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**Assessment of the 2012 national reform programme and convergence programme for
HUNGARY**

Accompanying the document Recommendation for a

COUNCIL RECOMMENDATION

**on Hungary's 2012 national reform programme and delivering a Council opinion on
Hungary's updated convergence programme , 2012-2015**

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EXECUTIVE SUMMARY

In 2012, the economic activity of Hungary is expected to contract by 0.3%, before regaining some momentum in 2013. Unemployment is foreseen to slightly decrease to 10.6% in 2012 and to fall further in 2013.

In the context of the overall consolidation process and following a Council decision in January 2012 that Hungary had not taken effective action, the government undertook efforts to secure the budgetary targets for 2012 and also in 2013 when substantial one-off revenues are phased out. There have been first steps to broaden the remit of the Fiscal Council but it still does not include crucial tasks and multiannual fiscal planning remains indicative. Further, the Hungarian government has pursued an extensive structural reform agenda including key elements targeting the labour market as well as steps to reform the business environment. In several areas, policy responses remained rather incomplete.

Hungary continues to face serious challenges in the short to medium term. The attainment of the deficit target of 2.5% of GDP in 2012 and 2.2% of GDP in 2013 will have to be ensured in a sustainable way. The already adopted cardinal law on economic stability does not include a binding medium-term budgetary framework. Further, the recent tax changes have negatively impacted low earners and have therefore not contributed to enhancing employment. The public employment service has been reorganised resulting in an overall downsizing, pointing in the opposite direction of what was recommended in 2011. A further challenge relates to the transparency and quality of public administration, where Hungary ranks low on many indicators. The equity and effectiveness of the school system is also of concern, especially with regard to recent legislative changes that risk increasing the number of early school leavers and segregation in the Hungarian school system.

1. INTRODUCTION

In June 2011 the Commission proposed five country-specific recommendations (CSRs) for economic and structural reform policies for Hungary. In July 2011 the Council of the European Union adopted these recommendations which concerned public finances, including fiscal governance, the labour market, and the business environment (lowering administrative burden and improving access to non-bank funding). In November 2011 the Commission published its Annual Growth Survey for 2012 (AGS 2012) in which it set out its proposals for building the necessary common understanding about the priorities for action at national and EU level in 2012 and encouraged Member States to implement these priorities in the 2012 European semester.

Against this background, Hungary presented updates of its National Reform Programme (NRP) and Convergence Programme (CP) in April 2012. These programmes give details on progress made since July 2011 and plans going forward. This Staff Working Document assesses the state of implementation of the 2011 CSRs and it identifies Hungary's current policy challenges in light of the AGS 2012 and the country's latest policy plans.

Overall assessment

Hungary's progress towards meeting the 2011 Council recommendations has been mixed. The Council decided in January 2012 that Hungary had not taken effective action in response to its recommendations under the Excessive Deficit Procedure and in March it issued new recommendations, following which the Hungarian authorities decided on further consolidation measures in April. The Fiscal Council's remit has been broadened but it still does not include crucial tasks (e.g. regular publication of macro-fiscal baselines), and multiannual fiscal planning remains indicative. The government has an extensive structural reform agenda with several elements targeting the labour market, and notable advances have been made. Nevertheless, policy responses in areas such as taxation, encouraging women's participation in the labour market or active labour market policies have been piecemeal, or otherwise problematic. Steps have also been taken to reform the business environment, but progress has not been uniform.

The challenges identified in July 2011 and re-iterated in the AGS 2012 therefore remain valid. Fiscal consolidation is a pressing challenge for Hungary, but wider reforms also remain necessary to promote the conditions for sustainable, investment-led growth. Hungary faces ongoing challenges to raise the participation rate and the employment rate, to improve active labour market policies and social inclusion, particularly in education, to broaden access to high quality, affordable childcare, to reduce the administrative burden and improve the business environment, as well as improving the transparency and quality of public administration.

Hungary's 2012 NRP and convergence programme contain significant measures whose specification (where still necessary) and implementation could facilitate the progress towards addressing key challenges. Nevertheless, steps could be taken to ensure that policymaking supports these goals more coherently and efficiently.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

The Hungarian economy started 2011 amidst a number of indicators pointing towards accelerating real GDP growth to close to 3% supported by a slow rebalancing in the economy. The developments over the course of the year led to a significant revision of this picture given the deterioration of the external environment which played out over several channels (a decline in external demand, higher funding costs, hiking instalment payments on foreign currency denominated loans), as well as squeezed domestic demand and policy uncertainties. GDP growth in 2011 turned out to be at 1.7% as the main engine of the economy was the export sector, which will continue to drive growth over the forecast horizon.

Economic outlook

In the 2012 Spring Forecast, the Commission services project GDP to contract by 0.3% in 2012, and to recover to a modest growth rate of 1% in 2013. This does not incorporate the GDP flash estimate for the first quarter which showed a much stronger-than-expected contraction of 1.3%. The ongoing deleveraging in the enterprise and household sectors is expected to remain pronounced, with credit supply constraints remaining significant and biting especially for corporations. Against this background, the newly specified measures in Hungary's 2012 convergence programme will further depress domestic demand. In particular, in 2013 the financial transaction tax is the new measure that is expected to have the largest negative impact on the economy. It is anticipated to depress gross fixed capital formation as it will primarily affect companies (depending on the eventual legislative details it may put a further drag on bank lending), but it is also projected to have a substantial negative impact on private consumption expenditure. The enterprise sector will be further hit by the redesigned insurance and energy levies, and some of the measures introduced in the course of 2012, including the new telecommunications levy, will have an additional negative impact as they will be in force throughout 2013.

