we have jointly carried out the *Next Steps in Developing Information Society Services in the New Member States: The Cases of eGovernment, eHealth and eLearning* project, which has been a unique international stocktaking exercise.

#### **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.

### MAIN PARTNERS AND CLIENTS

ICEG European Center 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 were chambers and associations (AMCHAM, Hungarian Business Leaders Forum, and Hungarian Economists Association), research institutions (Center for EU Enlargement Studies, GKI Energiakutató Kft, MTA Világgazdasági Kutató Intézet, State Audit Office, Research and Development Institute), universities (Central European University) and consultancy companies (KPMG, Ernst&Young).

In international projects our main cooperating partners were international research centres including IDATE, the Vienna Institute for International Economic Studies (WIIW), and the Austrian Institute for SME Research (KMU Forschung). Besides them, we worked together with our stable members of networks run by ICEG European Center.

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.

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

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

### MACROECONOMICS



The main focus of our research on *Macroeconomics* has remained similar to the previous years: fiscal developments, current account imbalances, inflation

and exchange rate developments, the challenges of the entry to euro zone and labour market pressures.

Most of our research activity was concentrated on the Eastern EU Member states and on the Southeast European countries. We have paid increasing attention to the CIS countries, especially to the Central Asian and Caucasus regions.

One of the key projects in 2007 remained the regular publication of our *Quarterly Forecasts* on the Eastern EU Member States, on the Western Balkans and Turkey and on Hungary. These quarterly studies review the main current macroeconomic developments and policies in a unified structure, and make forecasts concerning the short- to medium-term macroeconomic prospects. Besides them in 2007 we launched a publication on macroeconomic forecast for seven economies in Central Asia and the Caucasus.

Besides scientific publications the activity in macroeconomics included also consultancy work. In the project "*Methodology for government strategy-building*" ICEG EC prepared for the Ministry of Economy and Transport of Hungary the methodology for design, application and evaluation of the Ministry's sector specific strategies.

In the project on "*The impact of sustained high oil prices on trade flows*" commissioned by the European Parliament and was carried out in collaboration with the Vienna Institute for International Economic Studies (wiiw) and GKI Energy Research & Consulting, ICEG European Center analysed the effects of high oil prices on the European economy, assessed the main adjustment channels to oil price increases, and outlined potential trade policy responses.

The ongoing research on "*Price differentials between EU Member States*" has investigated price differentials between EU Member States for a number of product groups using data from multiple comparative price level surveys, and identifies factors that explain them with econometric methods.

### ECONOMIC GROWTH



Our research on *Economic Growth* was concentrated on analysing the main factors of growth, the links between productivity and growth and the convergence of Central and Eastern European economies. Besides that our research in 2007 was focused at the relationship between growth and macroeconomic developments, financial sector deepening and capital flows.

With the project on “*Background studies to updating Hungarian Foreign Trade and*

*Investment Promotion Strategies*” Ministry of Economy and Transport intended to update its previous strategies. ICEG European Center participated in the project with the preparation of two background studies on global and Hungarian trends and issues of export promotion and outward foreign direct investment.

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### PUBLIC ECONOMICS



Our research on *Public Economics* continued to focus on fiscal developments and on public finance reform in the Eastern European Member States. The output of this research was published in our regular quarterly forecasts and analyses and in our periodical publications such as Working Paper and Opinion. The studies dealt with tax policy issues, public institutions and fiscal rules.

Analysing the fiscal and macroeconomic consequences of the inflow of EU Structural Funds, research was also directed at analysing these impacts in

Hungary and other recipient countries. In 2007 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 Eastern EU Member States.

Within the project “*Modernisation of Public Finances*” ICEG European Center arranged comparative analysis for the Research and Development Institute of the State Audit Office on public finances and budgetary institutions in Poland, in the Czech Republic, in Slovakia and in Romania.

The workshops and conferences organised within this research area discussed public finance reform in Hungary, Public-Private Partnerships (PPP) and fiscal adjustment in Central and Eastern Europe.

