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- The large gap in GDP per capita relative to the upper half of OECD countries, essentially due to lower productivity, has remained broadly unchanged in the past decade. Overall labour utilisation is comparable to the most prosperous OECD countries, as above-average hours per worker offset a low participation rate.
- Some progress has been made in reducing the labour tax wedge, promoting administrative simplification and improving education outcomes, though further efforts are needed in these areas. Past legislation to increase the effective retirement age is now coming into effect. However, measures in product market regulation have often been anti-competitive.
- Further reducing the labour tax wedge on low salaries and promoting continued work at older ages would increase employment. Higher investment and productivity growth would follow from reforms to increase competition in non-tradable sectors and reduce administrative burdens. Improving outcomes and equity in education would tackle labour mismatches and thus foster both employment and productivity growth.
- Making the education system more efficient and equitable would contribute to lower income inequality by easing upward social mobility from one generation to the next. Reducing the tax wedge on low-wage workers would also reduce income inequality by promoting low-skilled job creation.

Growth performance indicators

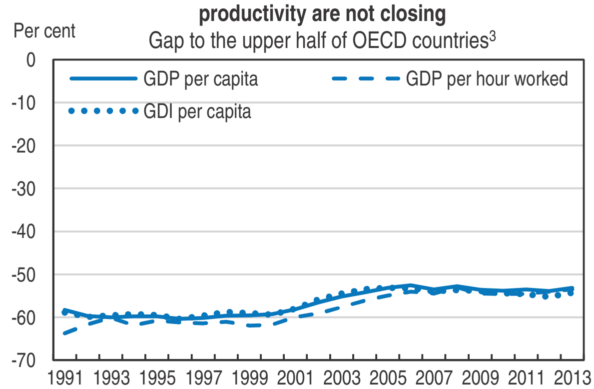
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		2.1	0.3
Potential labour utilisation		-0.3	0.0
of which:	Labour force participation rate	0.5	0.7
	Employment rate[1]	-0.4	-0.3
	Trend employment coefficient[2]	-0.3	-0.4
Potential labour productivity		2.3	0.3
of which:	Capital deepening	1.0	1.1
	Labour efficiency	0.8	-1.1
	Human capital	0.5	0.4

B. The large gaps in GDP per capita and productivity are not closing

Gap to the upper half of OECD countries[3]



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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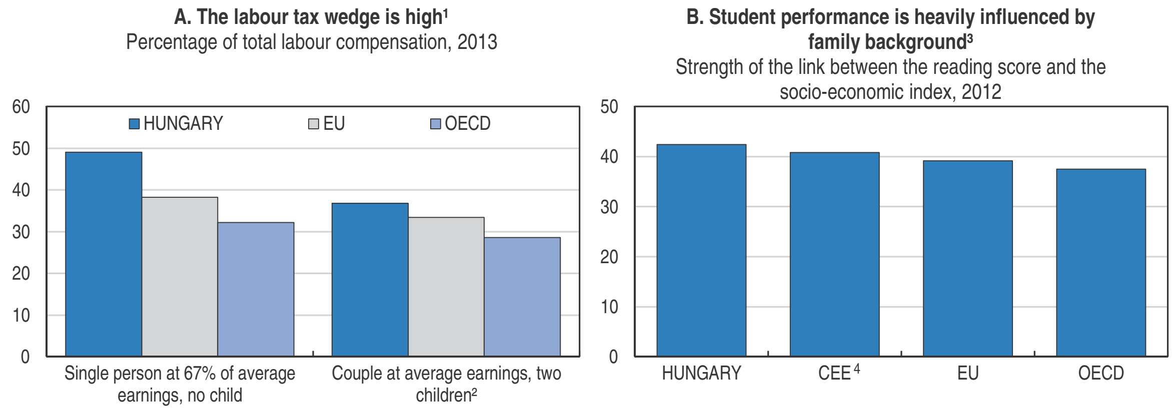
Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. At 100% of average earnings for the first earner and average of the three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
3. Defined as the estimated coefficient from the country specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS).
4. Central and Eastern European Countries is the average of the Czech Republic, Hungary, Poland and Slovenia.

Source: Panel A: OECD, *Taxing Wages Database*. Panel B: OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201132-en*.

StatLink http://dx.doi.org/10.1787/888933178232

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce the tax wedge on labour income. The average tax wedge is internationally high, especially for low salaries, which weakens work incentives and labour demand.