Although Hungary's largest export markets are projected to be growing at a lower rate than anticipated at the time of the autumn 2011 forecast, the lower import projections mean that the contribution of net exports to growth will remain significant. Hungary is also expected to gain market share as a result of new automobile factories coming on line, starting in the second quarter of 2012. The current account is estimated to increase further over the forecast horizon. The new tax measures also imply that inflation is likely to remain well above the central bank's target rate over the forecast horizon.¹ Unemployment is expected to decline from this year, with Hungary's expanding public works scheme to provide most of the employment growth in 2012-2013.

The authorities used the Commission's QUEST III model to estimate the impact of several structural measures. Some of the assumptions they used (e.g. a 50% reduction in administrative burden) appear to have skewed the results. In any case, the macroeconomic projections presented in the NRP and the convergence programme do not directly build on the output of their modelling exercise. The Hungarian authorities

¹ For a more detailed analysis on the external balances and inflation trends, please see the Hungarian chapter of the Commission's Convergence Report released as part of the European Semester package.

share the Commission's view that the economy will be driven by net exports over the forecast horizon, but the government is more optimistic regarding domestic demand, particularly in 2013. In 2012, the projected fall in government consumption expenditure appears on the low side in volume terms given the consolidation measures. In nominal terms the difference in the GDP forecasts is smaller since the authorities' inflation forecast is surprisingly low given the new measures. Concerning 2013, the forecast of private consumption expenditure growth is on the high side, driven by more sanguine assumptions regarding employment growth in the private sector. Gross fixed capital formation is also more positive in the authorities' 2013 forecast, since they assume that several of the measures such as the financial transactions tax would impact technology rather than shorter term capital investment.

Procedural and governance issues

Hungary submitted both the NRP and the convergence programme on 23 April 2012. The documents are fairly substantial, broadly consistent and follow the agreed guidelines. The two documents outline in an integrated manner the fiscal consolidation efforts and key structural reforms as well as reforms underpinning macro-economic convergence. The NRP in particular includes a large number of measures that either have not yet been implemented or still are in a conceptual phase and are not presented in greater detail. It also outlines progress towards national targets for the year 2020, putting imminent reform priorities in a broader context. Local authorities, Social Partners as well as civil society were consulted on a number of programmes and important measures included in the NRP, but there was no consultation on the overall reform strategy. The legal status of the 2012 NRP is also difficult to interpret, since in contrast with 2011, the government did not pass a regulation in order to adopt it.

2.2. Challenges

Concerns persist over Hungary's long-term potential growth. Reforms over the past few years appear to have born fruit so far in expanding the labour supply, which is a much needed step and it will be important to continue advancing on this front. Eventually, labour reforms will also need to be translated into gains in employment and competitiveness, where considerable structural challenges persist. In addition, potential growth is likely to have suffered from the fact that gross fixed capital formation has continued declining, and the investment ratio is the lowest since 1997.

Specific labour market challenges include supporting demand for low-skilled labour on the open market, given that the employment rate of this group is 25.9% as against the EU average of 45.1%. In addition, raising the employment rate among the Roma is a particularly important objective, especially in certain regions: although official statistics do not exist, some² estimated their employment rate in the North Hungary region at 17% as against 57% in the Central Hungary region in 2010. The submitted Social Inclusion (Roma) Strategy and other mainstream policies are not aligned properly which undermines the success of the strategy. In parallel with the doubling of the funds allocated to public works, expenditure on other active labour market policies is being scaled down. The recent changes to labour taxation have increased the marginal tax rate for low earners, while the complex system currently in place to ameliorate the impact of the increased tax burden on this income group might have ambiguous effects on their employment rate. The youth employment rate (around 18% against the EU average of 34%) and the labour force participation of women with young children (around 49% in

² Marketingcentrum (2010) Roma társadalom

2011 vs. the EU average of 65.5%) are also very low, and while some limited advances have been made in increasing childcare facility capacities, these are outstripped by demand.

While there are some promising developments in vocational training, where the business sector has been involved in the redesign of courses, life-long learning continues to be lagging. Investment in human resources in the natural sciences, mathematics, engineering and related fields also remains particularly important for improving growth potential. The current proportion of the labour force with such skills is below the EU average. Special attention to the profile of science and mathematics in general education would be helpful to prepare pupils for tertiary studies in these areas, and improving the output of primary education would seem necessary at least to counterbalance the reduced attention to basic skills in vocational education. There are also concerns that the changes afoot to the education system may deepen socio-economic inequalities further. Neither the current and planned cuts to education nor the underprivileging of R&D (where expenditure in Hungary remains significantly below the EU average) fits with the AGS recommendation of smart consolidation.

The low level of economic confidence is reflected in a range of indicators, from the World Bank 2012 Doing Business indicator where Hungary was ranked 122nd globally in the category of investor protection, to the latest Global Competitiveness indices cited in section 3 of this paper. Shortcomings in the stability, predictability and transparency of the institutional and policy framework clearly remain obstacles to be surmounted in order to improve investment in Hungary (see also Box 1).

In the financial sector, credit supply constraints remain significant, and biting in the case of enterprises. Many of the parent companies of foreign-owned banks are under pressure to deleverage given the broader economic and regulatory context, but policy developments have aggravated the situation. In addition to the financial sector levy, the early repayment of foreign currency denominated mortgages at discounted rates has contributed to heavy losses in the banking sector and increased policy uncertainty, although an agreement with the Banking Association in December has somewhat ameliorated the situation. However, the planned introduction of the new financial transaction duty will put a further burden on the banking sector. The AGS priority of restoring normal lending to the economy therefore remains a challenge.

