

## HUNGARY

### Priorities supported by indicators

#### **Reduce the tax wedge on labour income (2007, 2009, 2011)**

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

**Actions taken:** In 2009-10, personal income taxes and employer social contributions were cut by around 6.5 percentage points. In 2011, a shift to a flat-rate personal income tax and new tax reliefs for families with children further lowered the tax wedge. In 2012, despite the narrowing of the tax base below the average wage, the tax wedge on low-income workers will rise due to increased social security contributions and the removal of the employment tax credit.

#### **Reduce disincentives to continued work at older ages (2007, 2009, 2011)**

**Recommendations:** Tighten eligibility for disability benefits, increase the statutory retirement age and phase out access to early retirement programmes.

**Actions taken:** The unwelcome dissolution of the second pillar of the pension system in 2011 incidentally diminished expected replacement rates, and the statutory retirement age will increase from 62 to 65 years by 2022. From 2012, new and existing retirement benefits of special pension regimes will be reduced by the amount of the income tax (up to the statutory retirement age), but eligibility conditions for all early retirement options will be left unchanged.

#### **Ease business regulations (2009, 2011)**

**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 and price deregulation have been introduced in the energy sector in two steps in 2007 and 2009.

### Other key priorities

#### **Make the education system more efficient and equitable (2007, 2009, 2011)**

**Recommendations:** Postpone early tracking of students and reform teachers' lifelong training to enhance the performance of secondary education. Make vocational training better attuned to labour market needs, and introduce university student fees backed by greater availability of income-contingent loans.

**Actions taken:** A 2008 referendum abolished tuition fees for tertiary education.

#### **Increase public sector efficiency (2007, 2009, 2011)**

**Recommendations:** Ensure cost-efficient delivery of services. Provide more effective incentives for municipalities to exploit economies of scale. Facilitate the monitoring and evaluation of the public sector.

**Actions taken:** Efficiency was enhanced with a reduction in public employment in 2004-08, but this has been partly offset by public works programmes since then. The creation of one-stop shop government agencies at a local level is under way and preparations for hospital and school rationalisation have also started in 2011.

#### **Reduce shadow-economy activity (2007)**

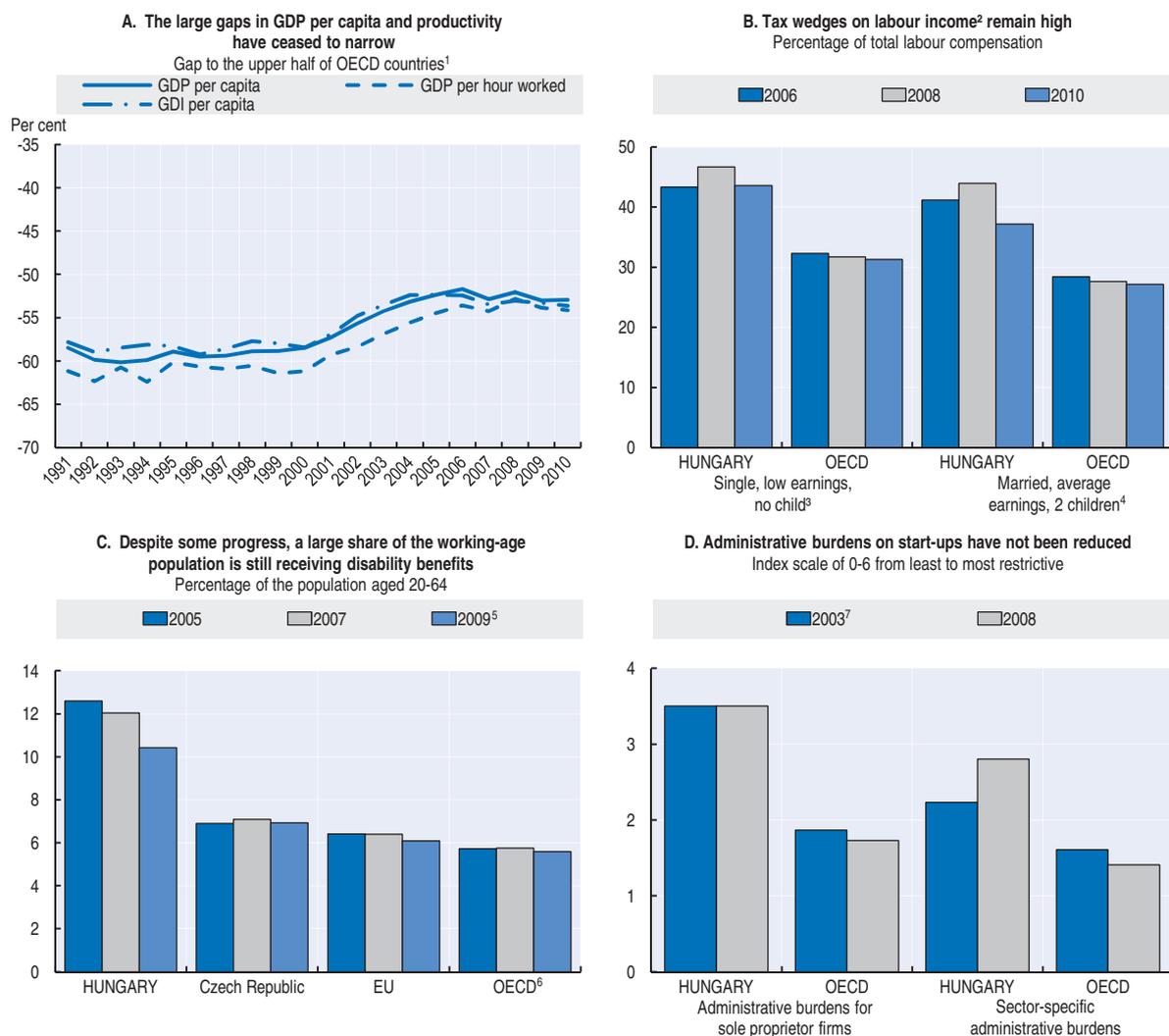
**Recommendations:** Access to health care services should be tied more to the payment of contributions, social benefits should be made more employment-friendly, and sanctions against abuse should be scaled up.

**Actions taken:** Tax inspections have been strengthened and should become more efficient with a merger of two main tax authorities into a single institution in 2011.

## HUNGARY

- The gradual closing of the income and productivity gaps relative to the upper half of OECD countries had already ceased before the global recession hit. This gap mainly reflects weak productivity but there is also considerable room for raising employment rates.
- Among key priority areas, significant progress has been made in lowering tax wedges, extending the statutory retirement age and reducing incentives for early retirement, which should help raise labour utilisation.
- Policy measures were also taken in several other areas, such as a major cut in unemployment benefit generosity.

## Performance and policy indicators



1. 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).
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
3. Low earnings refer to two-thirds of average earnings.
4. At 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
5. For Hungary, data refer to 2010.
6. Excluding Chile, Iceland and Turkey.
7. The OECD average excludes Chile, Estonia, Israel and Slovenia.

Source: Chart A: OECD, *National Accounts and Economic Outlook No. 90 Databases*; Chart B: OECD, *Taxing Wages Database*; Chart C: OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*; Chart D: OECD, *Product Market Regulation Database*.

StatLink <http://dx.doi.org/10.1787/888932565376>