



OECD ECONOMIC SURVEY OF HUNGARY 2019

PROMOTING A STRONGER AND MORE INCLUSIVE ECONOMY

Budapest, January 31st 2019

<http://www.oecd.org/eco/surveys/economic-survey-hungary.htm>



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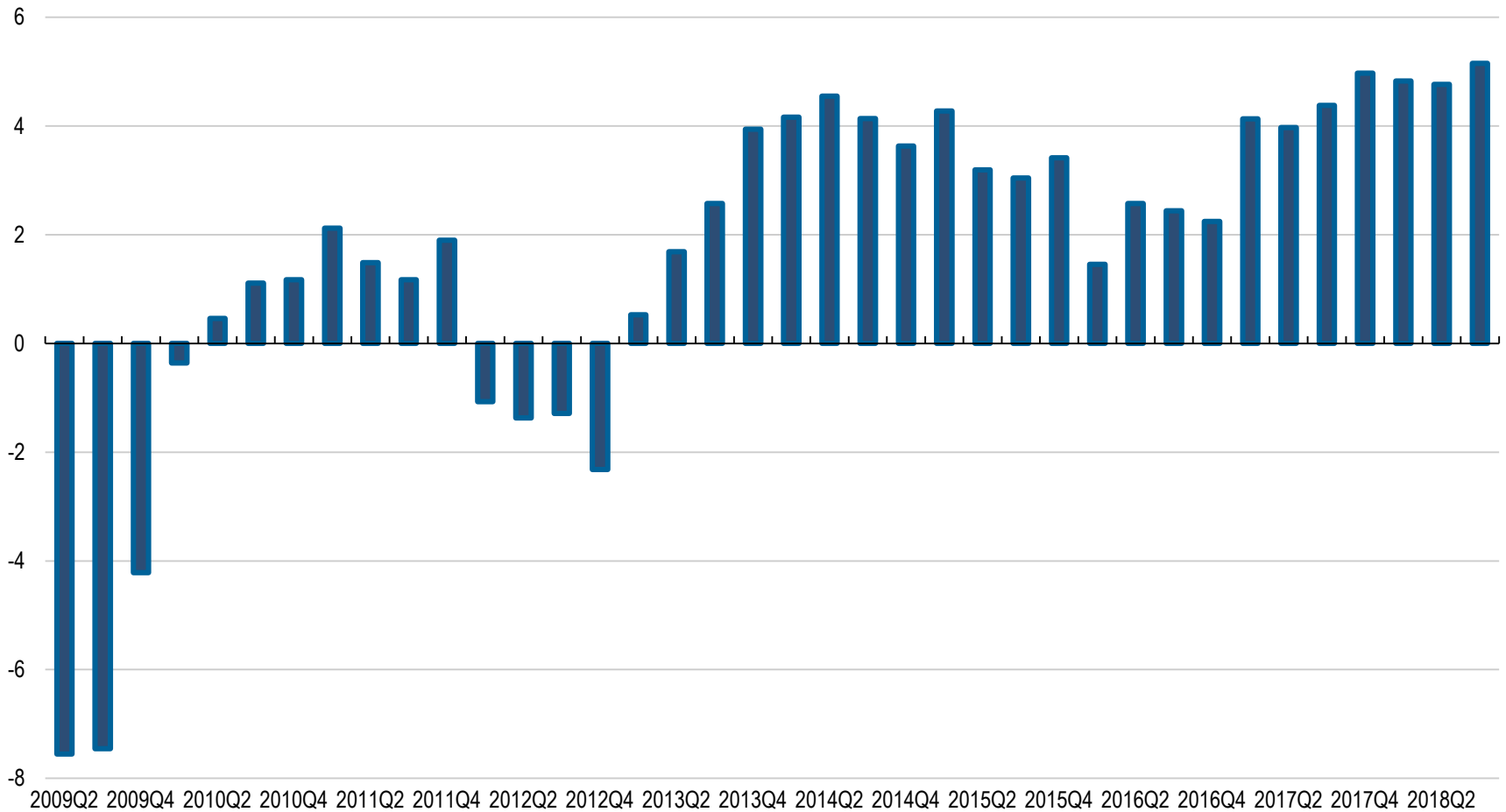
Key messages

- The economy is growing strongly
- Policies should address risks to the recovery
- Greater inclusiveness would bolster growth
- Ageing-related costs are increasing



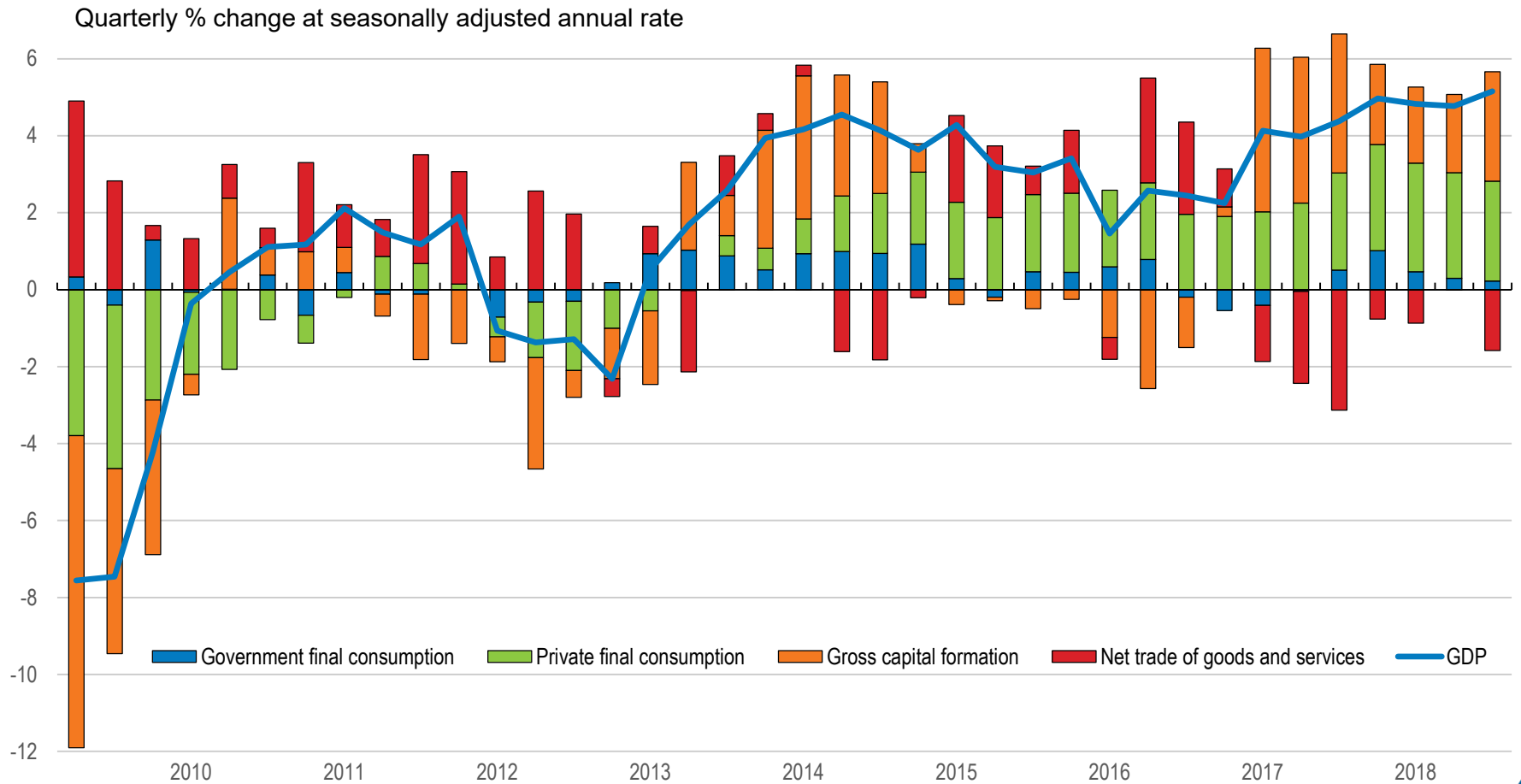
The recovery remains strong

Quarterly GDP at seasonally adjusted annual rates



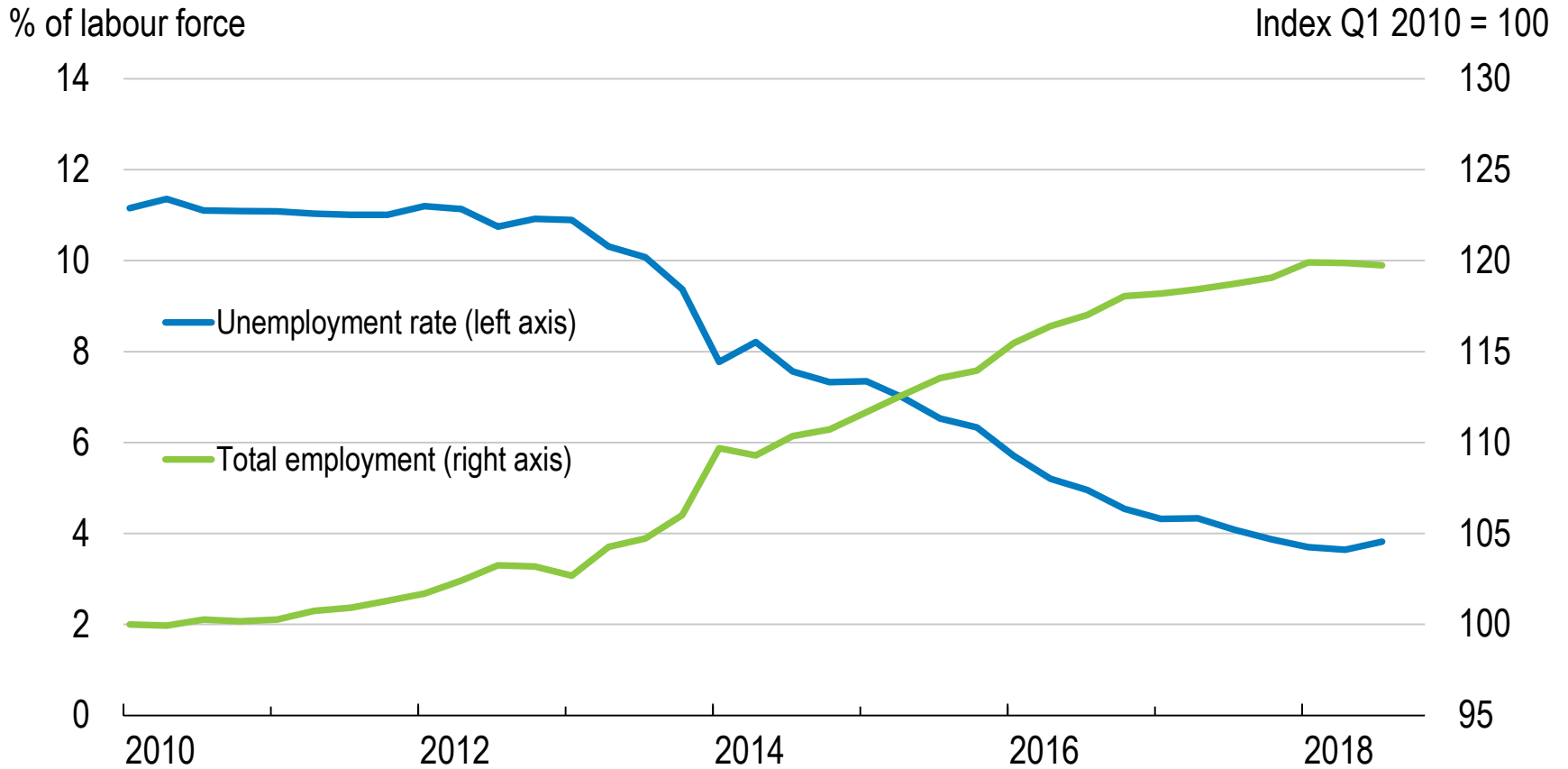


Domestic demand is driving growth





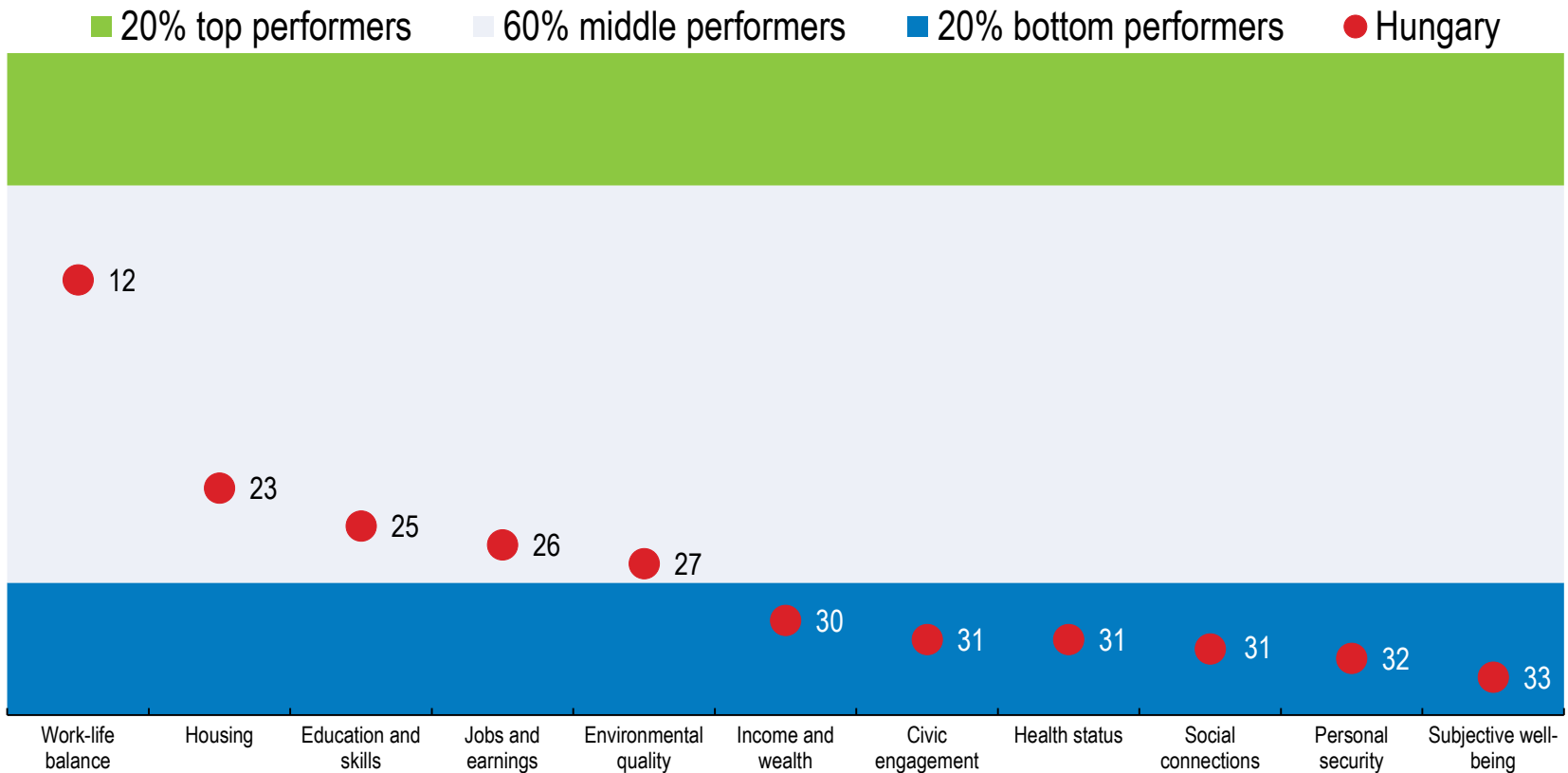
Employment is at unprecedented levels and unemployment at historically lows





