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- Closing of the income gap *vis-à-vis* the upper half of OECD countries had stopped before the global recession. The gap reflects a large shortfall in productivity. Overall labour resource utilisation is comparable to the most affluent OECD countries, but significantly higher average hours worked are offset by one of the lowest participation rates in the OECD.
- Progress has been made with an elimination of early retirement options for men in the general pension system and a lowering of the average tax wedge. However, recent changes in the tax and benefit system have made it far more regressive, though this partly being offset by targeted reductions in social security contributions for groups weakly attached to the labour market.
- Easing business regulations, fostering the predictability of the policy environment, enhancing public sector efficiency and increasing educational attainment would bolster productivity growth. Combining study and work and reducing disincentives to continued work at older ages by closing all pathways into early retirement and taxing all pensions would enhance activity and employment rates.
- Reinstating a recently removed earned-income tax credit would increase income for low-income earners, hence reduce inequality, while enhancing work incentives.

Growth performance indicators

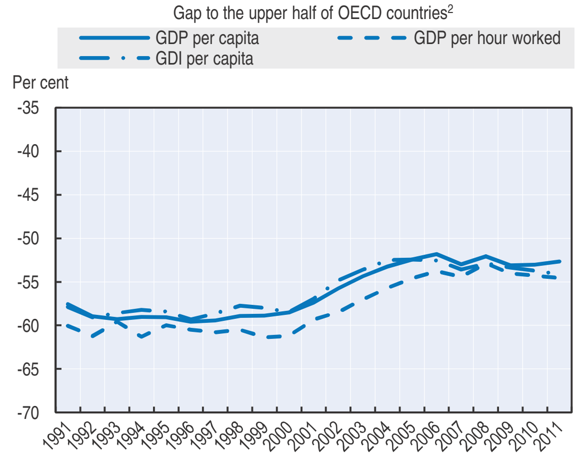
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.7	0.9
Potential labour utilisation		0.1	0.3
of which:	Labour force participation rate	0.3	0.7
	Employment rate[1]	-0.3	-0.4
Potential labour productivity		2.7	0.5
of which:	Capital intensity	1.2	0.9
	Labour efficiency	1.0	-0.7
	Human capital	0.4	0.3

B. The large gaps in GDP per capita and productivity have ceased to narrow

Gap to the upper half of OECD countries[2]



1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. 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).

Source: OECD, National Accounts and OECD Economic Outlook 92 Databases.

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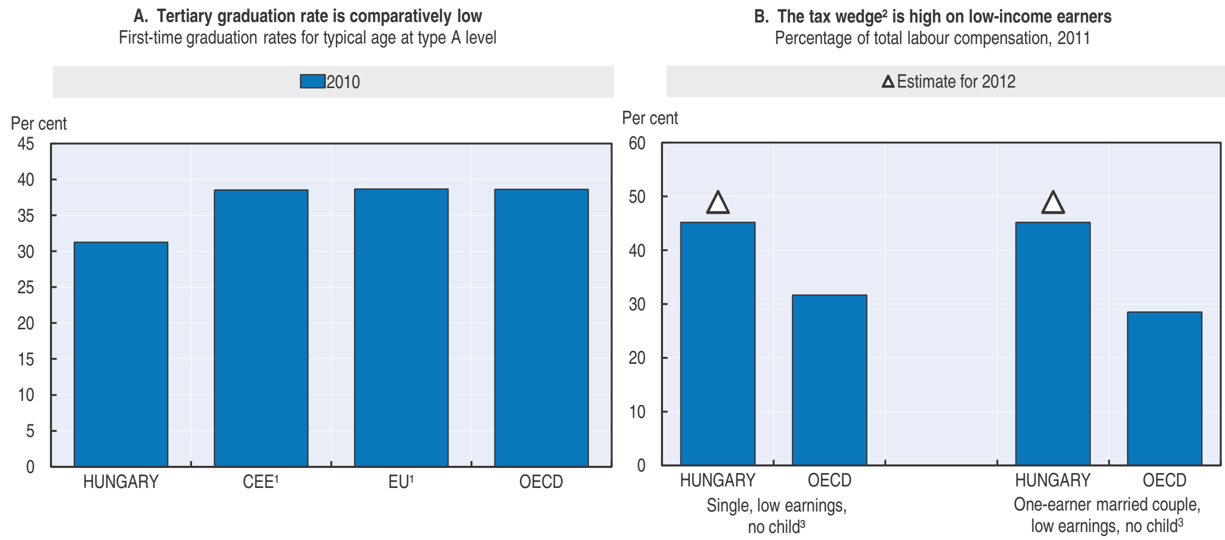
Policy indicators



1. Central and Eastern European countries is the average of Czech Republic, Hungary, Poland and Slovenia. EU is the average of 21 EU countries members of the OECD.
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.

