The development of Hungarian competitiveness on the basis of the World Economic Forum’s Global Competitiveness Index: cause-and-effect relationships

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Global competitiveness

Macroeconomic concept

Productivity  
Wages  
Prices  

"Hard" indicators

Institutional economic concept

Hard indicators +  
Government efficiency  
Human capital  
Innovation  

"Soft" indicators
WEF’s Global Competitiveness Index

- World Economic Forum (WEF)
- Survey since 1990, comparable time series since 2005
- 140 countries, 112 indicators
- 12 main aggregates (aka. pillars)
- 1 final point of competitiveness for each country

The 12 pillars

- Institutions
- Infrastructure
- Macroeconomic environment
- Health and primary education
- Higher education and training
- Goods market efficiency
- Labour market efficiency
- Financial market development
- Technological readiness
- Market size
- Business sophistication
- Innovation
Pyramid of competitiveness

Innovation
Business sophistication
Market size
Technological readiness
Financial market development
Goods market efficiency
Higher education & training
Health & primary education
Macroeconomic environment
Infrastructure
Institutions

Competitiveness of Hungary and other countries in the region

Source: WEF
Cause-and-effect in the Hungarian competitiveness between 2005 and 2012

- Medium and strong correlations between the 112 indicators and the 12 pillars
- Partial correlations do not indicate clear cause-and-effect relationships
- The system of competitiveness is complex with strong mutual interdependencies

The model: presumptions

- The institutions are the substance of competitiveness
- Filter those pillars that do not change on the short run: infrastructure, health, education, technology, market size and business sophistication
- Include GDP volume change and final competitiveness points
Main results (total effects)

- Strongest effect: innovation
- Institutions on macroeconomics: strong negative effect
- Labour & financial market: marginal positive effect on GDP, strong negative effect on competitiveness
- No relationship between labour market and other variables, only with GDP and competitiveness
Conclusions

• Almost all changes in the pillars can be derived to the changes of institutional background.
• Hungary is still not on her long term equilibrium path of competitiveness.
• The effect of artificial improvement of one pillar on the whole system of competitiveness is unpredictable.

Thank you for your attention!

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