

HUNGARY

The gap in GDP per capita vis-à-vis the OECD average has continued to narrow, but it remains substantial, reflecting both low levels of productivity and labour utilisation.

Policy priorities

Reduce the tax wedge on labour income

Challenge and recommendations: To cut labour costs and stimulate job creation, it was recommended that the relatively high tax wedges be reduced over the medium term, financing the loss in revenues by cutting public spending.

Actions taken: Urgent need for budget consolidation has resulted in increases in some elements of the tax wedge although the schedule of the marginal tax rate has been smoothed.

Reform disability benefit schemes

Challenge and recommendations: The disability system provides welfare to a much wider group than originally intended, contributing thereby to the low employment rate especially among older cohorts. It was recommended that more account be taken of remaining abilities when assessing the extent of disability and the emphasis on rehabilitation be increased to reduce the numbers of the registered disabled.

Actions taken: Reforms of the disability benefit system, effective in 2008, requires new claimants who have remaining working capacity to participate in a rehabilitation programme while receiving benefits.

Strengthen the efficiency of the education system

Challenge and recommendations: To meet the rapidly rising demand for tertiary education, it was recommended that curricula reform be continued, and that plans to increase the share of students making a contribution to tuition costs be implemented. In secondary education, it was recommended that incentive problems in teacher pay scales be addressed and job protection be scaled back.

Actions taken: From September 2008, more students will pay a contribution to tuition costs, and market forces will play a more significant role in the allocation of teaching funds to providers. Other regulatory changes have focused on primary and secondary education, where the number of teaching hours per teacher has been increased from 20 to 22 hours per week.

Increase public sector efficiency

Challenge and recommendations: To improve public sector efficiency, it was recommended that the 2006 reform proposal to make the public administration more accountable and to ensure the cost efficient delivery of public services be implemented. It was also noted that there remained room for strengthening co-operation at the municipal level by reinforcing the joint provision of services.

Actions taken: The government introduced cuts in the number of ministries as well as consolidation of the regional network of public offices. There have also been reforms in healthcare, including the wider application of user fees, the re-organisation of health services according to a tiered insurance structure and the restructuring of the hospital network. More emphasis is being put on improving mechanisms to encourage the joint provision of municipal services.

Reduce shadow-economy activity

Challenge and recommendations: To reduce activity in the shadow economy, it was recommended that access to healthcare services be tied to the payment of contributions, social benefits be rebalanced towards more employment-friendly forms and sanctions against abuse be raised to deterrence levels. Also, it was recommended that the recently introduced system of minimum wages according to educational achievements be closely monitored because the new minima may risk pricing jobs out of the market and driving some jobs underground.

Actions taken: The campaign against shadow activities has intensified, including more checks on individuals whose lifestyle appears inconsistent with their personal income declarations. Healthcare reform, notably the new tiered coverage based on social security contributions, should also help to bring more workers into registered activities.