Finally, Hungary's structural reform programme is expected to translate to sizeable fiscal consolidation from 2012. Some elements of this package are supportive of growth, and others have the potential to be so; for instance, the reform of the transport sector has the potential to achieve sizeable fiscal gains while also improving its efficiency and performance. Although not fully reflected in the NRP, current reform plans in the healthcare sector also have the potential to improve fiscal sustainability. Overall, however, the policy mix is regressive and is not in line with the AGS priority of differentiated growth-friendly fiscal consolidation. On the whole, progress towards reducing the high public debt ratio is very much needed. The result of high fiscal deficits, especially in the 2002-2006 period, the structure and financing of public debt is also a source of vulnerability given that close to half of it is denominated in foreign currency (and close to 70% is owned by foreign residents).

Box 1: Summary of the results of the in-depth review under the macroeconomic imbalances procedure

Hungary's economy built up sizeable external and internal imbalances in the years leading up to 2009 and it now faces a continued adjustment challenge. The high public debt stock and high negative Net International Investment Position (NIIP) (81.3% and -112.5 of GDP in 2010, respectively) are primarily the result of the continuous twin deficits recorded in the years before the global economic and financial crisis (fiscal adjustment was initiated in mid-2006, but from a very high deficit level). Over this period, Hungary's cost competitiveness had been deteriorating in particular vis-à-vis regional peers.

With the deep crisis, a sharp adjustment has taken place with the country's net external balances, but important vulnerabilities remain. Starting from late 2008, the current account rebounded into a surplus as domestic demand collapsed and corrective steps were taken also in the context of a EUR 20 bn EU-IMF financial assistance programme. It was also supported by the significant improvement in cost competitiveness through mainly the depreciation of the forint and a decline in real wages. The Commission services' Spring 2012 forecast points to further steep reduction in the NIIP to well below 90% of GDP by the end of 2013. Public debt sustainability calculations prepared by the Commission services show that a firm decreasing path for public debt is attainable in the coming decade, but continued tension in the financial markets could relatively easily reverse this trend. The resolute decrease in public indebtedness is all the more important as rolling over such a high gross debt stock always implies increased vulnerabilities. The associated risks have prompted the national authorities to seek a precautionary financial assistance from the EU and the IMF, on which negotiations are yet to start.

At the same time, Hungary's medium-term growth outlook is modest at best, partly as a consequence of policy uncertainty. The potential growth is currently estimated to be considerably lower than what is expected for neighbouring countries: in the range of 0.2-0.4% for the 2011-2013 period. The persisting concerns over the country's long-term potential growth are to a large extent due to labour market weaknesses and a historically low level of investments. These bottlenecks to growth are also linked to the significant decrease in FDI inflows starting from 2009, also linked to a fall in reinvested profits. The low level of economic confidence is explained first by the crisis but more recently by significant (and often controversial) changes in the policy environment.

The high stock of private debt (at 155% of GDP) stands out among catching-up economies. Despite the recent rapid deleveraging, its currency composition (according to financial accounts data over 60% is denominated in foreign currency) is still a source of concern, which in turn contributes to the important strains on Hungary's strongly interconnected banking sector. The recently experienced high CDS sovereign spreads has a host of negative implications for economic prospects and contributed to the increasingly high financing costs of the real sector.

In this context, the policy response could usefully include creating the conditions for sustained macroeconomic growth as well as a gradual but sustained deleveraging of both private and public agents. This should also make the country less vulnerable to changes in market sentiment and restore its attractiveness for foreign direct investment. Policy initiatives could therefore target the creation of a predictable policy environment and well-functioning institutional system, which should be conducive to the sustained reduction in stock vulnerabilities. In addition, structural reforms in both labour and product markets are worth pursuing in order to lift the country's potential growth.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The 2012 convergence programme confirms the deficit path laid down in the 2011 update of the convergence programme, i.e. deficit targets of 2.5% of GDP in 2012 and 2.2% of GDP in 2013. The deficit is planned to decrease further to 1.5% of GDP by 2015. In parallel, the (recalculated) structural balance³ will improve from 4.0% of GDP in 2011 to 1.9% of GDP in 2012 and 1.2% of GDP in 2013 and slightly further in 2014 and 2015. This means that the medium-term-objective (MTO) of a deficit of 1.5% of GDP, which is unchanged compared to the target defined in 2011 and adequately reflects the requirements of the Stability and Growth Pact, would be achieved in 2013, i.e. the 2012 convergence programme aims to achieve the MTO two years earlier than planned in the 2011 convergence programme.⁴ This deficit path would also bring the deficit below the threshold of 3% of GDP by 2012 and beyond.

In 2011, the headline general government balance reached a surplus of 4.3% as against a surplus of 2% of GDP targeted in the 2011 convergence programme. According to the Commission services calculation, the 2011 convergence programme at the time included a headline 2011 deficit net of one-offs of close to 6% of GDP, while based on the 2011 budgetary outcomes, the headline deficit net of one-offs was around 5¼% of GDP⁵, i.e. better than expected by close to ¾% of GDP. This better outcome is mainly explained by the small surplus of the local government sector compared to an expected deficit (0.5% of GDP) and some savings measures in the course of the second half of the year (around 0.2% of GDP), such as the increase in excise duties and expenditure cuts in the budgetary chapters. Regarding the one-offs, on the revenue side the value of the transferred pension assets was higher by 0.7% of GDP than the 9% of GDP expected in the 2011 convergence programme. The headline deficit also improved by close to 1% of GDP due to changes regarding one-off expenditures since the debt assumption and PPP buy-backs (together close to 2% of GDP) eventually did not take place⁶ and this was only partly counterbalanced by additional one-off expenditures.⁷

Regarding 2012, the attainment of the official deficit target of 2.5% of GDP is supported by further savings measures (of around 1¾% of GDP, according to the Commission services calculation) compared to the 2011 convergence programme, which are intended

³ Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

⁴ It may be worth recalling that, according to the (recalculated) structural balance incorporated in the 2011 convergence programme, the MTO would have not been achieved in the programme period.