Actions taken: In 2013, the authorities reduced employer social contributions for some vulnerable groups, such as young, old or unskilled workers (Job Protection Act). The 2014 Budget increased family benefits, especially by extending deductibility of the family tax allowance to employee social contributions, a step which favours low-income earners the most.

Recommendations: Further reduce the tax wedge on low salaries through better targeting of cuts in social contributions and the introduction of an employment tax credit that progressively declines with the wage level. Finance these measures by increasing the least distortive property taxes and taxation on energy use.

Reduce disincentives to continued work at older ages. Still low statutory and effective retirement ages lead to meagre employment rates for older workers.

Actions taken: Following past legislation, the legal retirement age started to increase in 2014, to reach 65 by 2022, and special regimes for early retirement are being phased out in early 2015 (except for one still remaining special regime for women).

Recommendations: Index the statutory retirement age to gains in life expectancy and close pathways into early retirement for women.

Improve outcomes and equity in education. Low attainment at tertiary level, shortcomings in vocational education and training (VET) and social inequalities in education hamper job creation and productivity growth.

Actions taken: The authorities have been implementing several EU-financed programmes to support disadvantaged primary and secondary education students (2013-14). Requirements for tuition fees exemption in tertiary education are being progressively tightened (2013-15), which may reduce drop-out rates but risks restricting access by disadvantaged students.

Recommendations: Postpone student tracking into general and VET streams to enhance general skills and promote equity. Encourage social diversity in classrooms and target more resources to disadvantaged schools. In tertiary education, extend the tuition fees exemption to all disadvantaged students meeting admission criteria.

Other key priorities

Enhance competition in non-tradable sectors. Insufficient competition in retail, professional services, energy and telecommunications hampers productivity growth.

Actions taken: The telecommunications regulator launched a spectrum auction (2014), enabling a new mobile network operator to enter the market. However, the authorities restricted the scope of competition law as regards mergers (2013). Regulated energy prices have been cut by around a quarter in 2013-14, hampering investment and the development of liberalised markets. Operational constraints and heavier fees penalising foreign-owned retailers introduced in late 2014 are likely to distort competition in the sector.

Recommendations: Decrease barriers to entry in professional services, telecommunications (especially as regards mobile virtual network operators) and retail, where a level playing field should also be ensured. Move towards market-based pricing in electricity and gas. Do not restrict the scope of competition law and ensure vigorous antitrust enforcement.

Promote administrative simplification and transparency. Complex and opaque administrative procedures hamper cost-efficient delivery of public services and deter private sector investment and productivity growth.

Actions taken: The authorities have been implementing and expanding programmes of simplification and public administration reform, thus streamlining the existing stock of administrative burdens. However, a high flow of new regulation, such as successively amended special taxes, has resulted in new burdens. The parliament reformed its legislative process to potentially allow more in-depth debate of draft bills (2014).

Recommendations: To improve regulatory quality and stability, introduce mandatory consultation with experts and stakeholders for parliament-initiated legislation, and further develop regulatory impact assessment of government-initiated legislation, including environmental policy bills. Promote greater information sharing and database integration among government agencies. Increase transparency and competition in public procurement.

Reform areas no longer considered a priority in *Going for Growth*

For Hungary, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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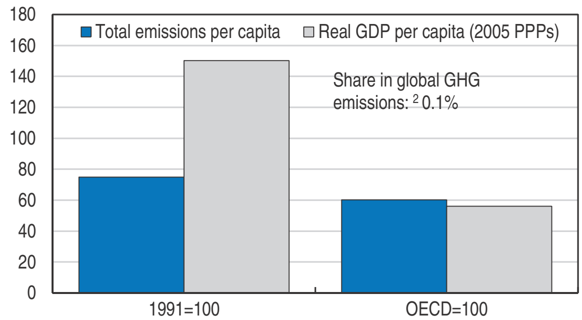
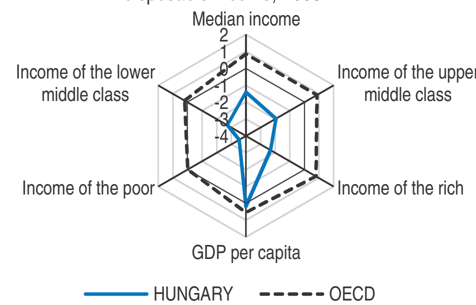
Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the 1991 level and OECD average
Average 2008-12[1]



B. Households in the lower half of the distribution experienced lower real income losses than those in the upper half[3]
Average annual growth rate in real household disposable income, 2005-11[4]



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-12 for Hungary.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178660