

HUNGARY

Priorities supported by indicators

Reduce the tax wedge on labour income (2005, 2007, 2009)

Recommendations: Lower tax wedges by reducing social charges. Continue efforts to replace tax allowances and deductions with earned-income tax credits.

Actions taken: In 2009, employer social contributions were cut substantially and personal income taxes lowered. Further reductions in personal income taxes were decided, effective from 2010.

Phase out exit routes from the labour force via disability benefits and early retirement (2005, 2007, 2009)

Recommendations: Encourage continued work of older workers by raising the standard age of retirement and through further adjustment of pensions for early and late retirement. Tighten eligibility for disability benefits by focusing on remaining abilities and rehabilitation.

Actions taken: The statutory retirement age will be gradually increased to 65 years from 2012. From 2009, eligibility conditions for early retirement programmes are tightened and from 2011 early retirees cannot retire on a full pension. Retirement with active insurance status is no longer possible. Eligibility criteria for disability benefits have been tightened, and more focus is to be put on the possibility of reintegration into the labour market when assessing the extent of disability.

► Ease business regulations (2005, 2009)

Recommendations: Further limit state involvement in the operations of network industries by reducing price controls. Lift remaining constraints preventing freedom of choice between telecommunications service suppliers.

Actions taken: Stronger forms of vertical separation have been introduced and price subsidies for household consumption have been lowered in the energy sector. The government fully privatised the rail freight segment of the national railway company in 2008. The national airline company was privatised in 2007 but is currently in the process of being re-nationalised.

Reduce administrative burdens on start-ups (2005)

Recommendations: Introduce on-line registration and standardised documents, cut fees for business registration and simplify legal procedures for setting up a business.

Actions taken: Steps have been taken to streamline the registration system, and online possibilities for business to fulfill administrative requirements have increased.

Other key priorities

Improve the efficiency of the education system and make it more equitable (2007, 2009)

Recommendations: Make the education system more efficient and equitable by postponing early tracking of students and reforming teacher education and training. Strengthen vocational training by making it more relevant for the labour market. Introduce university student fees backed by greater loan availability.

Actions taken: From September 2008, more students were to pay a contribution to tuition costs, but a 2008 referendum abolished such contributions altogether. Market forces will play a more significant role in the allocation of teaching funds to providers.

Increase public sector efficiency (2007, 2009)

Recommendations: Ensure cost-efficient delivery of services. Provide more effective incentives for municipalities to exploit economies of scale. Also, facilitate the monitoring and evaluation of goal achievement by public administrations.

Actions taken: Cuts have been made in the number of ministries and regional public offices. From 2009, a new law on government agencies passed to increase their accountability and make their operations more transparent. Mechanisms to encourage the joint provision of municipal services are being improved.

Reduce shadow-economy activity (2007)

Recommendations: Access to health care services should be tied to the payment of contributions, social benefits should be rebalanced towards more employment-friendly forms, and sanctions against abuse should be raised to deterrence levels.