⁵ The 2012 convergence programme includes a calculation suggesting that the 2011 general government deficit excluding one-off items within the year was only 2.43% of GDP. This figure, however, does not incorporate an important part of the one-off revenues (i.e. the budgeted part of the revenues stemming from the transfer of the private pension assets and the entire amount of the temporary sectoral levies).

⁶ The government finally took over only HUF 50 bn (close to 0.2% of GDP) of the railway company's debt (MAV), which cannot be accounted for as one-off expenditure mainly since it was needed to cover the annual financing gap of the MAV.

⁷ These additional one-off expenditures include VAT related compensation payments in the light of the EU Court of Justice's decision of July 2011, the public expenditure pertaining to the early FX repayment scheme and a part of the capital injection in the Hungarian Development Bank.

to counterbalance some expenditure slippages and revenue shortfalls, partly related to the worse than expected economic growth developments.⁸ These further savings reflect exclusively revenue increasing measures, such as the hike of the standard VAT rate from 25% to 27% as well as some recently announced tax increases (e.g. a permanent levy on telecommunication services. The expenditure cuts (e.g. reduction of expenditures in the budgetary chapters, partly announced in the 2012 convergence programme) were fully counterbalanced by expenditure increasing decisions (e.g. outlays related to the mid-December 2011 agreement with the banking sector as well as the extension of the public work programme).

According to the Commission services' 2012 Spring Forecast, the 2012 deficit target is foreseen to be reached. However, this forecast includes net one-offs amounting to around 0.9% of GDP (mainly related to the temporary sectoral levies). Without these temporary factors the budget deficit would be close to 3½% of GDP. This forecast assumes the elimination of the (full amount of) extraordinary reserve of close to 1½% of GDP, which was created to compensate for unforeseen developments in order to ensure that the deficit target can still be met.⁹ In contrast, the convergence programme still assumes the availability of an extraordinary reserve of 0.4% of GDP in 2012. This difference is on account of the expenditure slippages of close to ½% of GDP expected by the Commission services related notably for pharmaceutical subsidies and the transport sector.

In 2013, according to the 2012 convergence programme, without taking additional measures and also in view of the phasing out of the extraordinary sectoral levies of close to 1% of GDP, the budget deficit would be expected to reach 3.6% of GDP, i.e. be higher than the deficit target by close to 1½% of GDP.¹⁰ This is in line with the deficit forecast underpinning the Council recommendation to Hungary of March 2012 in the context of the excessive deficit procedure. Against this background, the 2012 convergence programme lists additional revenue-increasing¹¹ and expenditure savings measures of around 1.7% of GDP (for details see Box 2 below).

Also taking into account the implementation risks partly due to the lack of sufficient specification mainly on the expenditure side, around two thirds of this deficit improving effect of 1.7% of GDP (i.e. 1.1% of GDP) could be incorporated in the Commission services' 2012 Spring Forecast. Whereas the 2012 convergence programme forecasts that the deficit target of 2.2% of GDP will be achieved while preserving an extraordinary reserve of at least 0.2% of GDP¹², the Commission services' 2012 Spring Forecast projected a deficit of 2.9% of GDP without any extraordinary reserve left. This higher

⁸ Regarding 2012, the 2011 convergence programme contained saving measures of slightly more than 1½% of GDP, mainly related to the Szell Kalman structural reform programme (such as the reduction of unemployment benefit and pharmaceutical subsidies).

⁹ An extraordinary reserve of 1.1% of GDP was incorporated in the 2012 budget, which was complemented by close to 0.4% of GDP thanks to saving measures announced in the 2012 convergence programme.

¹⁰ This no-policy-change scenario already incorporates of the deficit-improving effect of the further implementation of the Szell Kalman structural reform programme of around ½% of GDP, which, however, is partly offset by increasing expenditures (e.g. further extension of the public work programme) and revenue reducing decisions (e.g. narrowing of the tax base for personal income tax).

¹¹ As regards the financial transaction duty, the 2012 convergence programme envisages a revenue of 0.4 – 0.75% of GDP.

¹² The reserve is expected to be between 0.2 and 0.5% of GDP depending on revenue raised from the financial transaction duty.

deficit forecast, beyond the implementation risks related to the saving measures, also reflects a worse macroeconomic outlook.

It may be useful to note that the consolidation steps raise some questions in terms of quality, as they are mainly concentrated on the revenue side and may hinder economic growth also in the light of the deteriorating business environment due to the de facto replacement of temporary sectoral levies that were supposed to be phased out by permanent sectoral taxes largely in the same sectors.

Following the cut-off date of the 2012 Spring Forecast new information became available. The government provided further details on the cuts to appropriations of the budgetary chapters¹³ as well as the decision to nominally freeze the expenditure of the central budgetary sub-system for the purchase of goods and services in 2013 was made public (with a combined budget improving impact of 0.2% of GDP). Finally, on 11 May the government also submitted to Parliament a tax package containing a number of elements that differed from the description in the 2012 convergence programme. Some of the parametric changes (e.g. lower-than-planned tax hike for the surcharge on energy and public utility companies) entail a combined revenue loss of close to 0.1% of GDP, which is estimated to be compensated by correspondingly higher receipts from the financial transaction duty. Taking into account all of this new information, the 2013 deficit is projected to fall to 2.7% of GDP.