Improving well-being is key

Better Life Index, country rankings from 1 (best) to 35 (worst), 2017¹

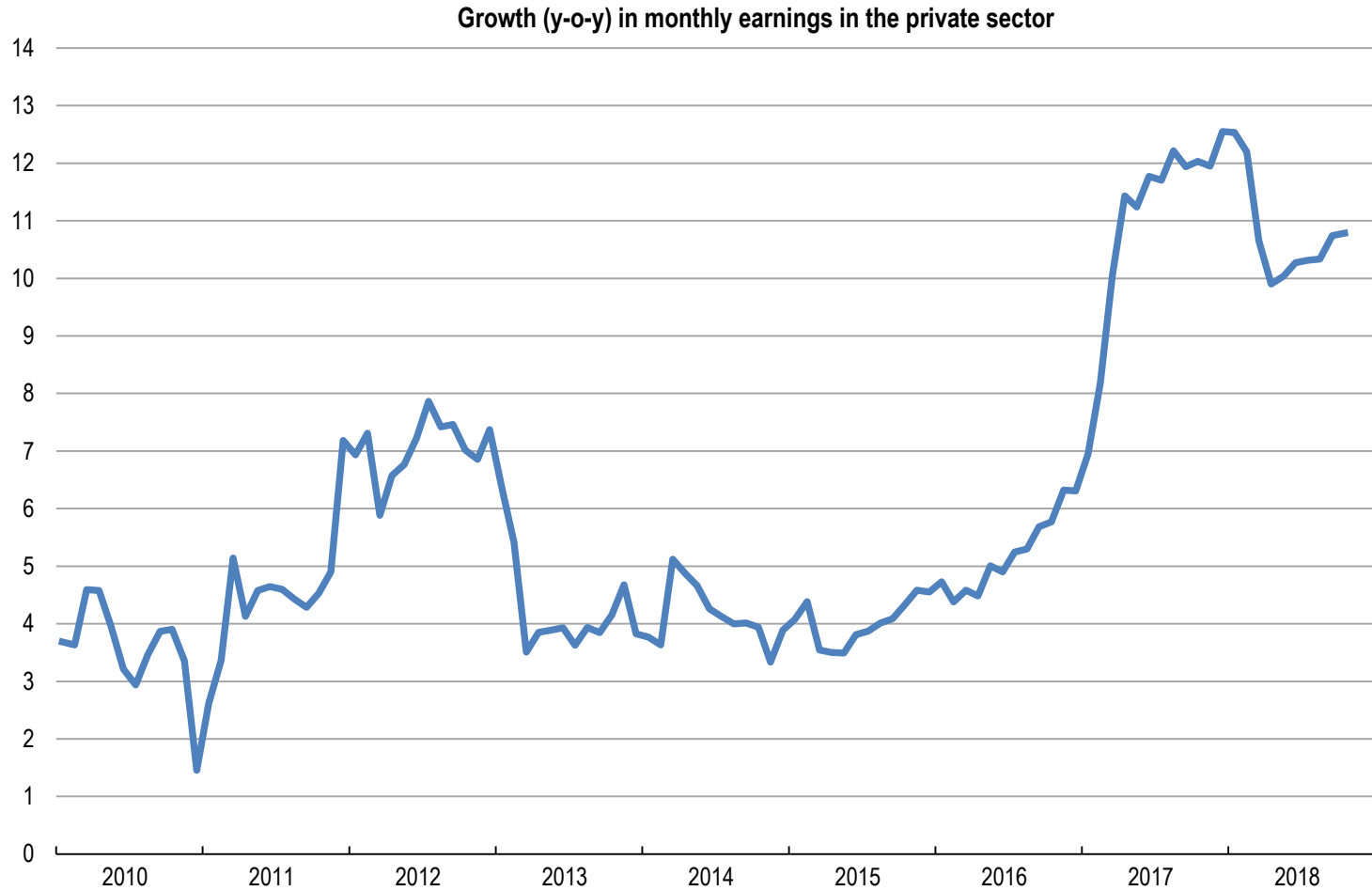


1. Each well-being dimension is measured by one to four indicators from the OECD Better Life Index set. Normalised indicators are averaged with equal weights.

Source: OECD (2017), *OECD Better Life Index*, www.oecdbetterlifeindex.org.

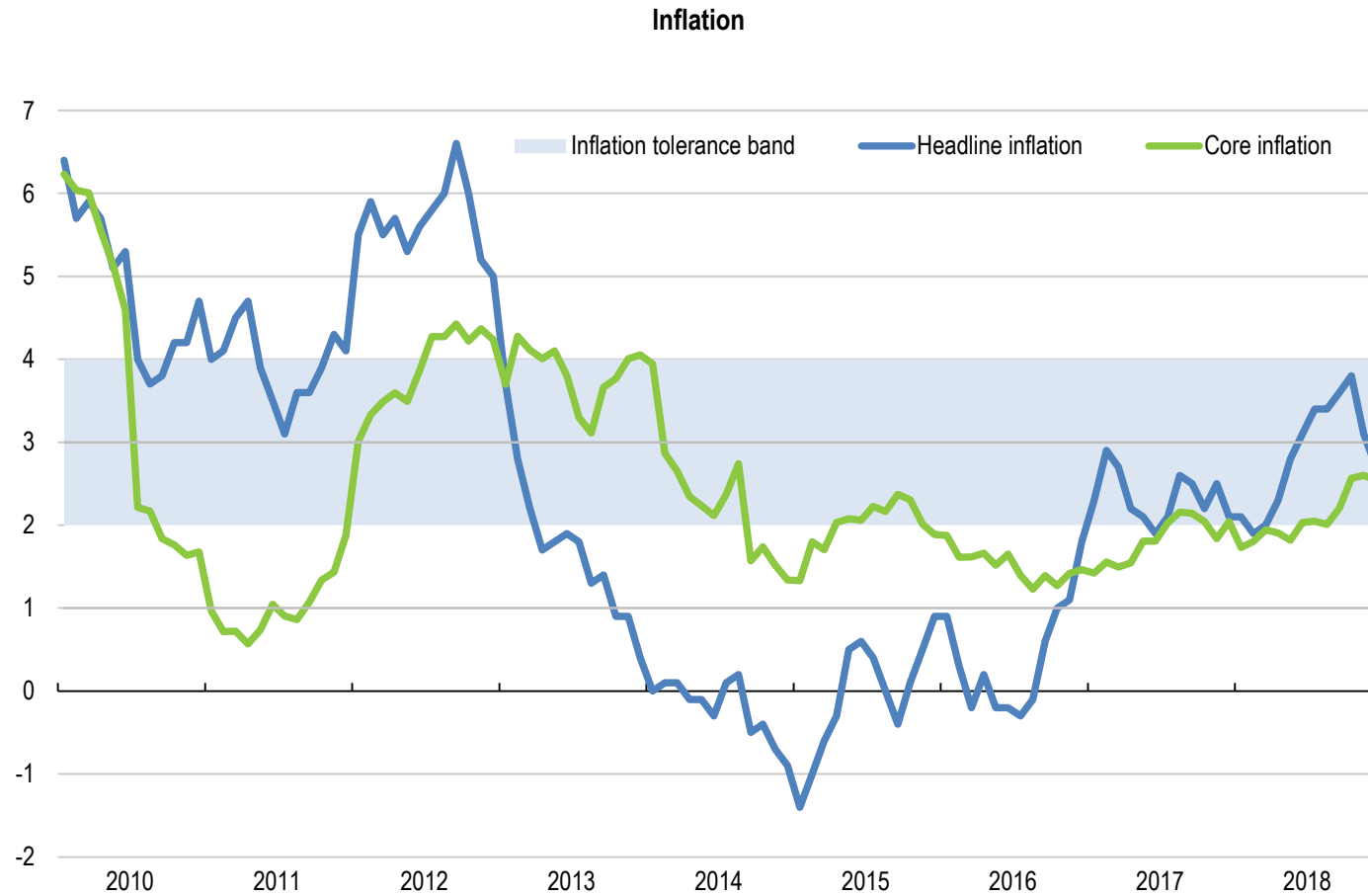


Wages are rising fast





Inflation is on the rise

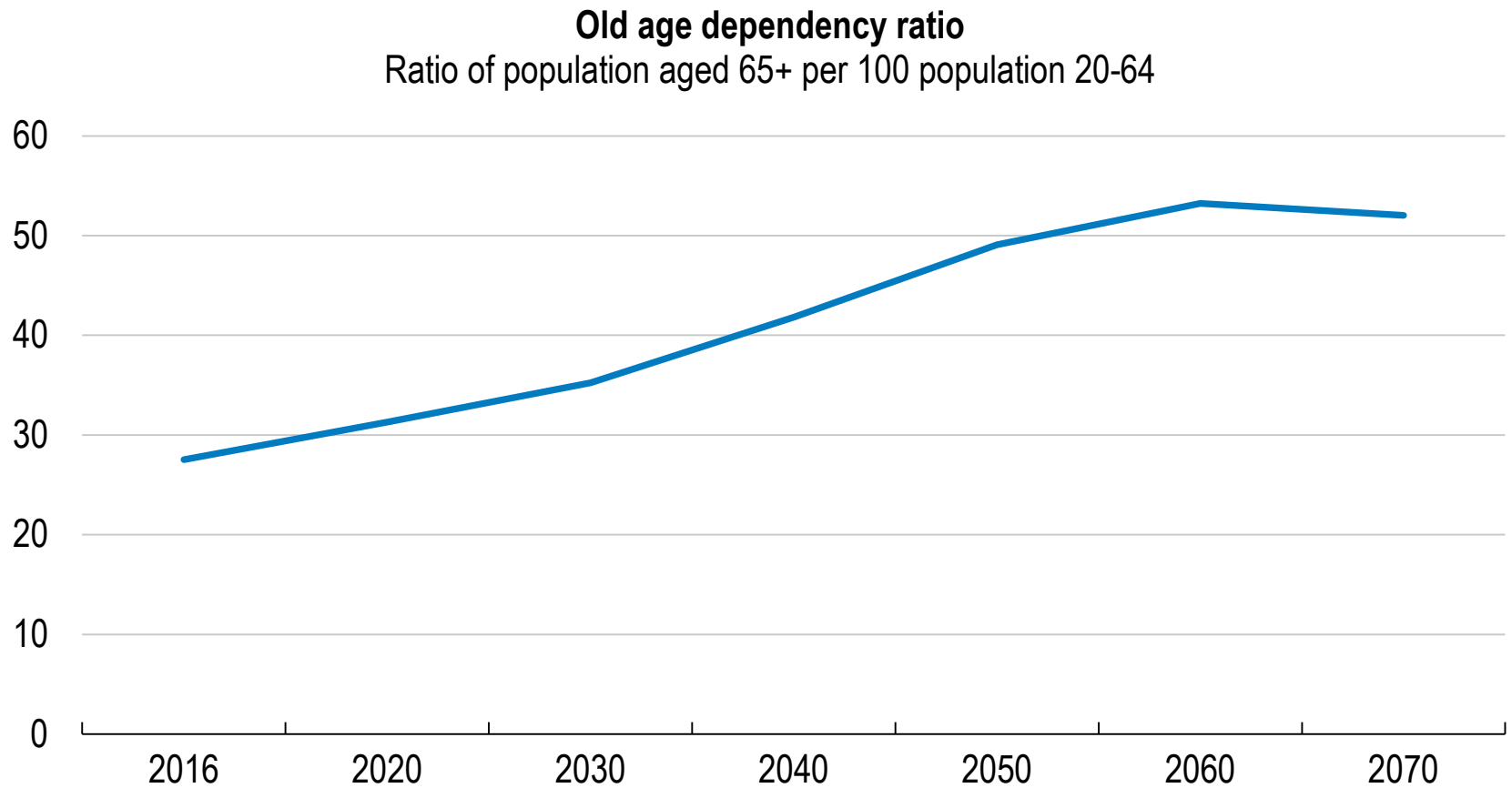


1. Core inflation excludes energy and food. Three-month moving average for monthly earnings in the private sector.

Source: OECD (2018), *OECD Main Economic Indicators* (database).