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### REGIONAL ECONOMICS



In 2007 we carried out research projects on inward and outward foreign direct investments, on the development and benchmarking of industrial parks, and on developing industrial clusters. Our research related to regional policy included also the assessment of regional developments in Hungary and regional policy and planning. As participants of several domestic and international research programmes we analysed the preconditions and consequences of clusterisation in Hungary and 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.

In the project on “*Benchmarking of industrial park performance in western Hungary*” ICEG European Center developed a methodology for the performance measurement of industrial parks in Western Hungary.



## INFORMATION ECONOMY AND SOCIETY



*Information Economy and Society* research questions have been in the focus of our activities for several years. The earlier research focus covered the key trends of access to and usage of ICTs and general stock-take of information economy and society developments in Eastern Europe, while in the last three years the importance of various eServices has increased in our research agenda.

In 2007 we finalised our key project on the evolution of eServices in the EU-10, the *The Next Steps in Developing Information Society Services in the New Member States: the Cases of eGovernment, eHealth and eLearning*. ICEG EC, being the coordinator of the work, relied on the help of its national partner institutes from nine countries. The contract was granted by Institute for Prospective Technological Studies (IPTs), DG JRC, European Commission.

We tackled research issues of eBusiness as well. On the domestic ground, we prepared a background analysis for the Ministry of Economy and Transport about the state of eBusiness in Hungary in international comparison, including best practices, while in the project „*Benchmarking sectoral policy initiatives in support of e-Business for SMEs*” for DG ENTR under the coordination of empirica, ICEG EC contributed to the collection of Eastern European cases of various eBusiness initiatives targeting SMEs.

In the project “*Broadband coverage in Europe*” commissioned by DG INFSO, EC and coordinated by IDATE, ICEG European Center participated in the collection of broadband data for 2006 - 2008 covering 8 Member States.

Based on a tender awarded by IPTs, DG JRC, European Commission, ICEG European Center launched its project on “*Observatory on Information Society Take-up in Eastern EU Member States and in South-east Europe*”, which aims at supporting the development of regional, national and European information society policies in the context of the renewed Lisbon Agenda. The special website of the project is [www.oistu.eu](http://www.oistu.eu).

Finally, not forgetting the ICT sector, ICEG EC prepared its regular sector-analyses and looks forward to continuing research on the ICT sector itself.

## EVENTS

As part of the research and dissemination activities, ICEG European Center organises various events: conferences, seminars and workshops, within Hungary and abroad as well. In 2007 we organised four big conferences and three smaller events, apart from the project workshops. The topics discussed at the events included among others the challenges of Lisbon strategy and European competitiveness, the global trends in capital

and labour flows, the public finance reform in Hungary, the macroeconomic effects of absorbing Structural Funds in the Eastern EU Member States, the macroeconomic developments in the EU-10, the evolution of European eServices and innovation.

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### Financial Summit Conferences

We organised our regular *Financial Summit* with HBLF (Hungarian Business Leaders Forum) twice. These summits focusing on the key issues of public finance reform in Hungary brought together policy makers, politicians, researchers discussing the key policy issues. The conferences in 2007 focused on the macroeconomic effects of fiscal consolidation, on the design of health care and central government institutional reforms, on the sustainability of the pension system.

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### ICEG EC Annual Conference

At the end of 2007 ICEG European Center organised its Annual Conference in Budapest. This conference series focus on global and European issues that have impacts on the Hungarian economy as well. In 2007 the Annual Conference focused on the factor movements with invited speakers coming mainly from international organisations and research institutes in Hungary and abroad. The conference dealt with assessing the causes and consequences of global capital flows, labour movements and their implications on the European economies

## EVENTS

### **ICEG EC Conference Series in Brussels: „Growth and Jobs; Lisbon Challenges in the New Member States”**

Together with Confederation of Hungarian Employers and Industrialists (MGYOSZ) ICEG EC organised a conference, where the speakers from the IMF, the European Commission, the European Central Bank

and various research institutes focused on challenges of long-term growth in the Eastern EU Member States and on their labour market problems.