¹³ New information clarified the extent to which the budgets of the various ministries and the appropriations are affected and indicated that the intended savings are based on the cancellation of selected tasks and efficiency improvements, which can ensure their sustainability.

Box 2. Main budgetary measures

Revenue	Expenditure
2011	
<p>Introduction of the flat PIT system (-1.8% of GDP)</p> <p>Full-year effect of CIT cut (-0.25% of GDP)</p> <p>De facto elimination of the earlier mandatory private pension pillar (one-off: +9.7% of GDP, permanent: +1.3% of GDP)</p>	<p>Cut in appropriations for budgetary chapters (-0.8% of GDP)</p> <p>Debt assumption of MAV (+0.2% of GDP)</p> <p>Capital injection in the MFB (+0.1 % of GDP)</p> <p>Reimbursement of VAT based on EU Court decision (+0.7% of GDP)</p> <p>Outlay related to the agreement with the banks (+0.2% of GDP)</p>
2012	
<p>Maintenance of the financial sector levy at its original rate (+0.3% of GDP)</p> <p>Hike in the VAT standard rate from 25% to 27% (+0.5% of GDP)</p> <p>Increase in the SSC paid by employers (+0.4% of GDP)</p> <p>Introduction of a tax on telecom services (0.1% of GDP)</p> <p>Other tax increases (0.8% of GDP)</p> <p>Net effect of the reform of PIT (+0.3% of GDP)</p>	<p>Nominal wage freeze in the public sector together with wage compensation (-0.1% of GDP)</p> <p>Reduction of unemployment benefit and sick pay (-0.4% of GDP)</p> <p>Review of the pension system (-0.2% of GDP)</p> <p>Restructuring of public transport (-0.1% of GDP)</p> <p>Reduction in the drug subsidy (-0.3% of GDP)</p> <p>Improved efficiency of the public sector (-0.2% of GDP)</p> <p>Cut in the appropriations for the budgetary chapters (-0.8% of GDP)</p> <p>Outlay related to the agreement with the banks (+0.4% of GDP)</p> <p>Wage compensation in the private sector (+0.4% of GDP)</p> <p>Extension of the public works programme (+0.2% of GDP)</p> <p>Increased subsidy for the national railway company (+0.2% of GDP)</p>
2013	
<p>Maintenance of the higher CIT rate (0.3% of GDP)</p> <p>Phasing out of the extraordinary sectoral levies (-0.9% of GDP)</p> <p>Narrowing of the tax base of PIT (-0.3% of GDP)</p> <p>Introduction of a financial transaction duty (at least 0.4% of GDP)</p> <p>Higher tax rates on insurance services and the energy sector (0.2% of GDP)</p> <p>Full yearly impact of the tax on the telecom sector and the reverse charge VAT in agriculture (0.1% of GDP)</p> <p>Introduction of the electronic road toll (0.25% of</p>	<p>Outlay related to the agreement with the banks (+0.2% of GDP)</p> <p>Further savings in the pension system (-0.1% of GDP)</p> <p>Further cut in the drug subsidy (-0.3% of GDP)</p> <p>Increased efficiency of the public sector (-0.3% of GDP)</p> <p>Further extension of the public work programme (+0.1% of GDP)</p> <p>Lower wage compensation in the private sector (-0.1% of GDP)</p> <p>Increased salaries in the public education sector</p>

GDP)	(0.1% of GDP) Cut in the support for the state-owned enterprises (-0.1% of GDP) Lower support for the Research & Development fund (-0.1% of GDP) Freezing of expenditure on the purchase of goods and services in the public sector (-0.2% of GDP)
2014	
Full year effect of the electronic road toll (0.25% of GDP)	Outlay related to the agreement with the banks (+0.2% of GDP) Increased salaries in the public education sector (0.4% of GDP)
<p><i>Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign means that revenue/expenditure increases/decreases as a consequence of the measure. The degree of detail reflects the type of information made available in the convergence programme.</i></p>	

The (recalculated) structural balance is foreseen to improve by 2.1% of GDP in 2012, following a deterioration of 1.4% of GDP in 2010 and 0.3% of GDP in 2011. In 2013, the (recalculated) structural balance improves by 0.7% of GDP, which would demonstrate adequate progress towards the MTO. Furthermore, the medium-term-objective (MTO) of 1.5% of GDP, which is unchanged compared to the target defined in 2011, would be achieved in 2013. This also means that, according to the (recalculated) structural balance, the MTO, in contrast with the 2011 convergence programme, would be achieved in the course of the programme period, mainly in view of the outlook for lower economic growth while the deficit targets are kept. However, according to the Commission services assessment, the structural balance will improve only by 0.3% of GDP to 1.8% of GDP. This means that progress towards the MTO does not appear to be adequate in 2013 based on the assessment of the Commission, which takes into account the implementation risks associated with selected savings measures and a less optimistic macroeconomic scenario.

The expenditure benchmark, according to the programme, will be met in 2013. However, real public expenditure growth will exceed the reference value in 2014 and in 2015 in the light of the assumption that economic growth will exceed the medium-term potential growth estimated by the Commission services based on the agreed method.

The baseline scenario incorporated in the 2012 spring forecast is subject to symmetric risks. Risks pointing towards a higher deficit (e.g. higher subsidies for student and housing loans, potential reimbursement of losses of the central bank as well as risks related to the accumulated debts of public enterprises and the many expenditure cuts targeting the same budgetary chapters) may be off-set by deficit decreasing risks, such as more favourable than currently assumed balances of local governments and potentially increasing risk appetite, reducing interest expenditure.