Ageing is becoming a challenge



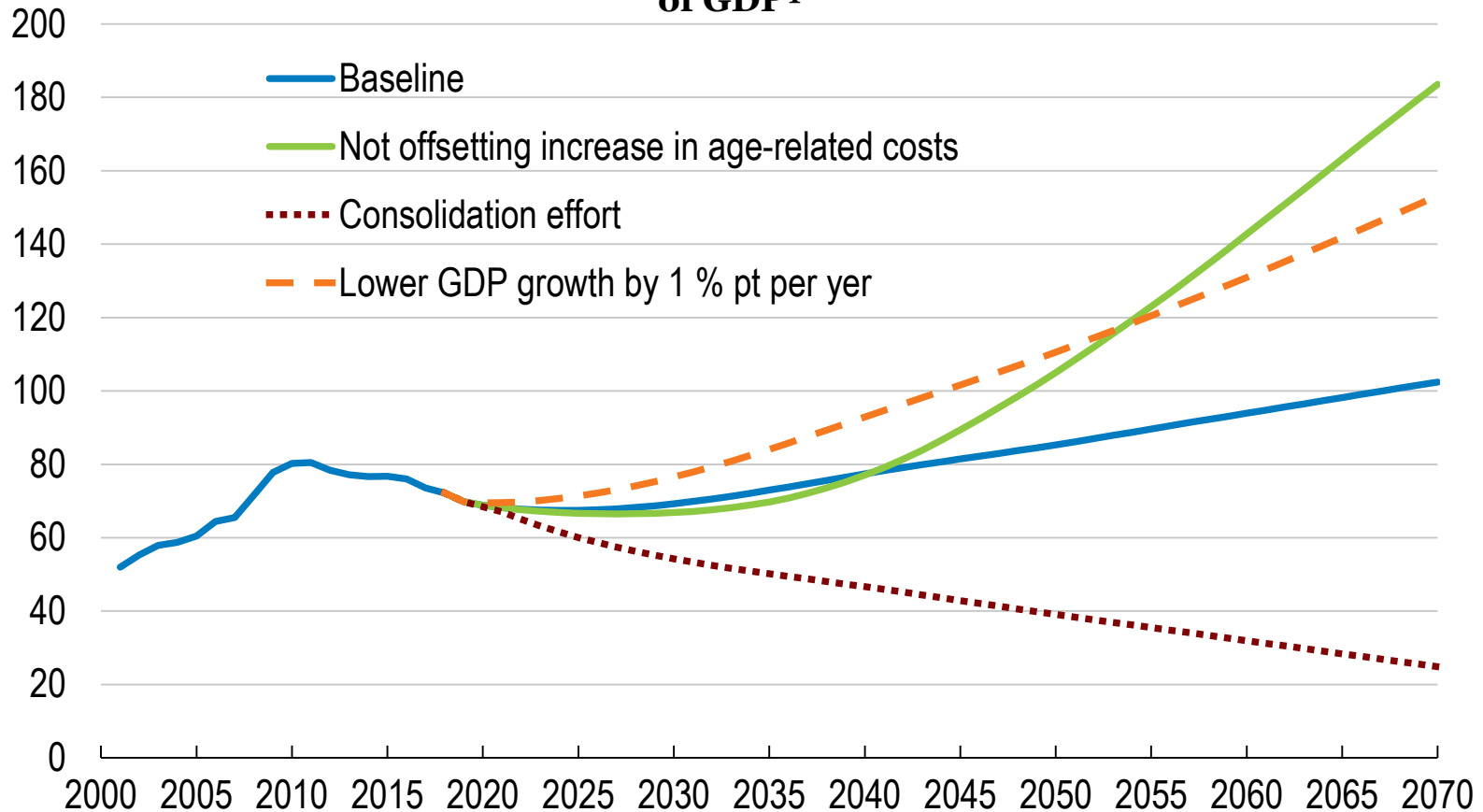
1. Data are based on the technical assumptions by the EU AWG, i.e. convergence towards the EU mean.

Source : European Commission (2018), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.



Ageing cost could impact on public debt

General government debt, Maastricht definition, as a percentage of GDP¹





Macro-policy recommendations

- Gradually increase policy interest rates
- Continue to exit from unconventional monetary policy measures
- Tighten fiscal policy to avoid overheating of the economy

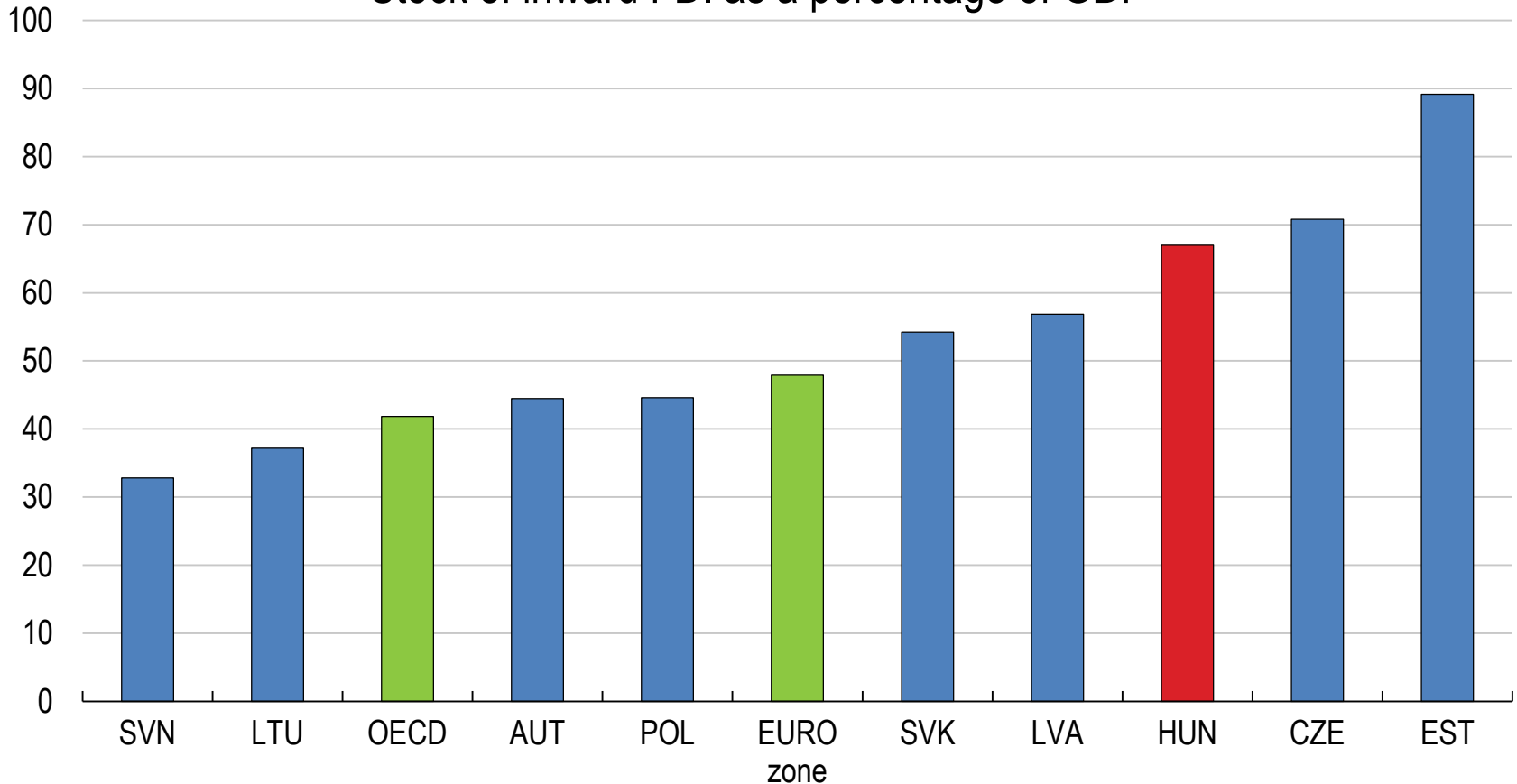


FOSTERING INCLUSIVE GROWTH



Hungary attracts foreign investment

Stock of inward FDI as a percentage of GDP

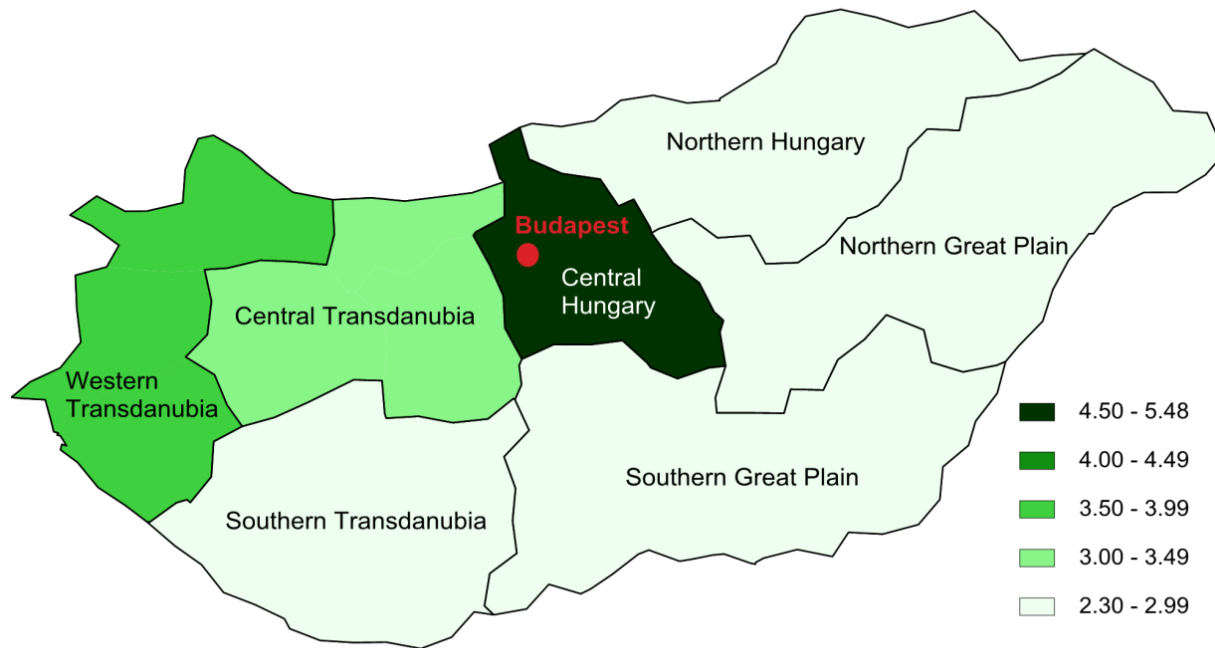


Source : UNCTAD (2018), *OECD Economic Outlook: Statistics and Projections* (database).



