

## HUNGARY

*GDP per capita has converged towards the OECD average but the gap remains substantial because of large shortfalls in labour productivity and, to a lesser extent, labour utilisation. Progress has been made to raise labour supply through reductions in the tax wedge on labour income and incentives to retire early, but more needs to be done in the following areas, notably in order to raise productivity growth.*

### Priorities supported by indicators

#### **Reduce disincentives to continued work at older ages**

Overly-easy access to disability benefits for older workers reduces their employment rates.

**Actions taken:** The statutory retirement age will be gradually increased to 65 years from 2012. Eligibility conditions for early retirement programmes and disability benefits have been tightened.

**Recommendations:** Encourage the labour force participation of older workers by further reducing implicit tax rates on continued work and phasing out access to early retirement programmes, including by tightening eligibility for disability benefits through increased focus on remaining abilities and rehabilitation.

#### **Ease business regulations**

High administrative and regulatory burdens on businesses and the excess market power of incumbents in network sector limit competition and hampers productivity growth.

**Actions taken:** Stronger forms of vertical separation and price deregulation have been introduced in the energy sector. The rail freight segment of the national railway company has been privatised.

**Recommendations:** Simplify entry and exit procedures and relax regulations in retail trade and professional services. Further reduce price controls in network industries. Lift remaining constraints preventing freedom of choice between telecommunication service suppliers.

#### **Reduce the tax wedge on labour income**

The average tax wedge on single earners and one-earner households is among the highest in the OECD, encouraging tax evasion and informality and depressing labour utilisation.

**Actions taken:** In 2009, employer social contributions were cut substantially. Income taxes were lowered in 2009 and 2010. A flat personal income tax rate at 16% and tax credits for families with children will be implemented in 2011.

**Recommendations:** Further reduce social contributions in a revenue-neutral way so as to maintain a sound fiscal position. Finance recent tax cuts through expenditure restraint, base broadening and higher property taxes rather than through one-off distortive taxes on specific sectors and dismantling of the mandatory funded pension pillar.

### Other key priorities

#### **Improve the efficiency of the education system**

Early tracking and teachers' inadequate lifelong training undermine the performance of secondary education. Vocational training is not well attuned to the labour market. Higher education financing is inefficient.

**Actions taken:** The policy to favour practical vocational training in regional centres and in workplaces has continued.

**Recommendations:** Raise Roma's participation in pre-school education, delay the age at which early tracking takes place and enhance teacher training. Strengthen vocational education by making it more relevant for the labour market. Introduce university tuition charges, continue to develop the current income-contingent loan system, and make the subsidy to under-performing tertiary institutions conditional on rapid improvement.

#### **Increase public sector efficiency**

Public administration has not been modernised and service delivery is not cost-efficient. Collaboration between local government authorities is weak.

**Actions taken:** Cuts have been made to public administration. Laws have been passed to increase the accountability of government agencies and to streamline administrative procedures for firms in the construction sector.

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

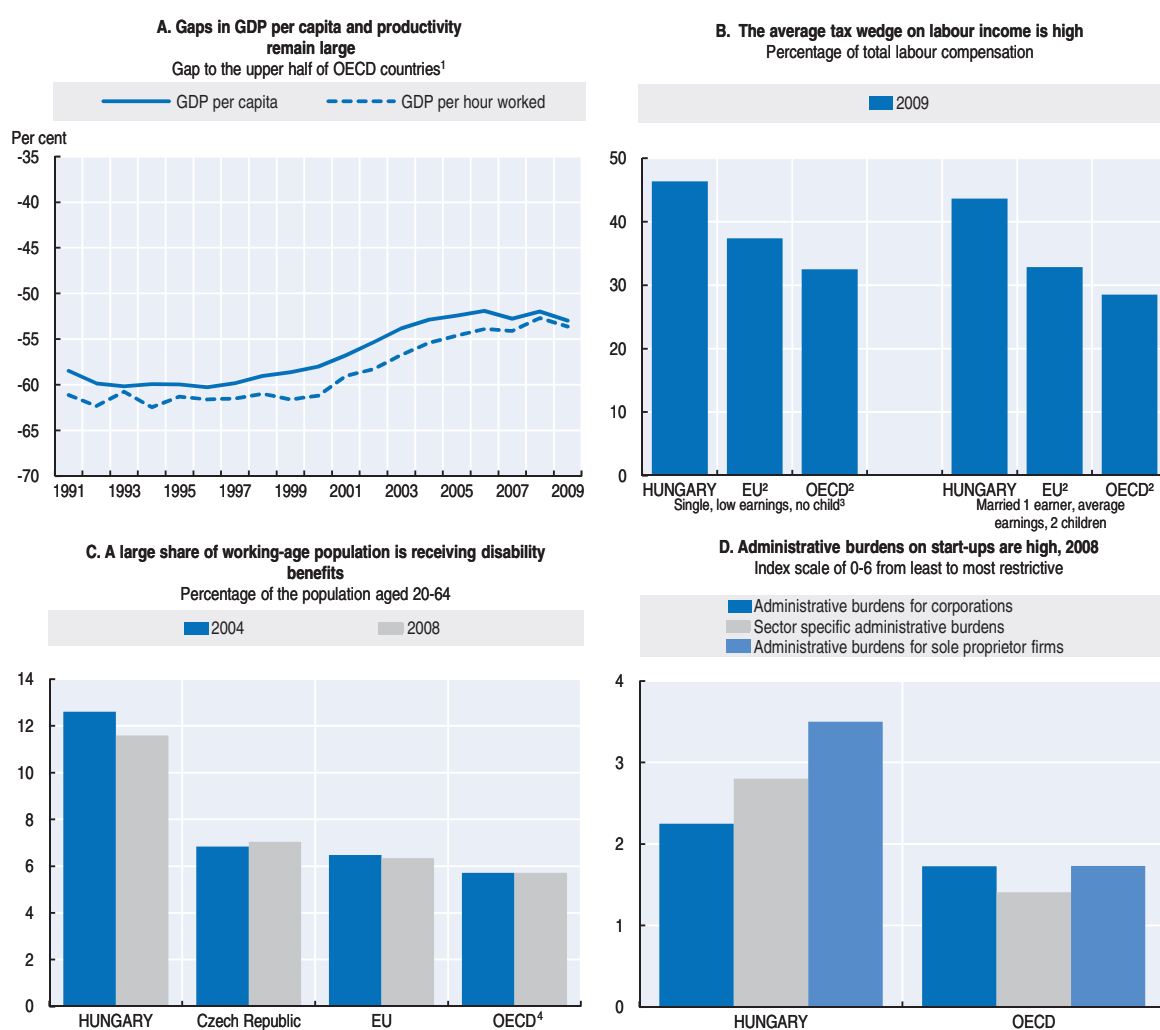
## HUNGARY

## Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	3.3	4.2	2.5
Labour utilisation	0.4	0.7	0.1
of which: Employment rate	0.6	0.9	0.3
Average hours	-0.2	-0.2	-0.2
Labour productivity	2.9	3.4	2.3
of which: Capital intensity	1.8	1.9	1.7
Multifactor productivity	1.1	1.5	0.6

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.
3. Low earnings refer to two-thirds of average earnings.
4. Excluding Chile.

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 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/10.1787/888932373894>