According to government plans, the public debt will be continuously reduced throughout the programme period to 77% of GDP in 2013 and below 73% of GDP in 2015, but will remain above the 60% of GDP reference value. Regarding the debt reduction benchmark, Hungary will be in transition period in 2013 and 2014, and plans would ensure sufficient progress towards compliance with the debt criterion. Moreover, according to the plans,

the debt benchmark will be met at the end of the transition period, in 2015. At the same time, according to the Commission services' assessment and assuming that no public assets will be sold in 2012, the debt ratio will decrease less dynamically, only to 78% of GDP by 2013.

Long-term sustainability

The projected long-term change in age-related expenditure is below the EU average. The initial relatively favourable budgetary position offsets the increase in long-term costs. Based on simulations prepared by the Commission services, under a no-policy-change assumption, debt would fall to 74.8% of GDP by 2020. Additional fiscal consolidation beyond the forecast horizon would be needed to make progress towards the reference value for government debt beyond the short term. However, the full implementation of the programme would be enough to put debt on a steeper downward path by 2020, even if it would still be above the 60% of GDP reference value in 2020. Ensuring sufficient primary surpluses over the medium-term would improve the sustainability of public finances.

Fiscal framework

After some initial signs of success with the previous budgetary framework, it was fundamentally revamped by the current government, which has weakened some aspects of the efficiency of its operation while strengthening others. The new Basic Law that came into effect on 1 January 2012 prohibits the adoption of a budget that would lead to public debt exceeding 50% of GDP. Until the debt ratio falls below this level, only budgets inducing a reduction in the debt ratio may be adopted. The competence of the Constitutional Court in legislation with budgetary implications remains restricted until the debt ceiling has been met. Rules for convergence to the debt ceiling and operational rules concerning the Fiscal Council were specified in the Economic Stability Law adopted in December 2011.¹⁴ Finally, the new **Public Finance Act** includes important (to a large extent re-confirmed) provisions for budgetary planning with both an annual and a medium-term planning horizon.

Overall, the new Basic Law of Hungary and the legislative documents discussed above lay out **a fiscal governance framework for Hungary that has a number of merits**. The new set-up makes it virtually impossible to adopt a non-compliant budget act in economically good times; the semi-annual review offers the possibility of correcting ex-post increases in public debt beyond the admissible level and a fiscal council occupies a key position in the process of budgetary planning. The accumulation of debt at local government level is now subject to central control. With the respective provisions in the Public Finance Act, the rudiments of a medium-term budgetary planning framework have been established.

Nevertheless, a number of flaws remain in the new institutional framework, notably regarding the **design features of the debt reduction rule**. *First*, although the rule is anti-cyclical, there is no immediate relation to the output gap, so it may or may not result in an outcome that is consistent with a structural budget balance constraint. *Second*, the legislation does not give guidance on the extent of admissible deviations from the debt constraint in the event of a significant economic recession (escape clause). *Third*,

¹⁴ The Economic Stability Law also stipulates that the income tax system is proportionate and the family tax allowances cannot decrease. These unusual provisions, which require a 2/3 majority in Parliament to be amended, significantly limit the ability of the current or any future governments to change the tax system and adapt it to budgetary requirements.

although an instant interim review is foreseen if debt reduction has exceeded the established limit and mandates budgetary correction, no deadline is established for such a review. Finally, the debt reduction rule might not ensure compliance with Hungary's obligations regarding the speed of debt reduction (also due to the difference in debt definitions) and adherence to the medium-term objective.

Regarding **effective budgetary planning** the government is explicitly granted the possibility to adjust the key figures in the outer three years of planning the central budget at any time without further specifics, and without any indication that these plans would provide the basis for the preparation of the annual budget. Therefore the multi-annual character of the fiscal rules is not yet guaranteed. With regard to the **transparency of the budgetary process**, the rights to access information are not specified, the timeliness of data publication is not stipulated and the dimension of public awareness on budgetary matters is not appropriately considered.

As far as the FC is concerned, its analytical remit and material resources as stipulated in the ESL are not commensurate with its power to veto the annual budget law. As suggested by international best practice, the quality and credibility of budgetary planning would be increased by entrusting the FC with the preparation of the macroeconomic forecast underlying the draft budget and medium-term planning as well as with *ex-ante* impact assessment of major fiscal policy initiatives (e.g. tax laws, also which are outside the standard budgetary cycle). Even after March 2012, when the President of the FC became entitled to a competitive remuneration and a small secretariat was set up, the assignment of an appropriately sized and dedicated analytical staff is warranted.

Against this background, **the recommendations issued in July 2011 have been partly implemented**. New regulations have been adopted for the operationalisation of the new constitutional fiscal governance framework but some weaknesses in its design can be identified. The adopted new annual numerical rule appears to focus too much on the annual budgetary cycle and does not seem to be conducive to medium-term budgetary planning, which remains indicative in the new framework. Regarding the analytical remit and the resources of the Fiscal Council, they are not commensurate with its newly granted strong veto power. There is still a need to improve the availability of budgetary information, also given that raising public awareness of budgetary policies could contribute to the success of fiscal consolidation built on fiscal consensus as well as to meeting the transparency requirements laid down in the Directive on national fiscal frameworks.

Tax system

The tax burden in Hungary temporarily fell by 1.5 pp. to 36% of GDP in 2011, but it is expected to increase to about 38.5% of GDP in 2012. This is close to the 2011 EU27 average of 39.2% but it is higher than in comparable countries (e.g. SK (29.2%), EE (33.3%), CZ (35%)). In terms of the taxes considered least distortive to growth, the share of consumption taxes was already rather high in 2011 and is expected to increase further, while revenue from recurrent property taxes remains below average.