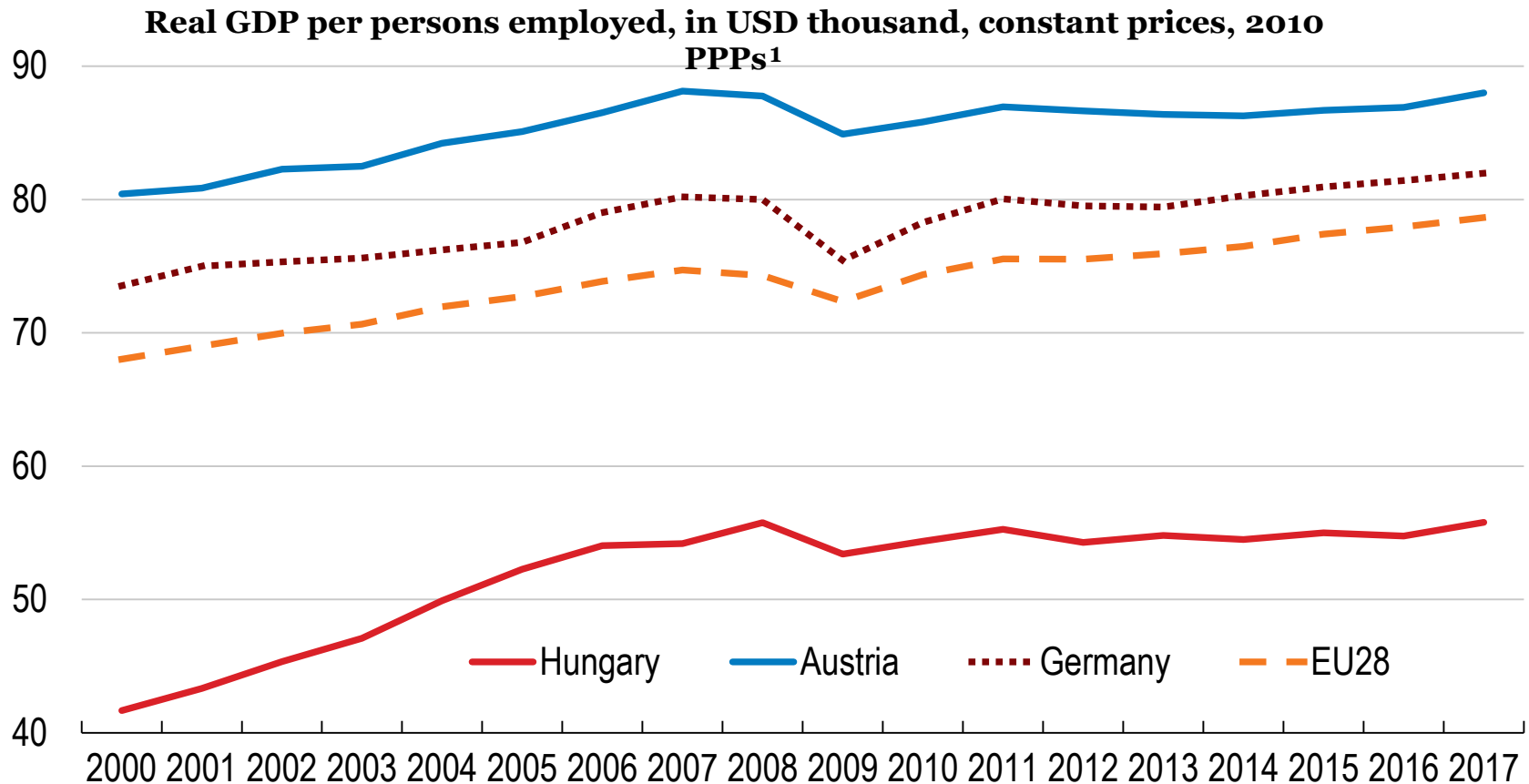
FDI is concentrated in the west

Gross domestic product per capita in HUF million, 2016





Overall productivity is low



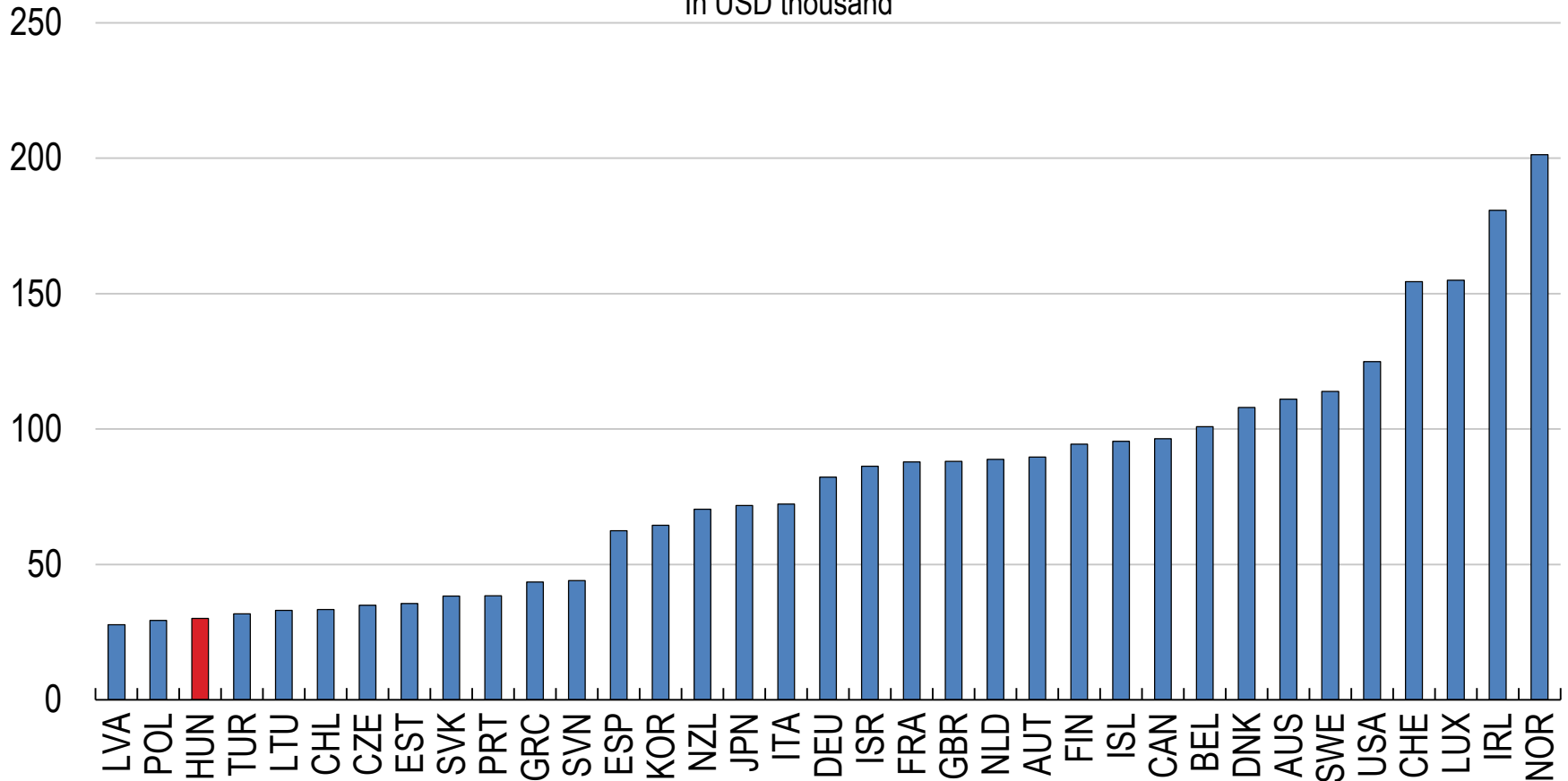
1. PPPs: purchasing power parities.

Source: OECD (2018), *OECD Productivity Database*.



Domestic producers could benefit more from foreign investment

Domestic value added embodied in foreign final demand per worker
In USD thousand

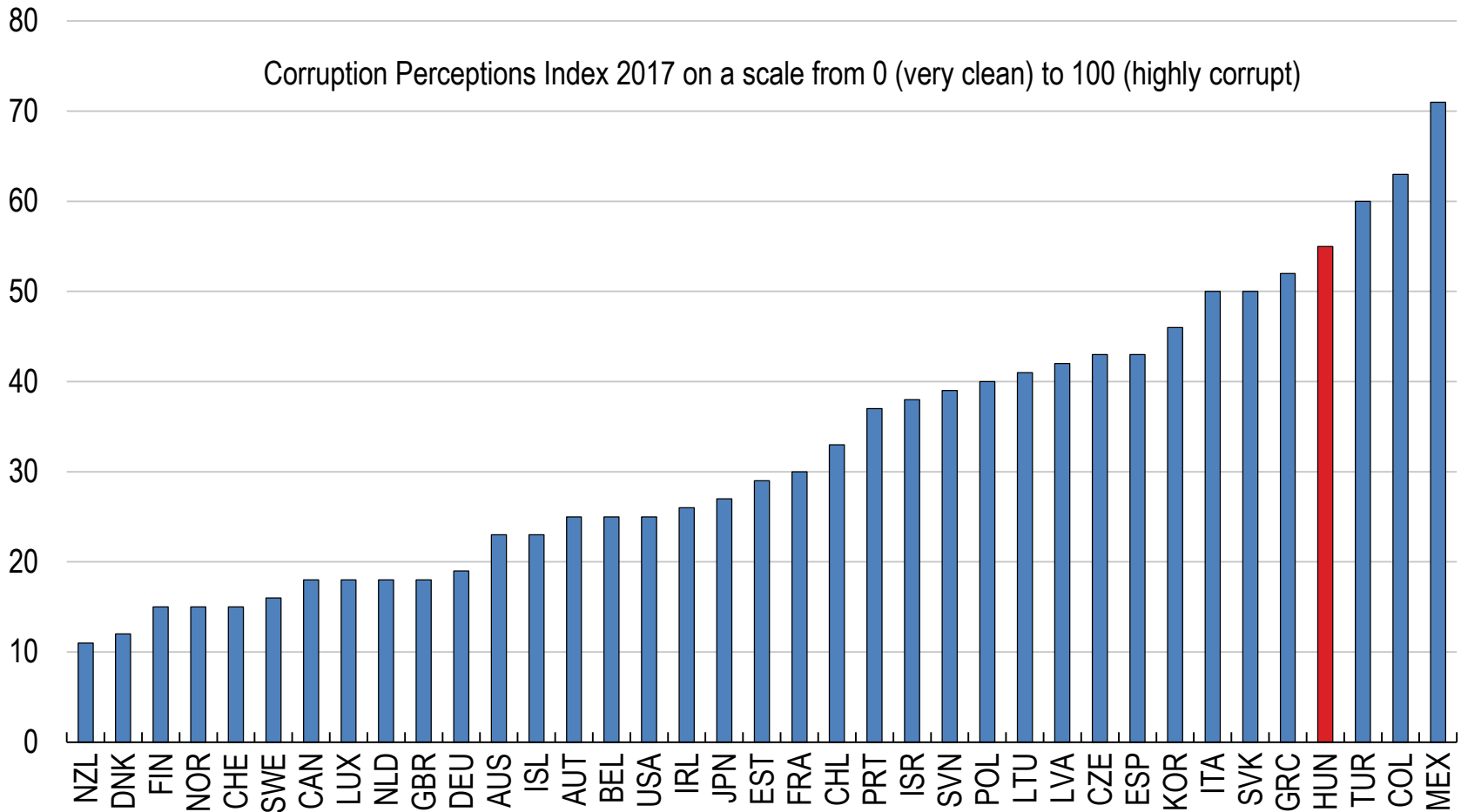


Note: Domestic value added embodied in foreign final demand per worker refers to domestic employment embodied in foreign final demand. Business activities also include real estate and rental services.

Source: OECD (2018), *OECD STAN* (database); and OECD (2018), *Trade in Value Added (TiVa)* (database), October.



Continuing to fight corruption is key



Source: Transparency International

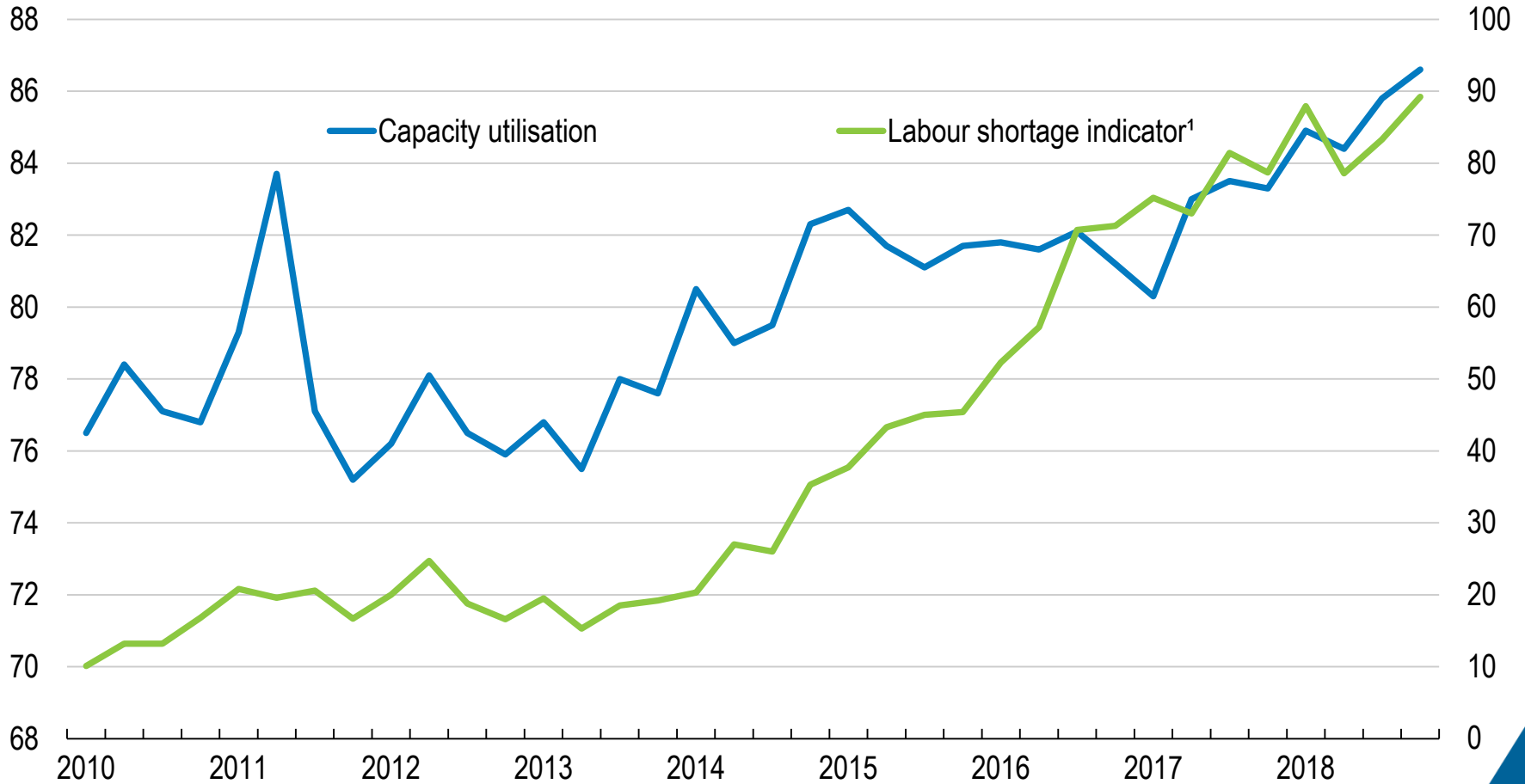


Recommendations to boost growth locally

- Allow local authorities to identify and execute projects that develop their local economy.
- Give vocational schools greater autonomy to specialise and adjust courses and curriculums to local labour market needs.
- Establish a dedicated anti-corruption agency