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

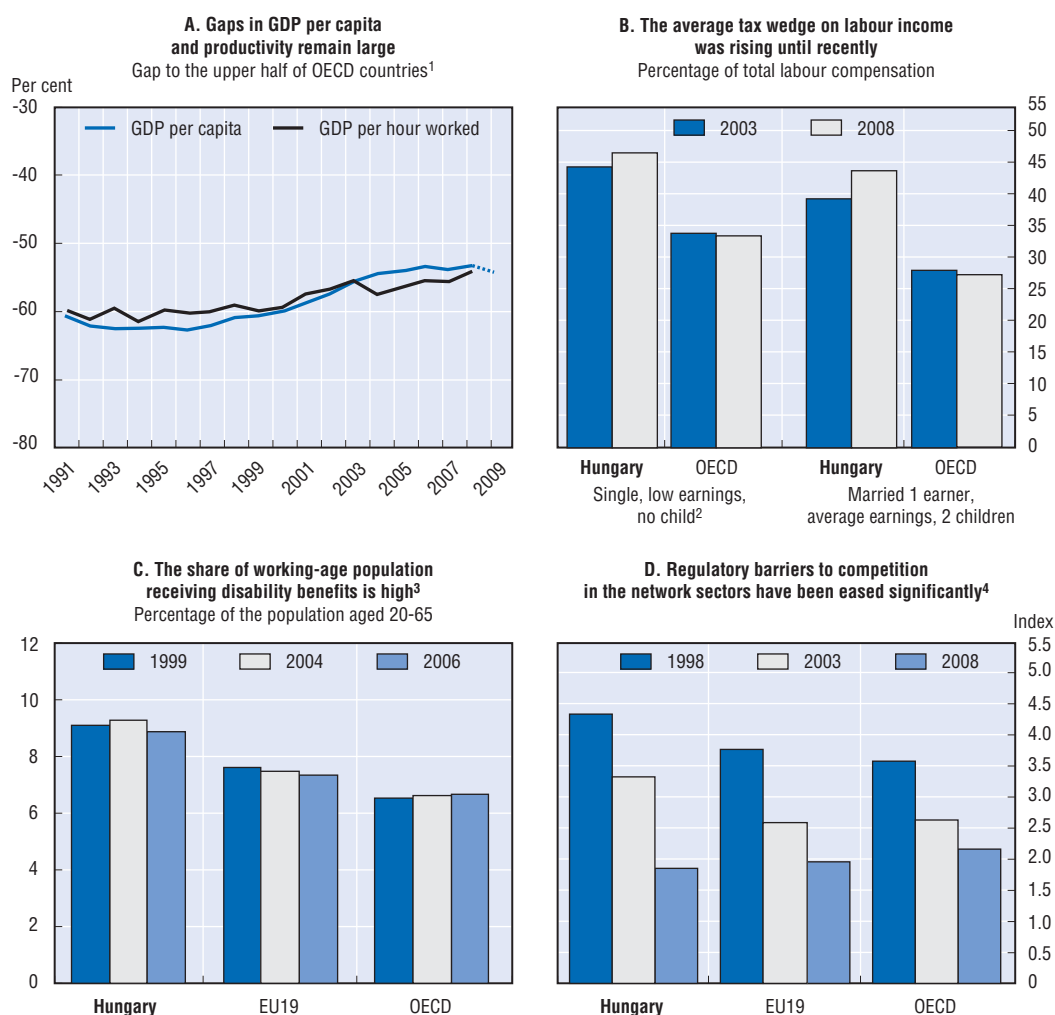
Further downsize housing-loan subsidies (2005)

Recommendations: Downsize further housing-loan subsidies to reduce distortions in housing markets and increase labour mobility.

Actions taken: The housing subsidy programme was abolished as of end-June 2009 to be replaced by a more restricted new system in the fall of 2009. Subsidies are being made portable, which may foster labour mobility.


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- The closing of the income and productivity gap has slowed in recent years, even before the global recession. Labour utilisation remains low mainly owing to low registered employment rates.
- The policy actions taken to lower tax wedges (as part of a comprehensive tax reform), tighten disability benefit, further restrain shadow-economy activity and reform the pension system should help to raise labour utilisation. Reform efforts in other key priority areas have also been strong.
- Reform measures also covered several other areas, such as improving work incentives for second earners, simplifying the tax system and strengthening financial supervision.



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gap in GDP per capita for 2009 is an OECD estimate, based on the *OECD Economic Outlook*, No. 86.
2. Low earnings refer to two-thirds of average earnings.
3. Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes.
4. Index scale of 0-6 from least to most restrictive.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 Databases*; Chart B: OECD, *Taxing Wages Database*; Chart C: OECD (2003), *Transforming Disability into Ability* and OECD estimates; Chart D: OECD, *Product Market Regulation Database*.

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