Corporate income tax revenues fell as a result of a 2010 cut in the corporate income tax rate from 19% to 10% on income below a certain threshold. Personal income tax revenues also decreased due to the replacement of a progressive system with a 16% flat rate system introduced in 2011. Furthermore, in 2011 a new, generous and non-targeted family tax credit system was introduced with significant allowances especially for those with three or more children. This was partly financed from the 20% reduction in the employment tax credit available to low to medium earners.

In the decade to 2010, Hungary was characterised by high labour taxation, which specifically affected low wage earners (Hungary had the 4th highest tax wedge in the EU for single earners at 67% of the average wage in 2010). Although due to the recent reform the implicit tax rate on labour fell from 39.4 % in 2010 to around 35% in 2011, the tax burden on labour remains high in Hungary. In 2012 the PIT base for low to medium earners was narrowed, while at the same time the employment tax credit was fully removed, leading to a further overall increase in the tax burden on low earners. Thus the tax burden on a single average-wage worker, for example, increased by 2.4 pps. It is also worth noting that the social security contributions paid by employees were increased by 1 pp. The increase in the tax wedge has reduced the incentives to participate in the formal labour market for a significant proportion of the labour force, in particular for low-skilled and secondary workers. In comparison, the favourable labour market impact among high-income workers is expected to be limited due to their already high labour supply.

In the private sector, a wage subsidy scheme providing a tax allowance for employers who maintain net nominal wages has been introduced to counterbalance the unintended adverse labour market effects (see also section 3.3). For public workers the government provide an automatic offset. The budgetary effect of these counterbalancing measures is officially expected to be around 0.6% of GDP. Moreover, the introduction of the flat tax has increased the tax burden for those who have a higher propensity to consume and thus may also deteriorate the short-term growth and fiscal dynamics. The maintenance beyond 2012 of the wider PIT base for those on higher wages could generate some savings compared to the current plans, which may allow some compensation for lower earners in a budget neutral way. It is worth mentioning that this tax allowance system make the tax system even more complex, contrary to the original aim of the flat PIT.

A number of new consumption-type taxes, such as a tax on unhealthy food and car insurance have recently been introduced, and several tax rates and duties have been increased. The standard VAT rate has been raised from 25% to 27% (the highest in the EU). The temporary extraordinary levies introduced in 2010 on the retail, telecommunication and energy sectors are planned to be phased out, while the financial levy is to be halved in 2013. However, the introduction of a number of new permanent taxes was announced in the 2012 convergence programme, affecting practically the same sectors, such as the financial transaction levy (0.45% of GDP), the tax on the telecommunication services (0.15% of GDP) as well as increased surcharges on insurance services and the energy sector (0.2% of GDP). Since the recent tax reforms have resulted in a falling share of income taxes while consumption taxes have further increased, the main issues at present are not the scope for further tax shifts to enhance growth, but rather the unwanted behavioural impacts of the recent reforms, which may undermine growth prospects, including the detrimental impact on the investment climate of the extraordinary levies and their replacement by permanent levies from 2013.

Revenue from recurrent property taxation in Hungary accounted for only 0.35% of GDP in 2009, while approaching the EU average (for the 19 Member States for which data are available) could provide additional revenue of about 0.5% of GDP. Potential measures along these lines could be designed to mitigate the negative impact on vulnerable households.

The horizontal screening of tax challenges points to concerns with tax governance. The Hungarian tax system is characterised by significant tax evasion as indicated by the large shadow economy and signs of undeclared work. The size of the shadow economy is estimated at nearly 24%, i.e. substantially above the EU average of 16%. Underreporting

is common as many Hungarians declare an income at the minimum wage, although the prevalence of such underreporting is likely to be lower than sometimes claimed (overstating the revenue impact but understating the employment impact of a minimum wage hike)¹⁵. The self-employed have also been found to practice underreporting. The government has recently taken measures that go in the right direction, i.e. allowing unannounced audits and increasing penalties.

3.2. Financial sector

The financial indicators for the Hungarian banking sector remain solid, although the aggregate figures mask significant divergences among banks. No Hungarian financial institution was identified as needing recapitalisation in the context of the temporary bank recapitalisation exercise launched by the European Council of October 2011 and coordinated by the European Banking Authority, but the non-performing loan (NPL) ratio reached 13.5% and the share of corporate NPLs is among the highest in the EU. The **banking sector has been weakened** by the lacklustre economic performance, its exposure to foreign currency loans and unfavourable policy measures. Several large banks are owned by foreign parent companies that are themselves under pressure to meet regulatory and market capital requirements. **Credit to the economy has been contracting**, in contrast with most regional peers. Credit conditions have been particularly tight in the enterprise sector, with the decline in corporate lending having reached a four-year record in December 2011. Venture capital investments fell by more than 10% in 2011, the highest negative rate in the EU27.

The 2011 Country-Specific Recommendations to Hungary called for assessing the effectiveness of current SME support policies and adjusting public programmes to improve access to non-bank funding. In line with this recommendation, Hungary **reformed its JEREMIE programme** in order to increase both absorption and the leverage effect. In this context, combined microcredit tenders have been introduced from spring 2011, providing non-refundable grants combined with credit to micro enterprises. New calls are also available in the area of seed/venture capital: investments financed from venture capital more than tripled in 2011. By the end of 2011 more than EUR 200 million reached final beneficiaries under the JEREMIE programme (mainly public money), and implementation has been accelerated through innovative instruments. Guarantees in particular have had a notable multiplying effect.