Labour market shortages are starting to bite

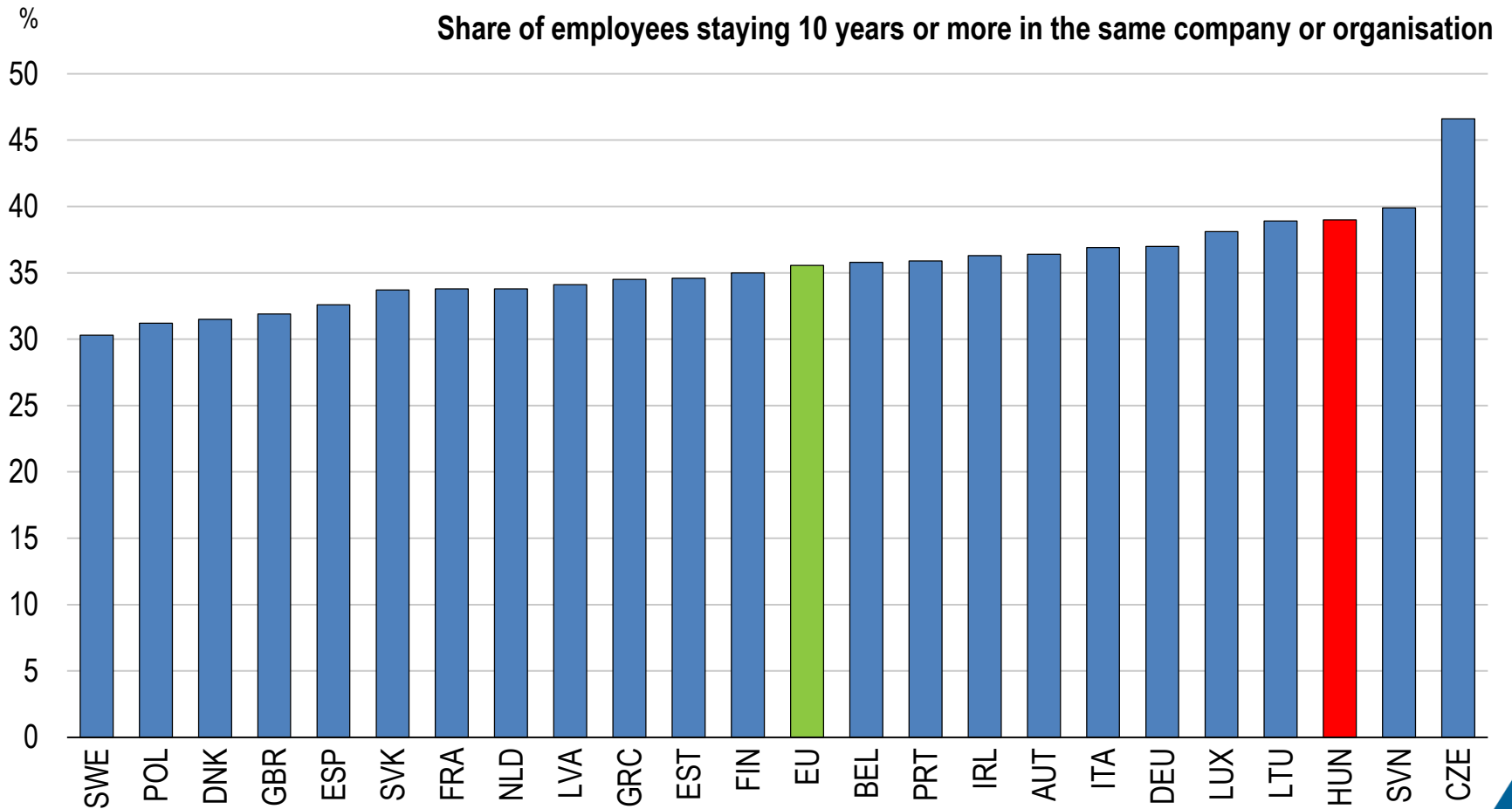


1. Percentage of manufacturing firms pointing to labour shortages as a factor limiting production.

Source: Eurostat Industry database.



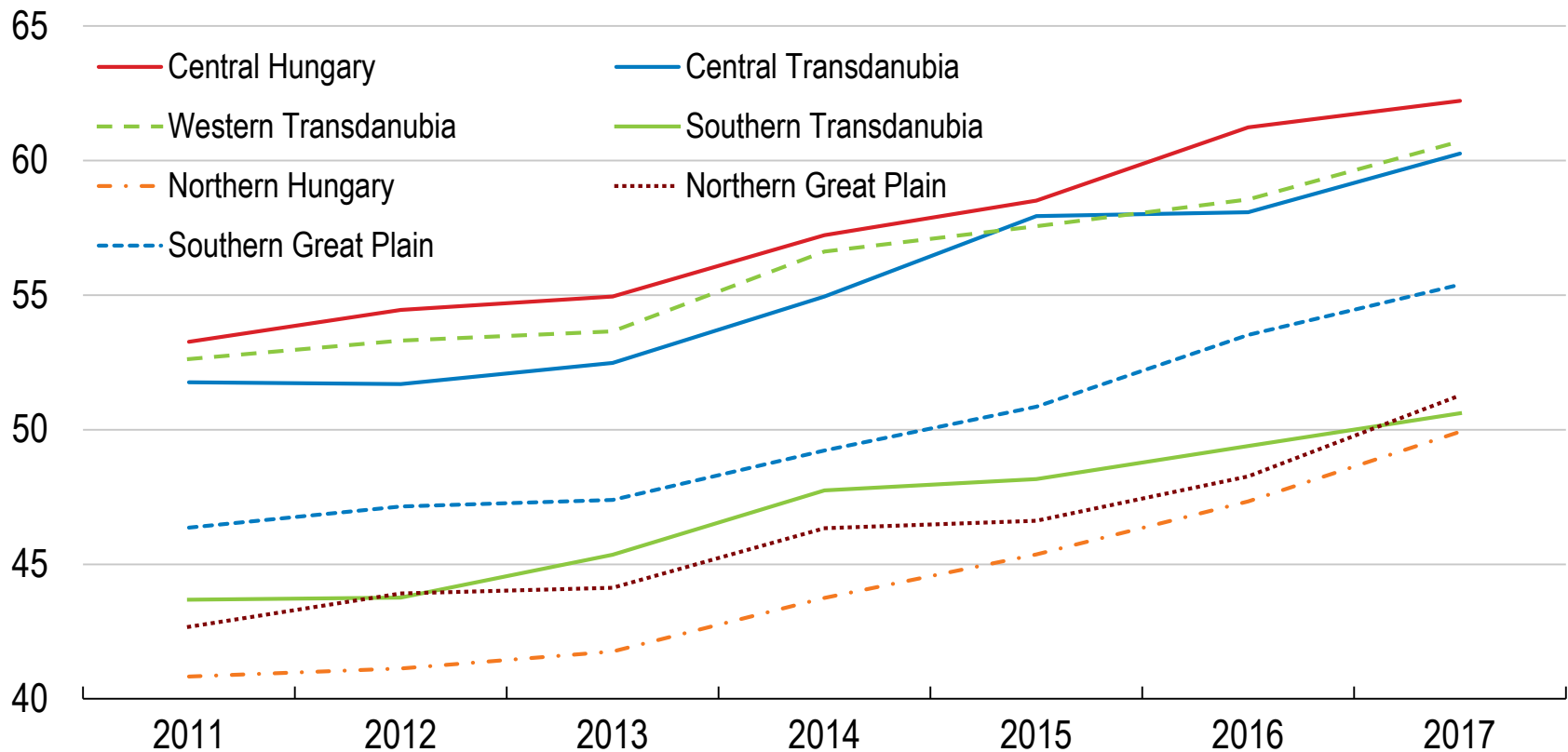
Labour mobility is low





Poorer regions have fewer jobs

Employed persons excluding participants in the Public Work Scheme as a percentage of the population¹

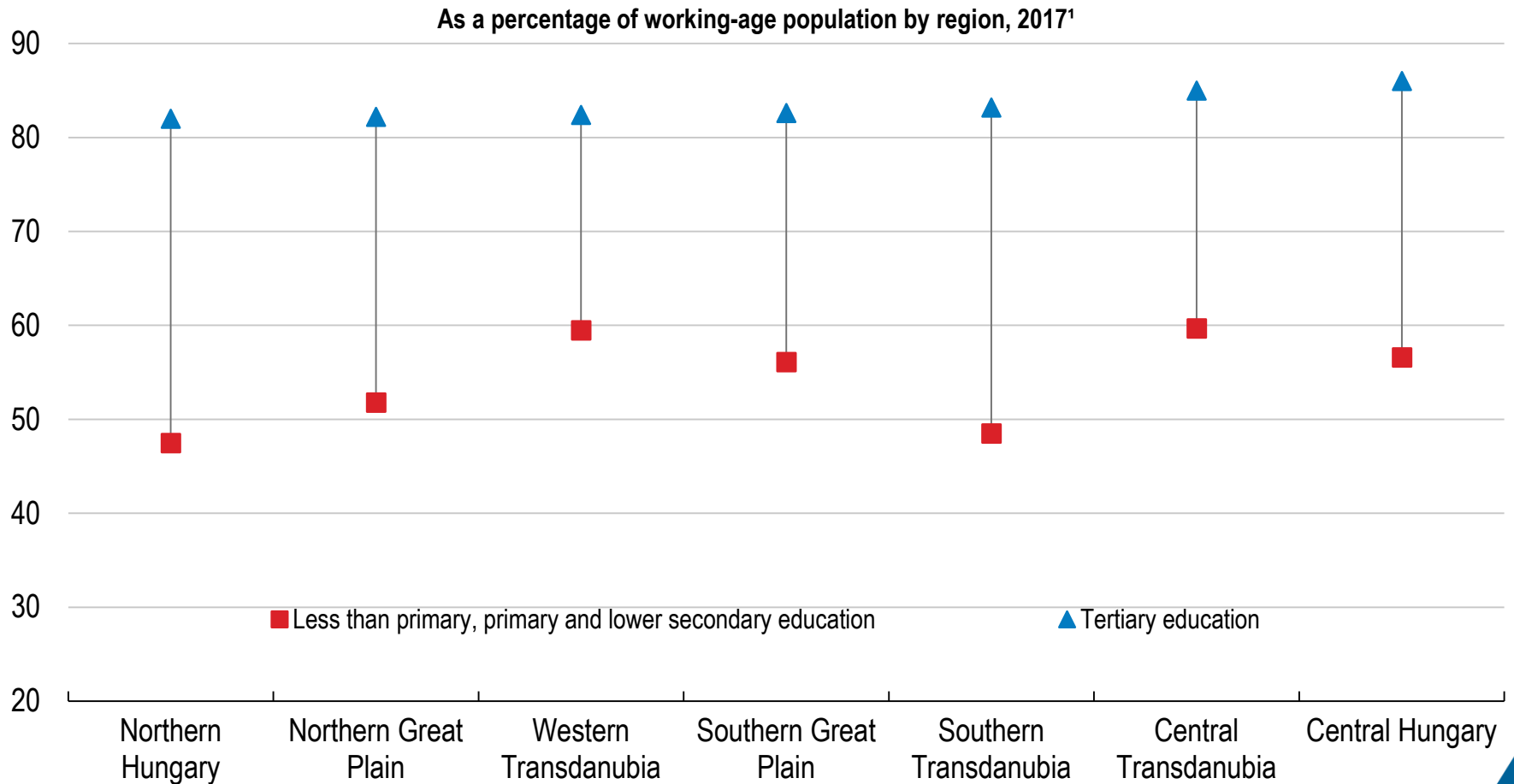


1. Data refer to the population aged 15 to 74.

Source: Adapted from Hungarian Central Statistical Office (2018), "6.2.1.1. Economic activity of population aged 15–74" and "6.2.1.3. Number of employed persons", *Tables (STADAT)*; and Ministry of Interior.



Higher-skilled workers have more jobs



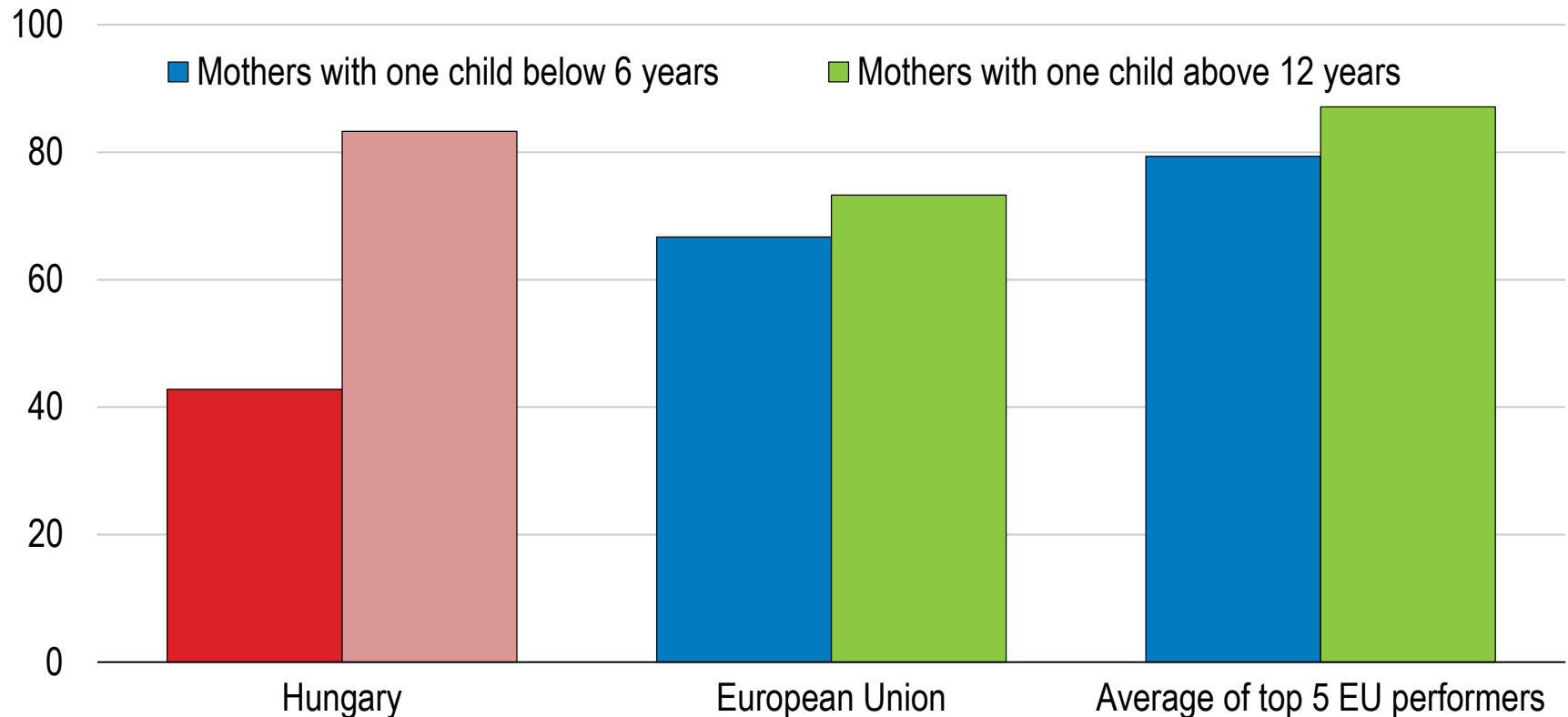
1: Regions are ranked in descending order by the employment rates of the population aged 20-64 with tertiary education. Working-age population refers to those aged 20-64.

