

## HUNGARY

*GDP growth has been brisk in recent years, but registered labour force participation and employment rates remain low despite having risen rapidly relative to other countries.*

### Priorities supported by indicators

#### **Reduce state control on the operations of network industries**

After years of transition to a market-based economy, the key issues with respect to state control relate principally to regulations of the operations of network industries.

**Actions taken:** The authorities have begun deregulating prices in retail gas and electricity markets and have a schedule for complete liberalisation.

**Recommendations:** The price liberalisation schedule needs to be followed, and preferably brought forward, and the government's role in setting network access charges reduced. This would be helped by greater independence accorded to industry regulators.

#### **Reduce the tax wedge for low-income workers**

A high tax wedge for low-income workers is contributing to a relatively low recorded employment rate and reportedly high levels of grey-sector activity.

**Actions taken:** The abolition of the fixed health-care insurance contribution has helped to bring down the cost of employing low-wage workers.

**Recommendations:** While the need for fiscal consolidation constrains the options to cut taxes, lowering the tax wedge on low earnings should be given some priority, not least to reduce underground activity.

#### **Reduce administrative burdens on start-ups**

Both the number of administrative procedures and time taken to complete them is burdensome, particularly for the self-employed, and this is hindering the development of a more dynamic enterprise sector.

**Actions taken:** The new streamlined tax system for small-and-medium enterprises makes setting-up a business more attractive and the credit facility system (Szechenyi card) simplifies their access to financial support.

**Recommendations:** The authorities should implement their plans to introduce on-line registration and standardised documents, cut fees for business registration and simplify legal procedures for setting up a business.

### Other key priorities

- Further reform of the disability benefit scheme is needed to increase work incentives.
- Further downsizing of the housing-loan subsidy scheme is required, not only for budgetary reasons, but also to reduce distortions in housing markets and increase labour mobility.

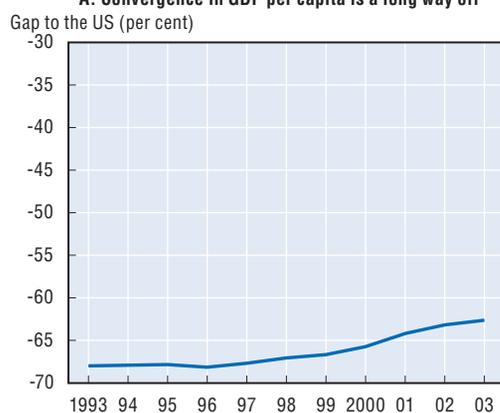
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## Structural indicators

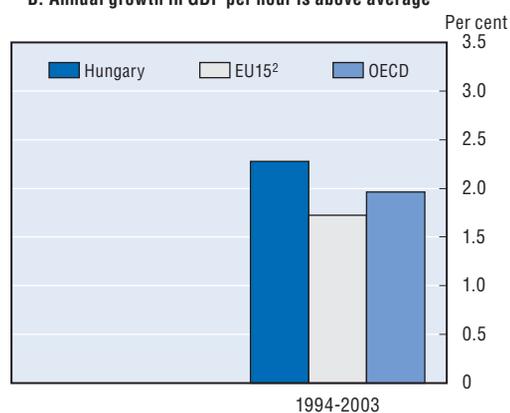
	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	..	..	4.4	4.1
Trend employment rate	..	..	54.6	54.1
Trend participation rate	..	..	58.4	58.1
Structural unemployment rate (NAIRU)	..	..	..	..

Source: Estimates based on OECD Economic Outlook, No. 76.

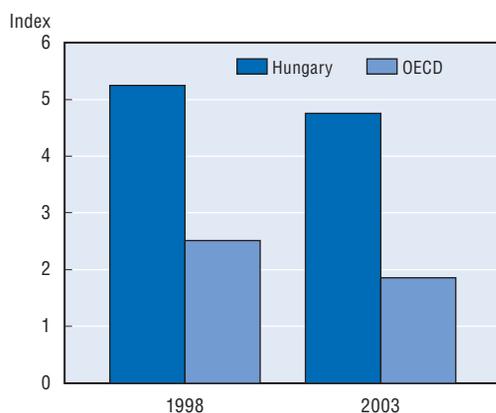
**A. Convergence in GDP per capita is a long way off<sup>1</sup>**



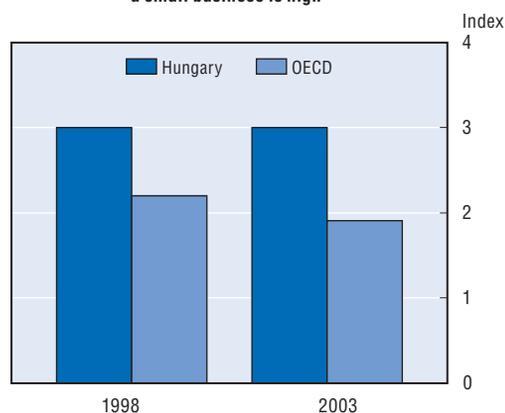
**B. Annual growth in GDP per hour is above average**



**C. State control over business enterprises remains high<sup>3</sup>**



**D. Administrative burden to set up a small business is high<sup>3</sup>**



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

3. Index scale of 0-6 from least to most restrictive.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Charts C and D: OECD Regulation database.