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- GDP per capita is today is about half of the average of the most advanced OECD countries, reflecting substantial income convergence prior to the financial crisis. Since then, income growth has been subdued, reflecting weak productivity growth offset by higher labour force participation and employment.
- Inequality has increased, partly due to a deterioration of the households' living standards at the bottom end of the distribution, in contrast with unchanged inequality on average across the OECD countries. Nonetheless, overall inequality remains below the OECD average.
- Over the past couple of years, the government has implemented modest structural reforms that have partially addressed the *Going for Growth 2015* priorities. Simpler administrative burdens include greater use of notification procedures and the simplification of professional qualifications. Earlier school start and greater resource allocation to problem areas have improved outcomes and equity in education. More competitive pressures are induced through an easing of large outlet regulation and more legal certainty. Work incentives have been enhanced through a general reduction of the tax wedge and one specifically targeted to low-skilled workers and families through the Job Protection Act.
- Despite the progress, there is still scope for further reductions of administrative burdens, through further cuts in red tape and better use of regulatory impact assessments. Competition could be strengthened further by removing sector exemptions and subject all potentially competition-reducing mergers to full review by the competition authorities. Outcomes and equity in education could be strengthened further by postponing tracking and merging vocational training and vocational schools. In addition, special attention should be paid to the poor education outcome of Roma people. The tax wedge should be lowered by reducing the reliance on social security contributions by moving tax burdens to less distortive tax sources. At the same time, measures are needed to raise the statutory and the effective retirement ages.

Going for Growth 2017 priorities

Ease administrative procedures for businesses. Complex and frequently changing regulation have deterred business sector investment and productivity growth

Actions taken: In 2015, administrative burdens have been eased by the implementation of a new regulatory framework for electronic services, the transformation of several authorisation procedures into notification procedures, and the abolition or simplification of professional qualifications.

Recommendations: Improve transparency, stability and formulation of regulatory policies. Continue efforts to cut red tape and make better use of regulatory impact assessments. The competition authority should comment systematically on law proposals and mandatory public consultations should be introduced. Improve public procurement procedures through a more effective e-procurement system and establish a dedicated anti-corruption agency.

Reduce work disincentives for the elderly. Low albeit rising statutory and effective retirement ages have led to low employment rates for older workers. The retirement age is scheduled to reach 65 years-old by 2022.

Actions taken: No action taken.

Recommendations: Index the statutory retirement age to gains in life expectancy, and remove the remaining pathway into early retirement for women. Create a tool set, including individual learning accounts, to promote lifelong learning. Scale up the wage subsidy

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Growth performance and inequality indicators

A. Growth

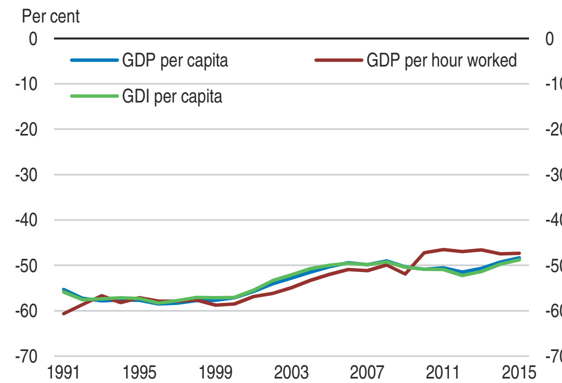
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	1.4	2.0
Labour utilisation	-0.8	1.7
of which: Labour force participation rate	0.1	1.6
Employment rate[1]	-0.8	0.6
Employment coefficient[2]	-0.1	-0.6
Labour productivity	2.1	0.3
of which: Capital deepening	0.9	0.0
Total factor productivity	1.2	0.3
Dependency ratio	0.1	0.0

B. Inequality

	Level	Annual variation (percentage points)
	2014	2007-14
Gini coefficient[3]	28.8 (31.7)*	0.2 (0)*
Share of national disposable income held by the poorest 20%	8.3 (7.7)*	-0.1 (0)*