Source: Eurostat (2018), "Regional employment", *Eurostat Database*.



Many mothers with young children are out of the labour market

As a percentage of working-age female population, 2017¹



1. Data refer to population aged 15-64.

Source: Eurostat (2018), "Gender equality", *Eurostat Database*.



Recommendations to address labour market challenges:

- Continue to reduce public work schemes
- Enrol participants and other job seekers in training programmes that leads to jobs
- Extend duration of unemployment benefits
- Provide geographical mobility support and activation measures
- Better work-life balance for mothers:
 - Expand the supply of crèches
 - Reduce parental leave and expand paternity leave

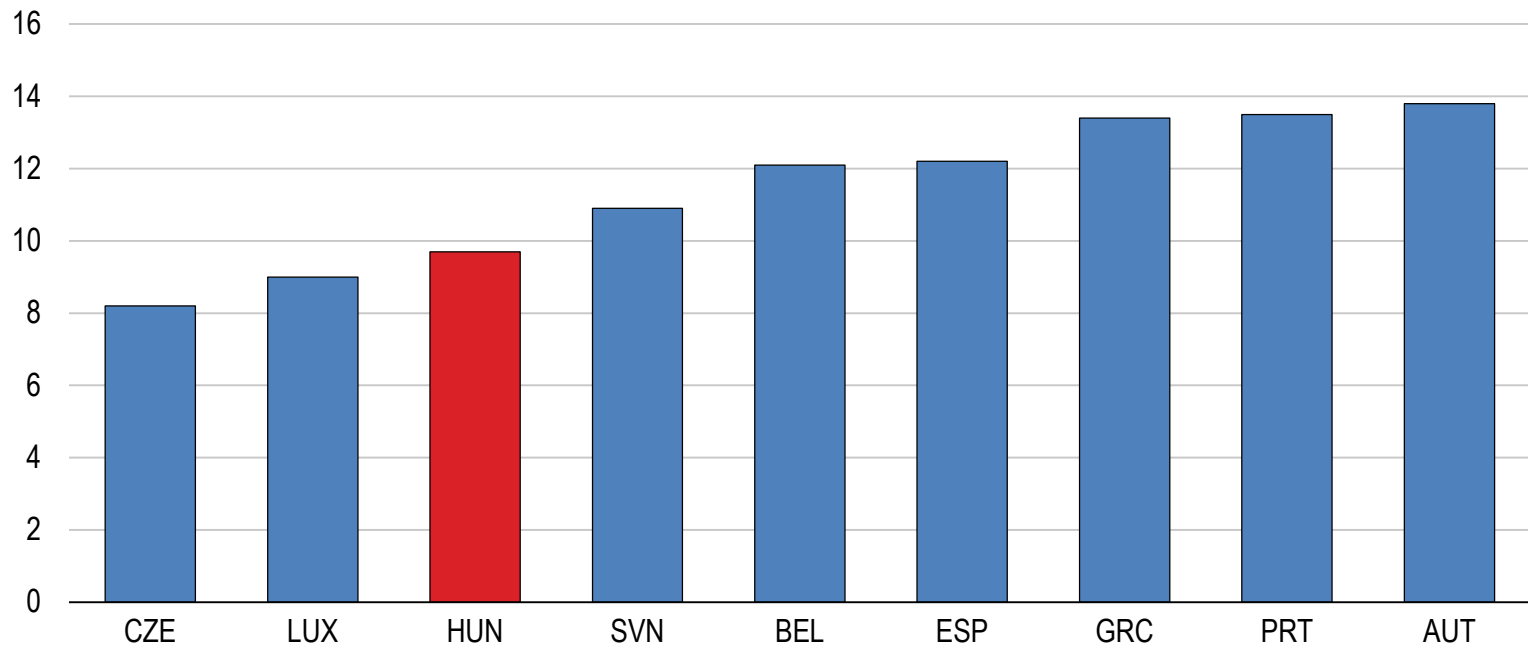


CHALLENGES OF AGEING:



Public spending on pensions is relatively low

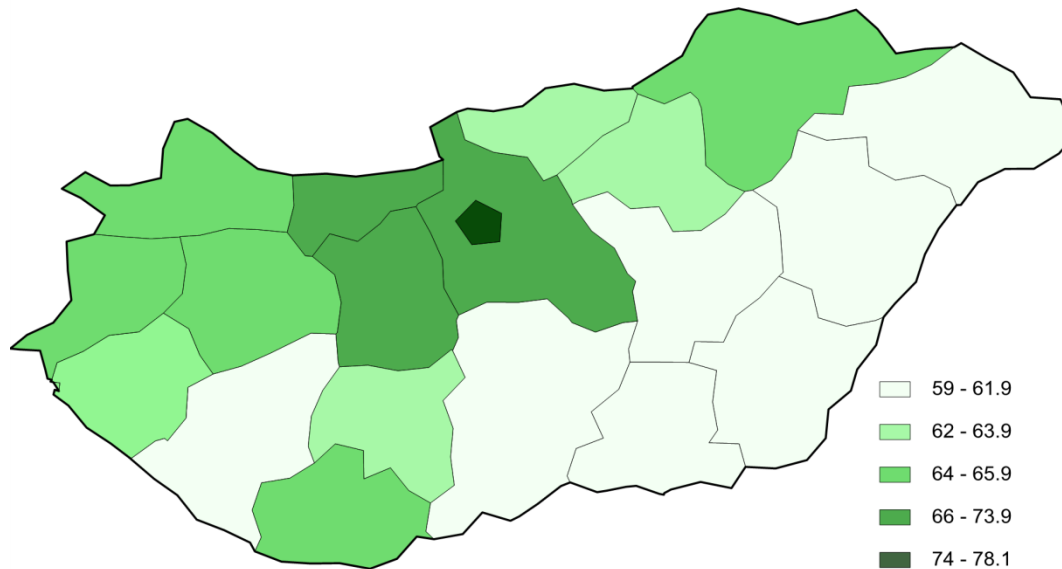
A. As a percentage GDP





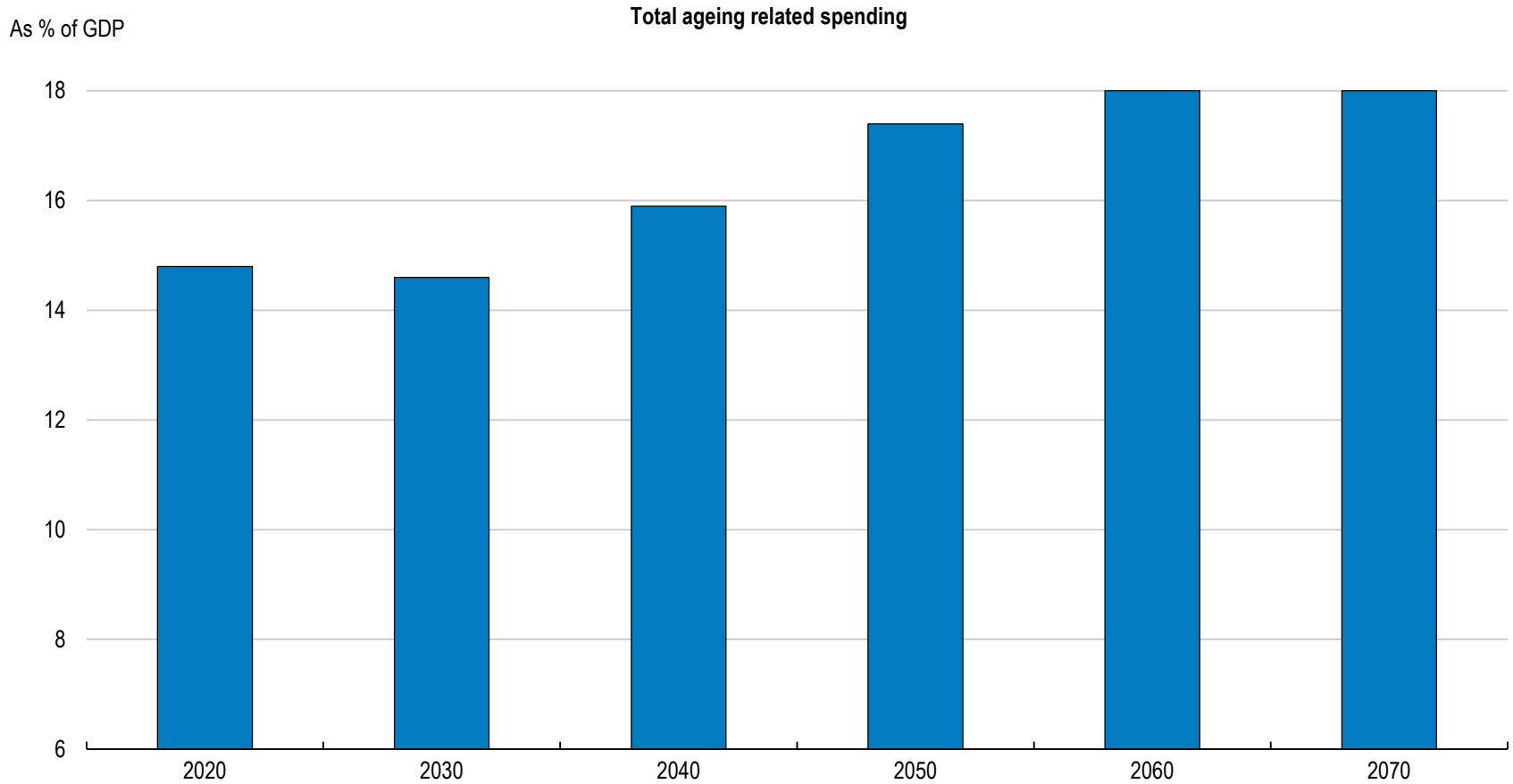
Poor pensioners are found in poor regions

Average of full pension provision by county, as a percentage of net monthly earnings, January 2018





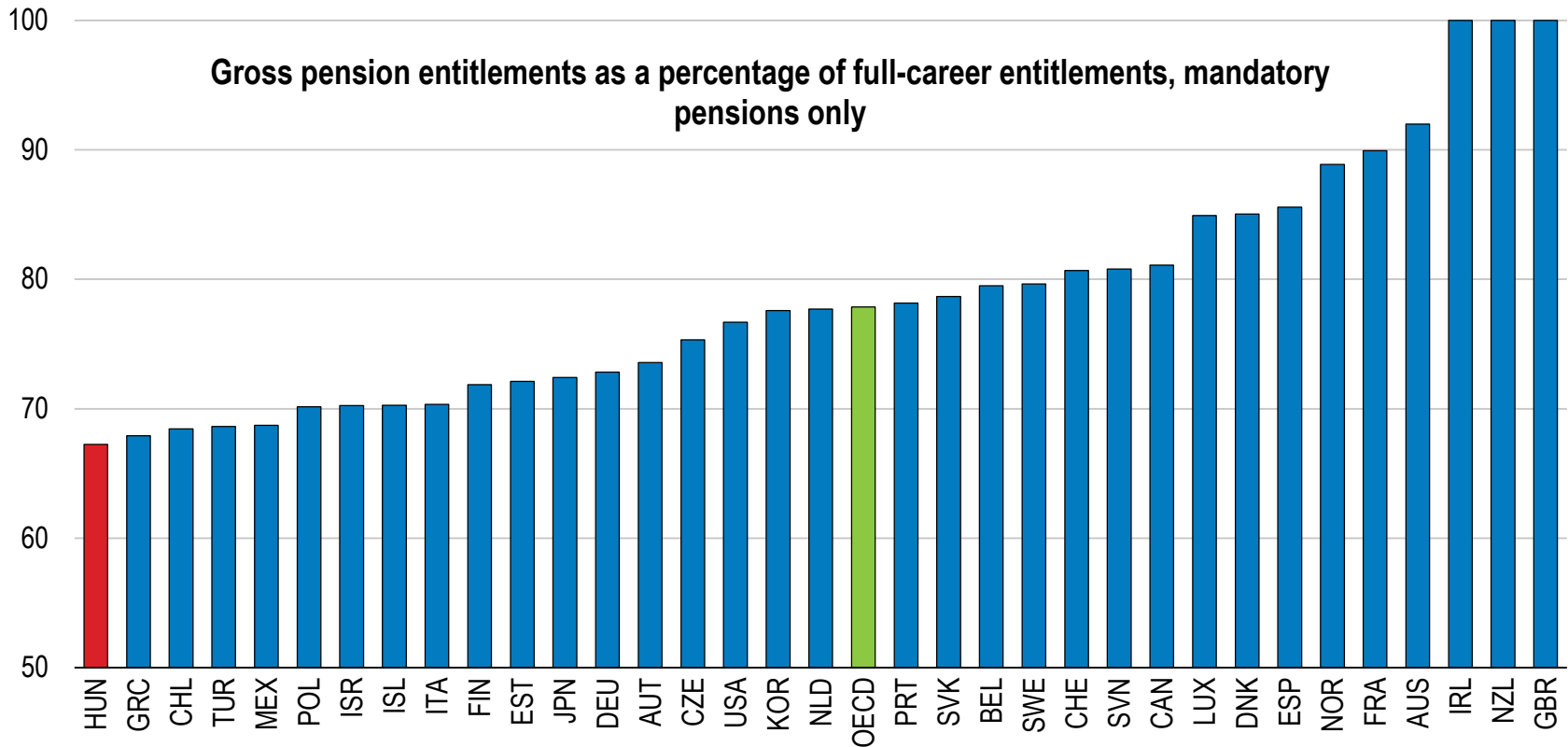
Ageing-costs will increase



Source : European Commission (2018), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.