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### **„Strengthening Public Investment and Managing Fiscal Risks from Public-Private Partnerships” seminar**

This high-level seminar – organised by the joint cooperation of IMF, ICEG European Center and the Ministry of Finance – analysed the key policy issues related to strengthening public investment and managing fiscal risks stemming from increasing reliance on public-private partnerships (PPPs).

## PUBLICATION SERIES

Some of the publication series of ICEG European Center are published regularly, while others occasionally, reflecting the output of ongoing research projects. The main regular publication series are *Conference Proceedings*, *Working Papers*, *Trends in the Region* and *ICEG EC Opinion*.

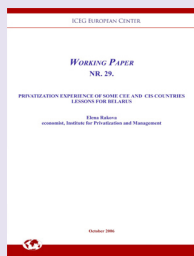
### Conference Proceedings



In 2007 ICEG European Center published a conference proceeding on *Financial System and Monetary Policy Challenges in the Southeast European Countries*, which contains 5 studies prepared by the

participants of the Annual Conference on “Growth and Jobs: Challenges to the Lisbon Strategy and European Competitiveness” organised by ICEG European Center. The studies dealt with financial system and monetary policy challenges in the Southeast European 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.

We published *Working Papers* on the Dutch disease in Russia, on the clusters and networks in Central Europe and on the relationship between relative prices and productiv-

ity in Europe. The Working Papers published in Hungarian dealt with the new Financial Perspectives of the European Union.

### 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 2007 dealt with among others with wage and cost competitiveness of the Eastern EU Member States, FDI and relocation in Europe, development of clusters in Hungary.

The *Opinions* published in Hungarian dealt with the slowdown of growth in Hungary, the effect of high oil prices on the Hungarian economy, the institutions of fiscal discipline.



## PUBLICATIONS



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 macroeconomic developments in the CIS and Eastern EU Member States.

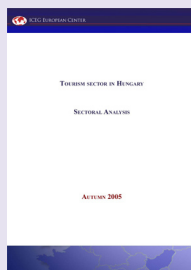
Our short studies in 2007 focused on flat tax in Central and Eastern Europe, on openness and external biases of trade in Russia, on tourism in the Baltic States, on the WTO membership of Ukraine and on competitiveness of the least-developed regions in the Visegrad countries.



The Caucasus and Central Asia (CCA) Review is a monthly, online publication coordinated by ICEG European Center, part of a capacity building project within Economic Policy Institutes Network

(EPIN) run by UNDP. The publication involved brief analyses on macroeconomic, microeconomic, institutional or structural problems of the two regions.

## 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 2007 we issued our usual

annual sector analyses covering seven major sectors (banking, ICT, machinery, food industry, tourism, electric energy, logistics) of Hungary and her neighbouring countries. Besides the overall studies, we usually publish selected topics about these sectors.

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 2007 included pharmaceuticals, oil industry, ICTs and electric energy industry.

## KEY DATA FOR 2007

### HUMAN RESOURCES

The core staff of ICEG European Center in 2007 consisted of:

Pál	GÁSPÁR	Director
Renata Anna	JAKSA	Deputy Director
Péter	BILEK	Researcher
Tamás	BORKÓ	Researcher
Kinga	ENDRÉSZ	Project Manager
Beatrix	FEKETE	Project Assistant
Emese	FRECOT	Website Editor
Zsolt	HORVATH	Website Editor
Regina	KISS	Researcher
Gábor	KUTASI	Researcher
Ágnes	MAGAI	Researcher
András	OSZLAY	Researcher
Gábor	PELLÉNYI	Researcher
Magdolna	SASS	Researcher
Zsuzsanna	SZALKAI	Project Assistant
Mária	THUMA	Office Manager

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### FINANCIAL HIGHLIGHTS

ICEG European Center recorded a significant increase in its revenues in recent years and in 2007 particularly. 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**

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