* *OECD average*

C. The large gaps in GDP per capita and productivity are not closing
Gap to the upper half of OECD countries[4]



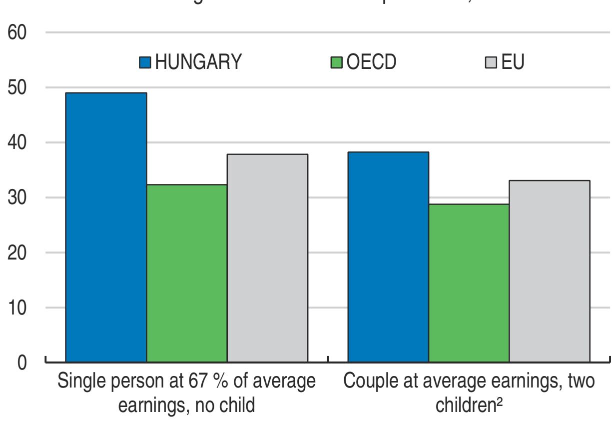
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

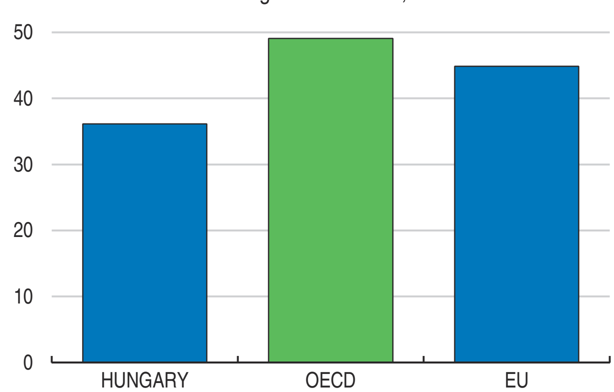
StatLink http://dx.doi.org/10.1787/888933455087

Policy indicators

A. The labour tax wedge is high
Percentage of total labour compensation,[1] 2015



B. The graduation rate in tertiary education is low
First-time graduation rates, 2014



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 worker 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).

Source: Panel A: OECD, *Taxing wages Database*; Panel B: OECD, *Education at a Glance 2016: OECD Indicators*.

StatLink http://dx.doi.org/10.1787/888933455541 programme targeted at older unemployed workers and supplement it with job search assistance and monitoring measures.

Improve outcomes and equity in education. Declining PISA scores, low graduation rates in tertiary education, shortcomings in vocational education and training have, together with inequalities in education, hampered job creation and productivity growth.

Actions taken: To improve outcomes and equities in education, a mandatory kindergarten age of 3 years has been introduced in 2015. In addition, special allowances were introduced for teachers working in socio-economic disadvantaged localities. Moreover, the vocational education system was reformed with increased work-based training to reflect labour market needs.

Recommendations: Postpone tracking and extend the period of compulsory grammar school to enhance general skills and promote equity, potentially benefitting Roma people. Develop quality assurance for apprenticeship places and ensure sufficient instruction time relative to productive work. Make ICT training a more horizontal form of knowledge application in all subjects. In tertiary education, extend support to all disadvantaged students and strengthen career counselling and the responsiveness to labour market needs.

Enhance competition in services sectors. Insufficient competition in retail, professional services, and network industries is holding back new products and technologies, leading to a lack of productivity growth.

Actions taken: Competition has been stimulated by the increase in 2015 of surface threshold for regulation of large outlets from 300 to 400m^2, the establishment of a personal insolvency framework, and the introduction of a legal presumption that companies with a turnover from daily consumption products of more than HUF 100 billion has significant market power.

Recommendations: Remove sector exemptions to apply the modern competition policy framework as widely as possible. Systematically review mergers that might reduce competition and only allow competition-limiting mergers on clear public interest grounds. Secure non-discriminatory third-party access in network sectors. In telecommunication, reward a new spectrum with full band width to a new entrant and facilitate entry of MVNOs (resellers of mobile network capacities). Lower barriers to entry in retail by moving the approval decision for opening new outlets to municipalities and clarify the rules for derogations, increase the ceiling for outlets and secure clear guidelines. Introduce market-based energy pricing. Define more narrowly public service obligations that could be subject to public tendering, opening for such providers to be compensated for the associated costs.

Reduce the tax wedge on labour income. The average tax wedge is internationally high, especially for workers with low wages, leading to reduced work incentives and labour demand.

Actions taken: The tax wedge has been lowered in 2015 through a one percentage point reduction in the flat rate personal income tax. It will be reduced further for selected groups through the doubling by 2019 of the family allowance for families with two children and the new entitlement of part-time workers for receiving the full amount of the Job Protection Act’s allowance on social contribution tax and vocational contribution.