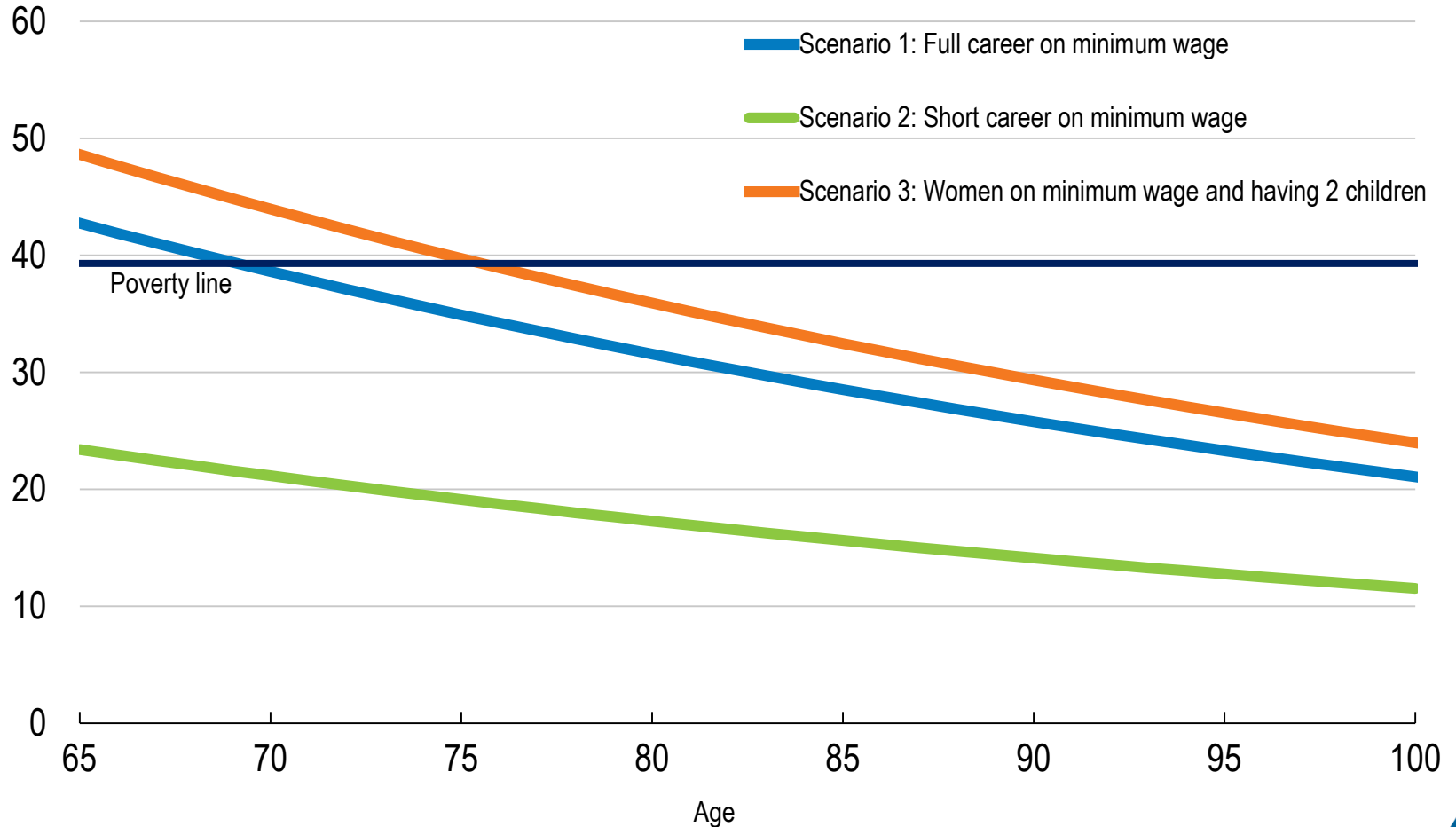
People that interrupt their careers have low pensions





Low-income retirees slide into poverty

% of average monthly net salary



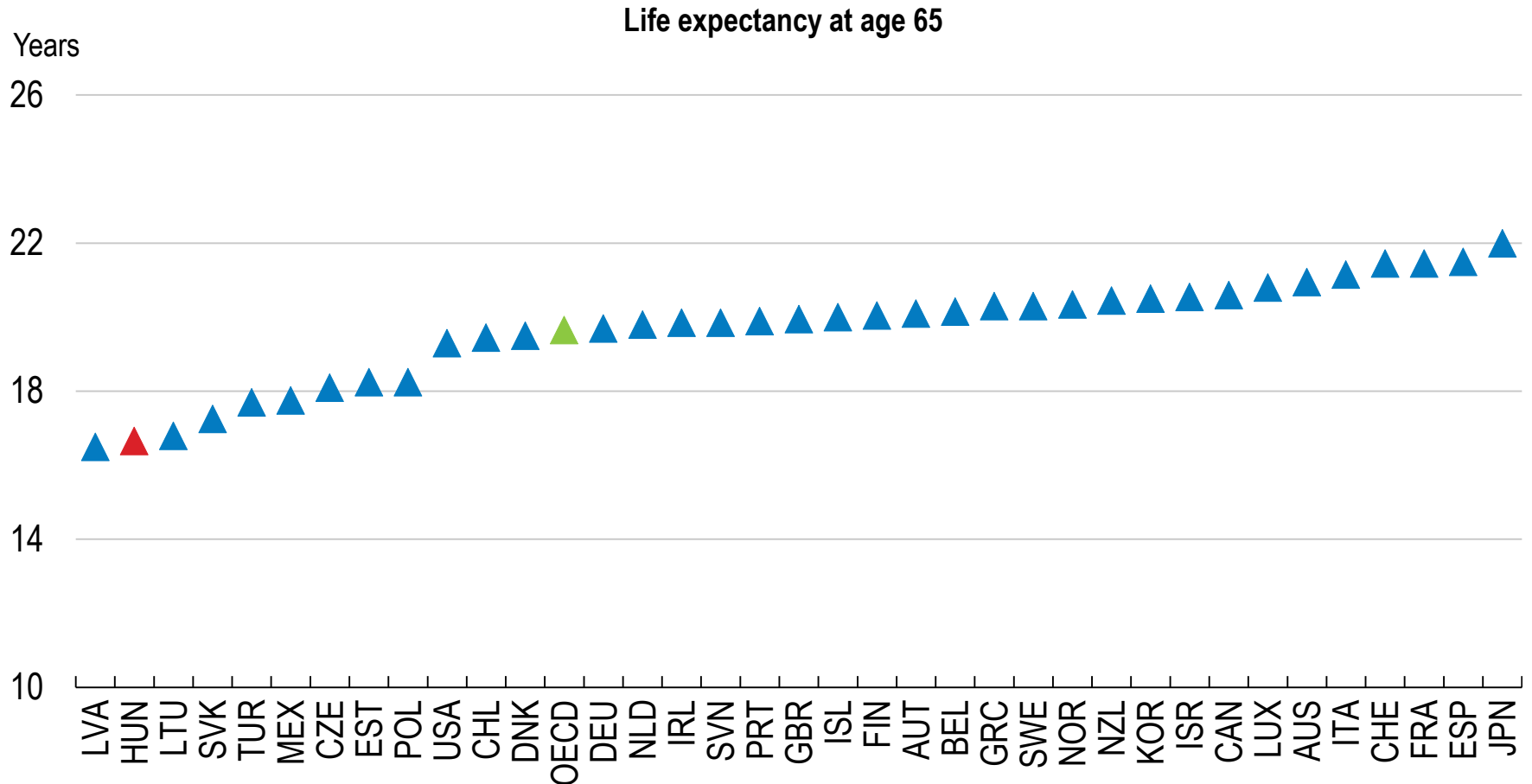


Pension recommendations

- Raise the statutory retirement age to 65 by 2022. Then link to gains in life expectancy.
- Introduce a basic state pension for all pensioners.
- Other measures include:
 - Introduce constant accrual rates
 - Remove all possibilities for early retirement
 - Secure similar pensions for similar careers



Life expectancy is low

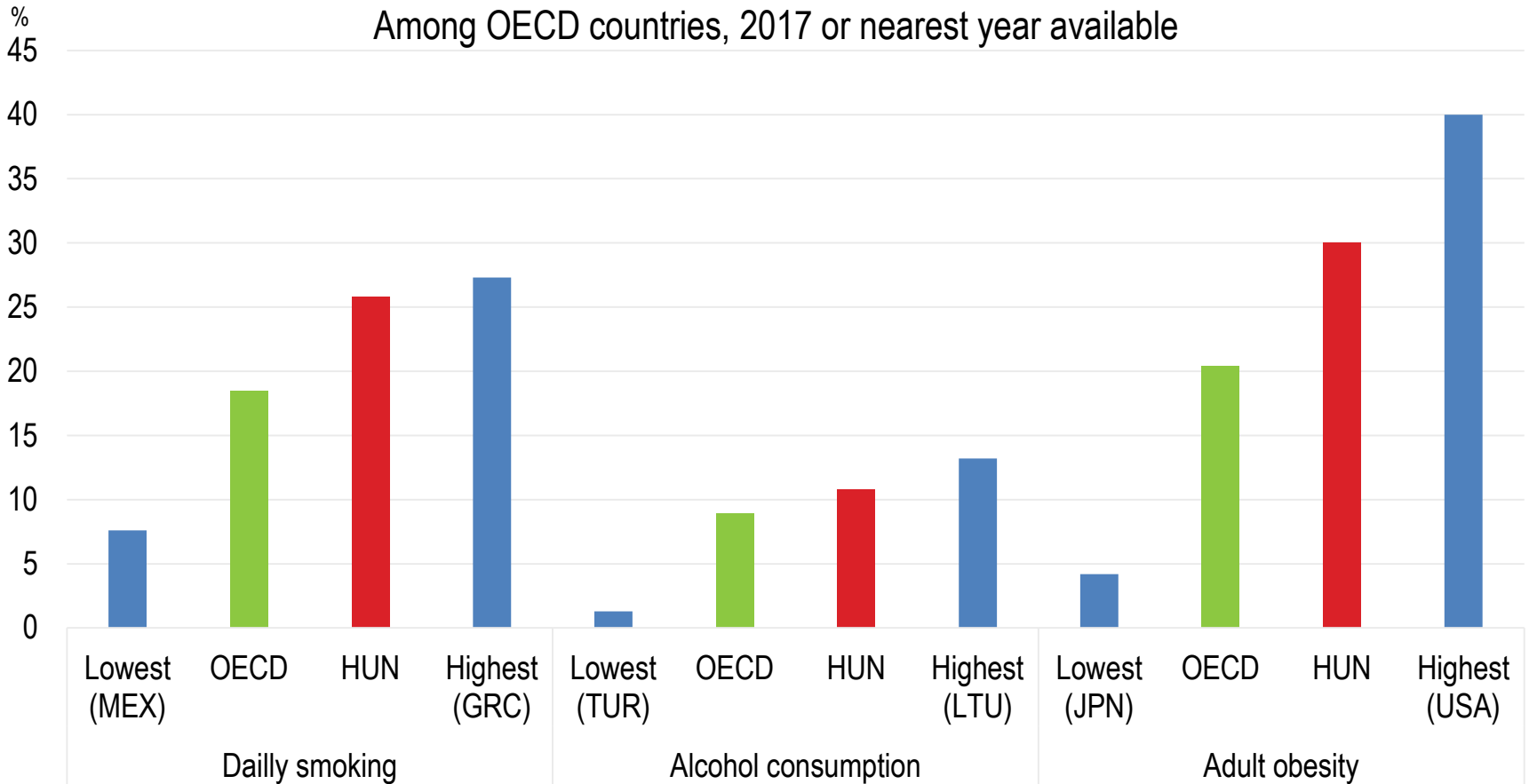


Note: The OECD aggregate is calculated as an unweighted average of the data shown. Life expectancy at age 65 is calculated as the unweighted average of the life expectancy at age 65 of women and men.

Source : OECD (2018), "Health Status", *OECD Health Statistics* (database).