Source: OECD, *Education at a Glance 2012* and *Taxing Wages Databases*; Ladányi, T. and R. Kierzenkowski (2012), "Work Incentives and Recent Reforms of the Tax and Benefit System in Hungary", *OECD Economics Department Working Papers*, No. 944, OECD Publishing.

StatLink http://dx.doi.org/10.1787/888932776713

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce the tax wedge on labour income. The average tax wedge is high, mainly for low-income earners, deterring work incentives.

Actions taken: In 2011, a shift to a flat-rate personal income tax and tax reliefs for families with children lowered the tax wedge. In 2012, despite the narrowing of the tax base below the average wage, the wedge on low-income workers increased with the removal of the earned-income tax credit. A "job protection action plan" has introduced targeted reductions in social security contributions for groups weakly attached to the labour market.

Recommendations: Lower the labour tax wedge by reducing social charges and reinstating an earned-income tax credit that is more narrowly targeted than the one recently removed. Finance the measures by raising energy taxes and property taxes for high-income individuals.

Reduce disincentives to continued work at older ages. Pensions are tax exempt in the general regime and women and some professions can retire early.

Actions taken: The unwelcomed dissolution of the second pillar of the pension system in 2011 incidentally diminished expected replacement rates. Meanwhile, the statutory retirement age will increase from 62 to 65 years by 2022. Early retirement options in the general pension regime were eliminated for men in 2011 and from 2012, and new and existing retirement benefits of special pension regimes have been be reduced by the amount of the income tax (up to the statutory retirement age).

Recommendations: Make all pension benefits liable to income tax, index the statutory retirement age to gains in life expectancy and close pathways into early retirement for women and special regimes.

Make the education system more efficient and equitable. Tertiary education attainment is low and the system is not attuned enough to labour market needs.

Actions taken: The age of compulsory education has been lowered from 18 to 16 and the funding for tertiary education has been cut, though placements in science and engineering have been favoured. Some progress has been made in improving the system of vocational education and training.

Recommendations: Postpone early tracking of students and reform teachers' lifelong training. Continue to diversify educational pathways by alternating study and on-the-job training. Merge vocational training and vocational secondary schools.

Other key priorities

Ease business regulations. Administrative burden on businesses and the market power of incumbents in network sectors are high. Tax regulations applied to banks hamper business financing.

Actions taken: A comprehensive programme has been launched in 2011 to diminish compliance costs for existing businesses.

Recommendations: Enhance business environment stability. Ease entry and exit procedures and regulations on the size of retail outlets and in professional services. Reduce price controls in the competitive segments of network industries and banks' tax regulations. Further cut compliance costs.

Increase public sector efficiency. The share of public sector employment is high but overall efficiency of public administration is low.

Actions taken: Public employment has been reduced, yet partly offset by large-scale public works programmes. A restructuring of local governments has started creating scope for economies of scale.

Recommendations: Continue staff reductions, in particular in local governments. Ensure cost-efficient delivery of services and facilitate the monitoring and evaluation of the public sector.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

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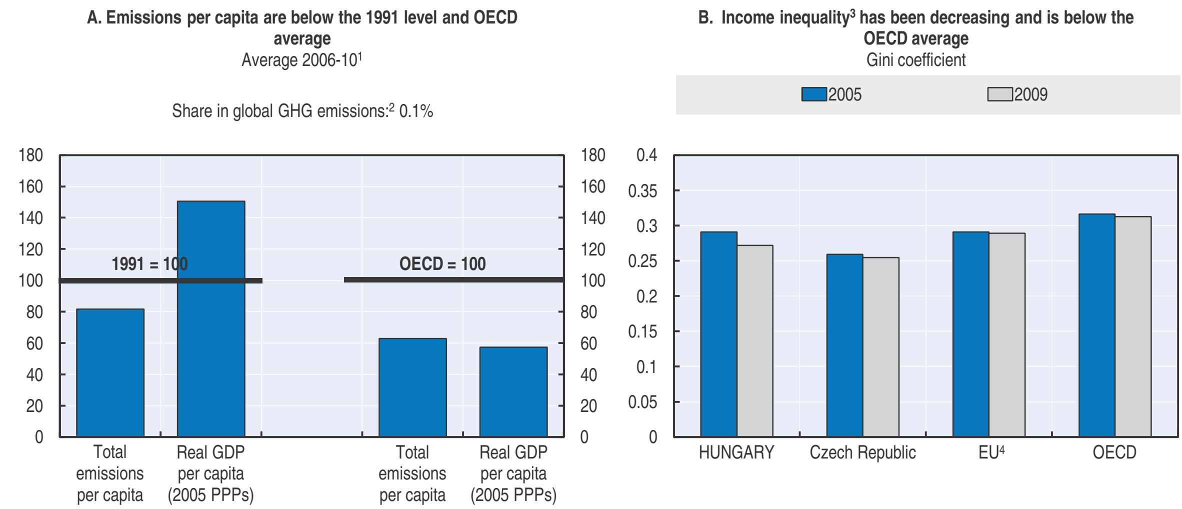
Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776732