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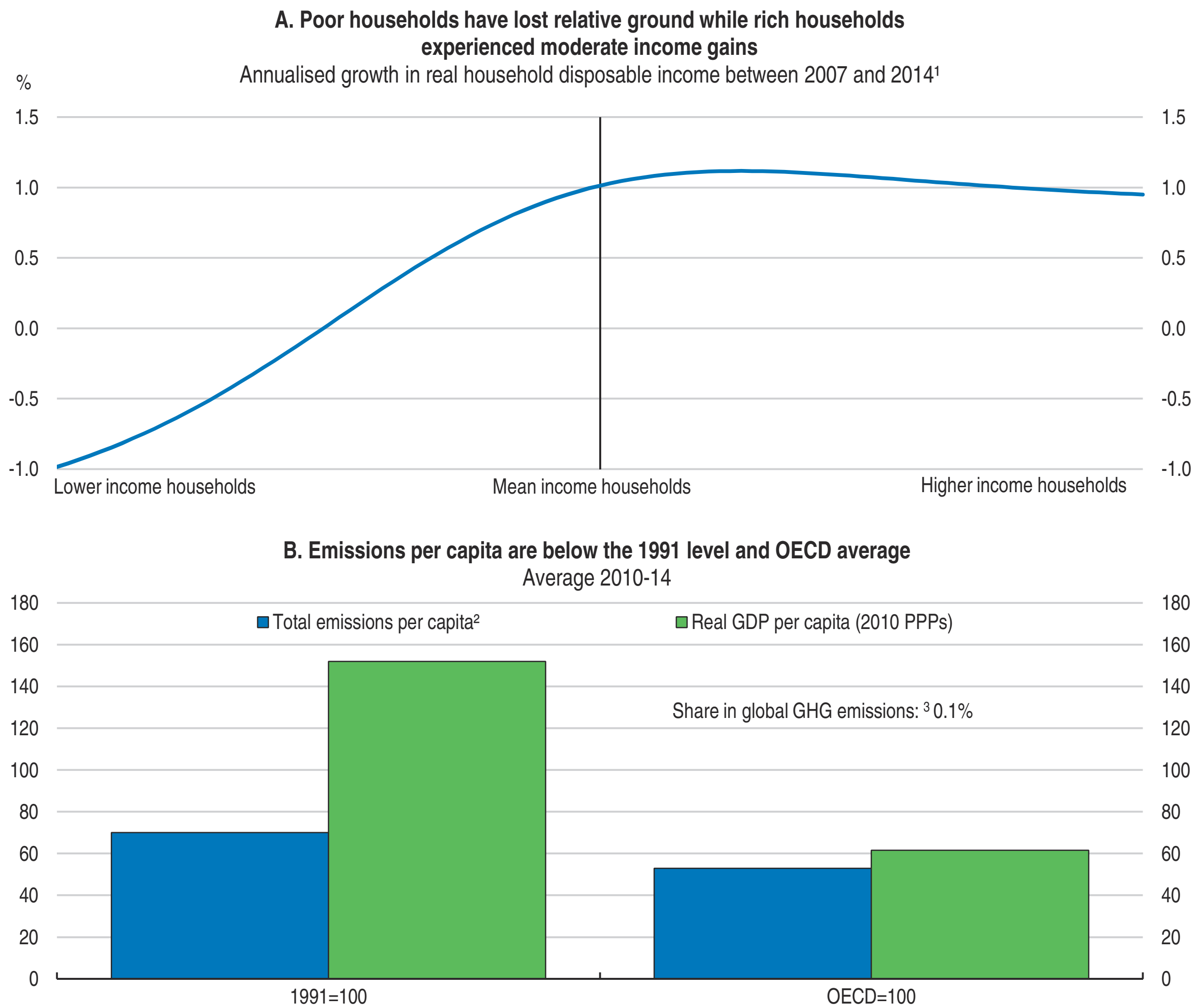
Recommendations: Further reduce the tax wedge on low salaries through better targeting of cuts in social contributions and the introduction of an employment tax credit that progressively declines with the wage level. Increase the reliance on less distortive taxes, such as on energy use and property.

Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2007 and 2014. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

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

StatLink http://dx.doi.org/10.1787/888933456009