Lifestyles impact negatively on health

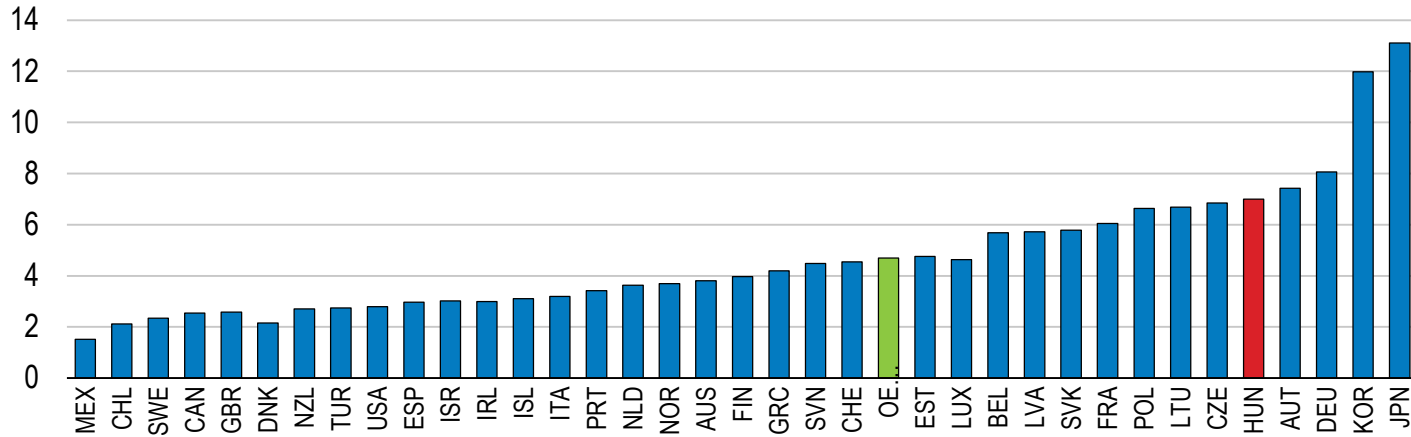




Health care is highly hospital-centered

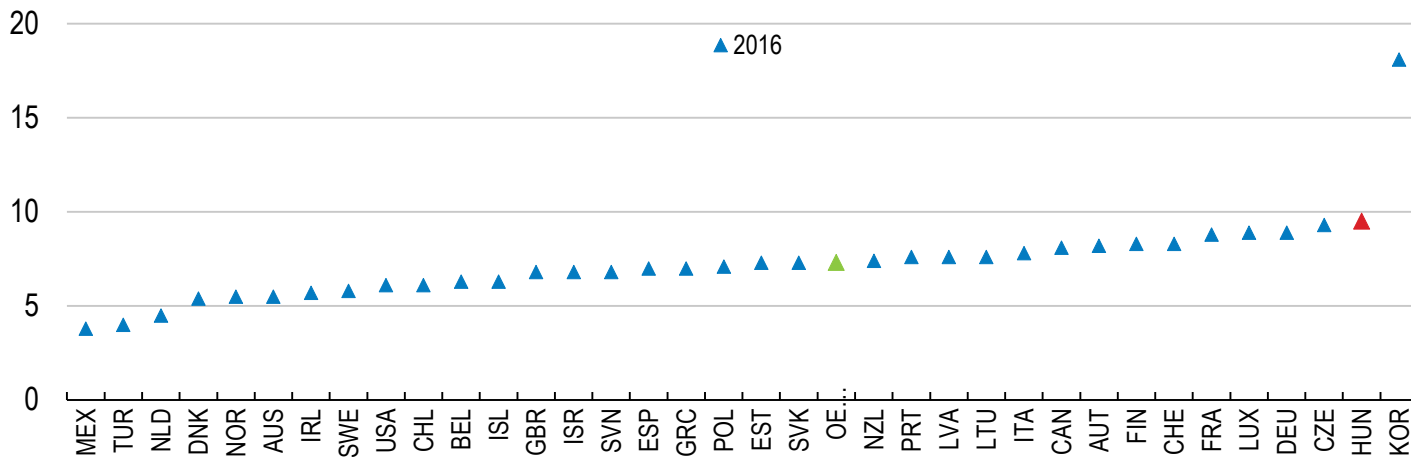
A. Hospital beds

Per 1 000 population, 2017 or nearest year available²



B. Average length of stay in hospital

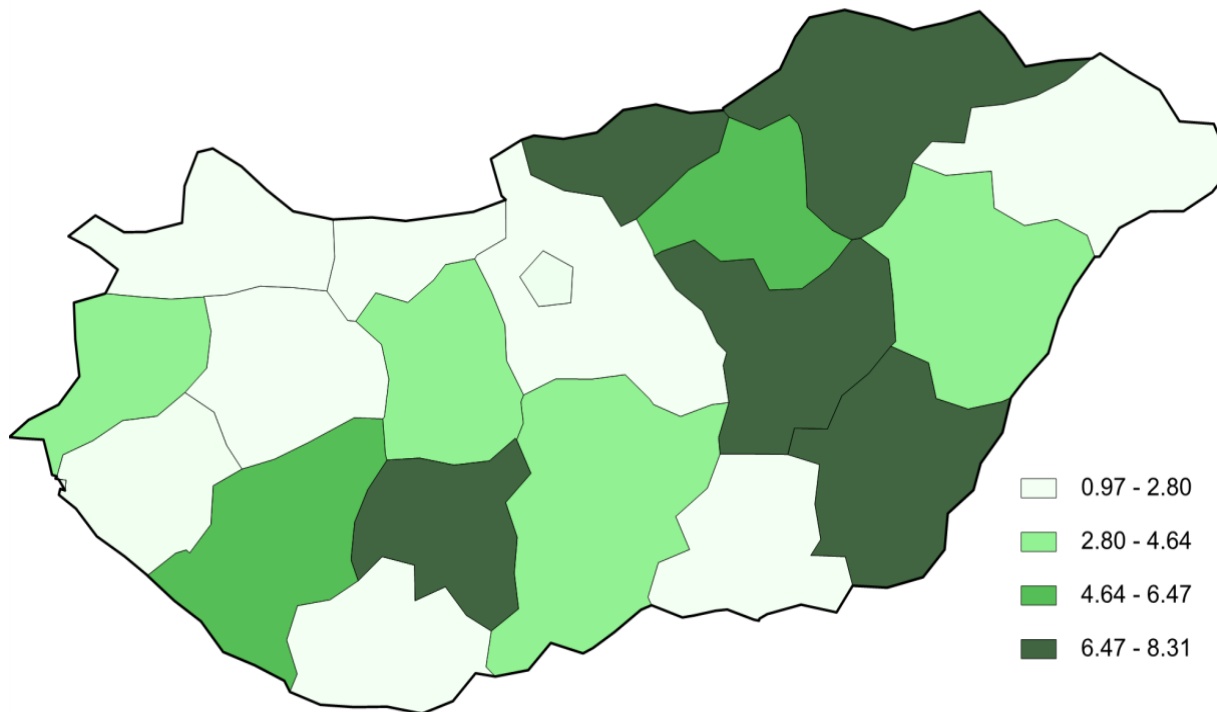
In days³





The shortages of health workers is especially severe in poor rural areas

Unfilled GP practices/100 000 people

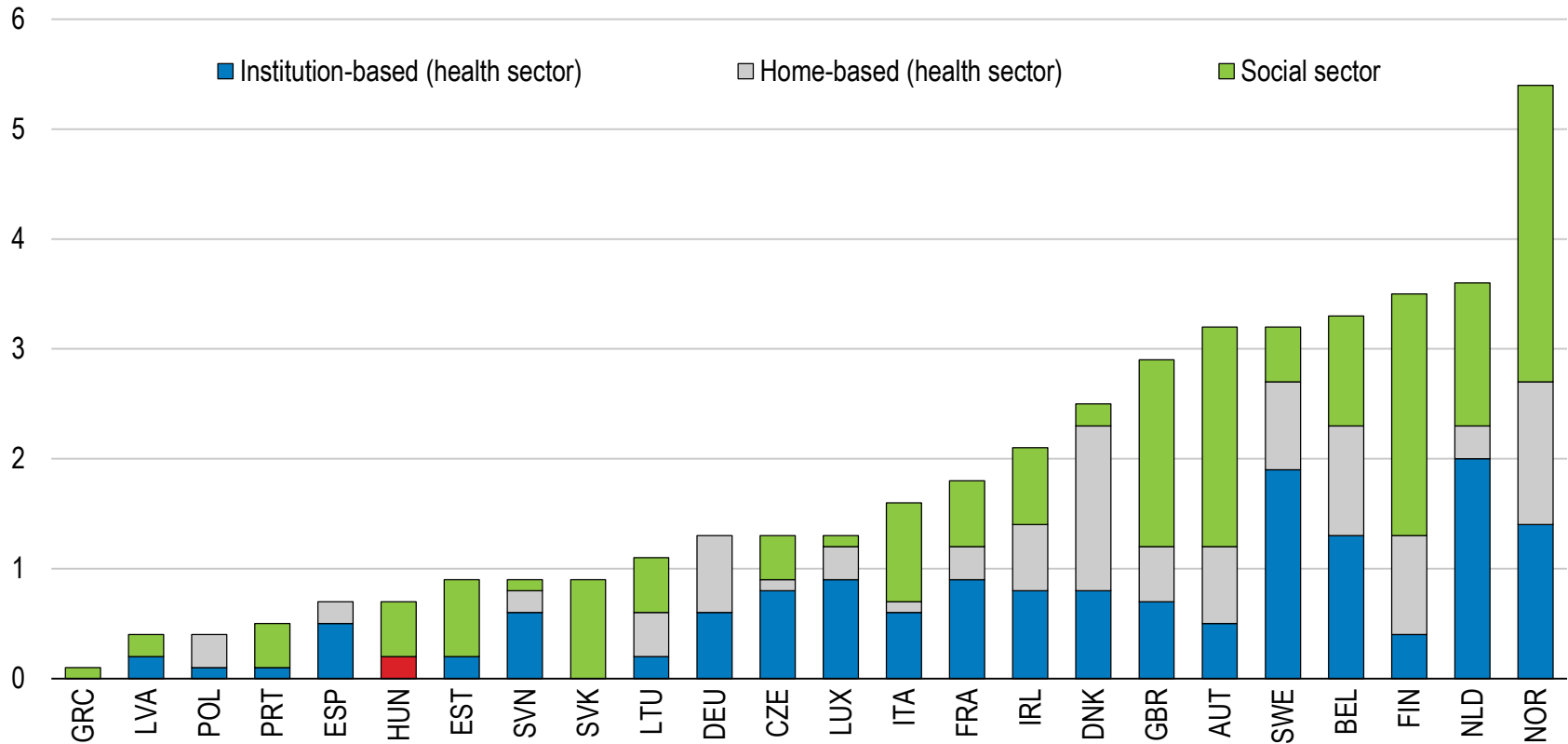




Long-term care is under developed

A. Public expenditure on LTC by type of service

As a percentage of GDP, 2015 or latest available



Source: European Commission (2018), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.



Health recommendations

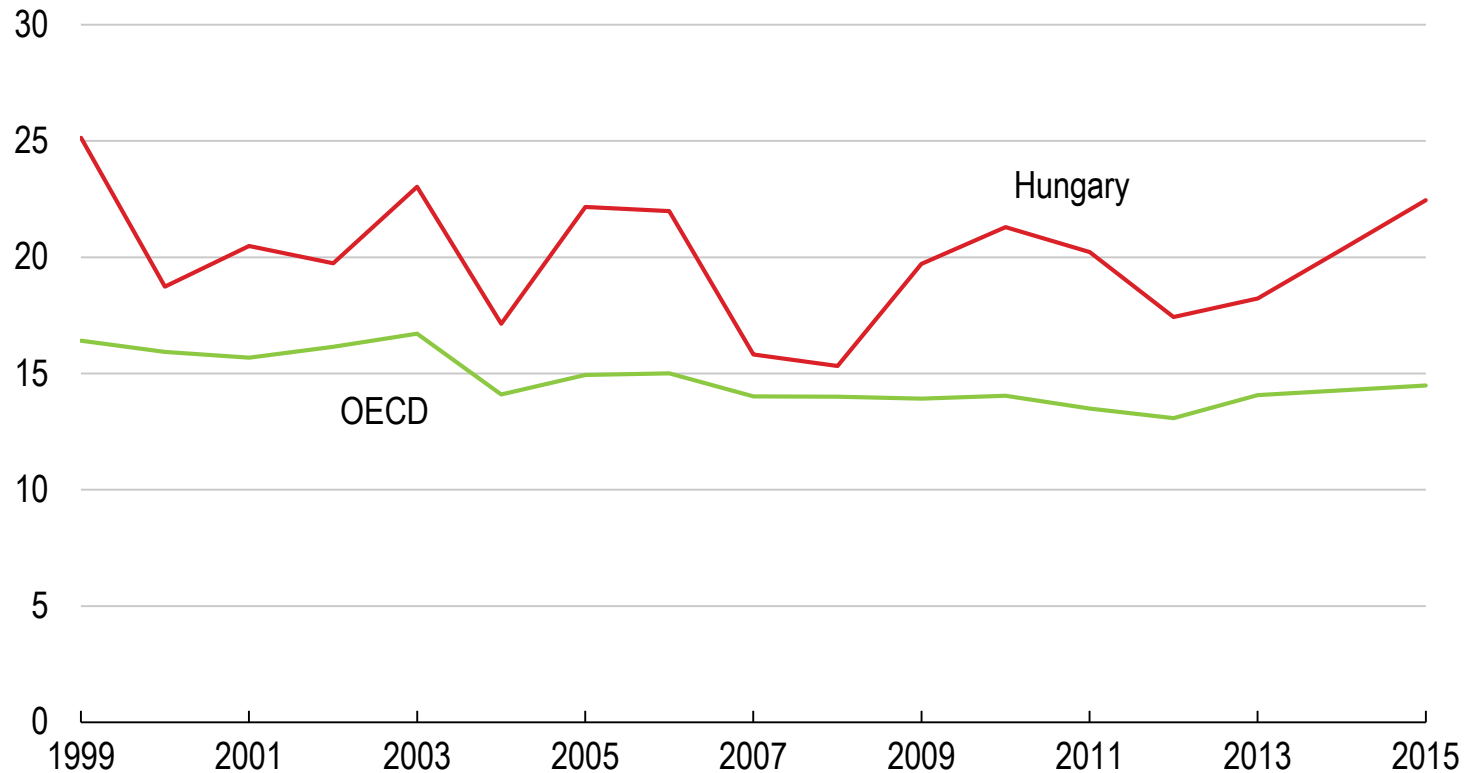
- Reduce hospital stays by:
 - enhance outpatient care
 - concentrate inpatient care in fewer, better equipped and more specialised hospitals.
- Increase hospitals' autonomy and update the DRG tariffs to adjust supply in line with demand changes
- Strengthen GPs' gatekeeper and coordinator roles by increasing pay-for-performance financing
- Further promote group practices for GPs
- Integrate the various long-term care systems.
- Use cash benefits and vouchers to improve access to home and institution-based long-term care



Environmental outcomes can be improved, particularly particles emissions

Particles emissions

Mean annual concentration
of PM2.5 ($\mu\text{g}/\text{m}^3$)



Source : OECD (2018), *Green Growth Indicators* (database).



Greening growth recommendations

- Use road tolls and car taxes that include vehicles' environmental performance
- Introduce congestion charges and strengthen public transport
- Use fiscal incentives to replace inefficient and high-emission heating systems



For more information



<http://www.oecd.org/eco/surveys/economic-survey-hungary.htm>

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