Hungary also increased the allocation of resources to business development in the framework of the New Széchenyi Plan (NSzP). The Széchenyi Card Programme, modified in 2011, provides credit-card based, low-interest loans for micro-, small- and medium enterprises at Hungarian credit institutions. Interest and guarantee fee subsidies are also offered. So far more than 150 000 cards have been issued with a credit line of about EUR 3.5 billion, and in 2011 the contracted amounts increased by more than 8% in nominal terms. There remains a concern that young innovative enterprises and start-up companies do not meet the criteria required in the calls for non-refundable subsidies, although there are some legitimate considerations behind this. For example, NSzP calls require applicants to have been in business for at least two years, aiming to exclude companies that set up just to apply for funding and then declare bankruptcy. However, start-up SMEs can also benefit from the new combined micro-credit tenders and low-interest loans.

¹⁵ See e.g. Elek et al (2009) A bérekhez kapcsolódó adóeltitkolás Magyarországon

The implementation of the 2011 recommendation on SME policies has therefore been mixed. The measures to improve access to non-bank funding have been relevant and relatively ambitious compared to the practice in the past. However, the effectiveness of current SME policies has not been reviewed, although the NRP refers to revising the SME support system at the end of 2010. Hungary has also not introduced any monitoring system for assessing the impact of SME policies.

The measures described above in themselves support the AGS priority for improving SME access to finance. However, **the overall package of government policies has not been conducive to the ultimate aim of restoring normal lending** to the economy. The financial sector levy approved by Hungarian lawmakers back in 2010, of which 0.45% of GDP falls on banks, is the largest in the EU (planned to be cut from 2013). Further, the government unilaterally opened the possibility of early repayment of FX-denominated mortgages at discounted rates in September 2011, which resulted in losses for the banking sector in the order of 1¼% of GDP, and principally benefited a relatively small group of rather well-off Hungarians whose mortgages were not in arrears. The government reached an agreement with the Banking Association in December also to reduce the losses of the banking sector on these loans, although these still remained substantial (1/3 of these losses can be deducted from the bank levy, resulting in a net loss from this scheme of below 1% of GDP). Going forward, a stable policy environment will be crucial in order to support the resumption of lending activity. Broadening the range of eligible issuers of domestic mortgage-covered bonds could also contribute to a more stable funding structure and may promote lower interest rates for borrowers.

3.3. Labour market, education and social policy

The participation rate in Hungary has been increasing over the past years due to policy measures introduced by the current and the previous government, but it still remains among the lowest in the EU (HU: 62.7%, EU 71.2% in 2011). Unemployment has been in the double digits (10.9% in 2011) and is projected to remain so over the forecast horizon. As outlined in section 2.2, the employment rate of the Roma, of the low-skilled and of the young is particularly low and social inclusion is lagging. Women's share of the total volume of hours worked is the 6th highest in the EU, but their participation in the labour market is still hampered by the fact that available childcare capacity falls well short of the actual and potential demand: in 2010, the capacity utilisation of crèches was 110%, and coverage is particularly scant outside of large cities. Maternity leave, at up to 3 years, is uniquely long.

The geographical and occupational mobility of the labour force is poor. The contributing factors include a high proportion of house ownership, regional differences in rental prices and the lack of an efficient and deep residential rental market, and a low participation rate in life-long learning. In addition, according to the Hungarian Chamber of Commerce, the proportion of vocationally trained workers who are either unemployed or working in fields that do not correspond to their professional qualifications is around 60%, suggesting a mismatch between labour market requirements and the skills acquired in the educational system. State contributions and grants for school education have been cut, although already in 2010 the total amount was only 80% of the 2006 figure. Hungary's global ranking on the training of education staff, at 111th place, is extremely low¹⁶.

¹⁶ World Economic Forum (2011-12) Global Competitiveness Report

As reflected in the NRP, the government has introduced numerous reforms in the labour market over the past year. These include tax changes, a drastic cut in the unemployment benefit to 90 days that came into effect in September 2011 and tightening other benefits, a new labour code (which is being scrutinised by the Commission and which especially initially proved to be an unfavourable example of downplaying social dialogue), and piloting vocational training under the new system devised in consultation with the Chamber of Commerce. At the end of 2011 new laws were also adopted on public, vocational and higher education. The pensionable age has been raised by three years and early retirement abolished (without adequate labour demand and complementary retirement savings, the future adequacy of the pension system and therefore the possible hidden liabilities for the public budget may require attention). However, **progress towards meeting the country-specific recommendations has been limited and the recommendations have only been implemented in part.**

With respect to the 2011 recommendation on activation policies, the participation rate has indeed been rising (from 62% (2009 Q4) to above 63% (2011 Q4) in the 15-64 age group) in parallel with the drastic tightening of social assistance schemes and the unemployment benefit. At the same time, the measures to alleviate the **impact of the tax reform on low earners** have been far from ideal. The full elimination of the employment tax credit in 2012, combined with an increase in social security contributions, has further aggravated the situation of low earners: those without children who take home less than the average wage can ceteris paribus be facing an over 10% drop in their wages compared to 2011.

To ameliorate these developments, the government raised the minimum wage by around 19% and introduced employer wage subsidy schemes. However, this convoluted system, whose elements are set out in the NRP, does not necessarily offer relief to low earners other than at the minimum wage, and it renders the marginal tax rate the highest at low incomes. The minimum wage raise is also likely to be unfavourable for labour demand and it may increase grey employment, inflationary pressures and expectations of a weakening exchange rate. (On the upside, the legislation introduced the possibility to differentiate the minimum wage by region.) The wage subsidy schemes, which in any case may be temporary, do not offset all of the resulting burden on companies and employees, even leaving aside the administrative costs and the additional costs that may be involved if approximate wage ratios between different wage levels are maintained. Moreover, this scheme, as long as it is in effect, deteriorates the budgetary balance

The NRP describes steps that have been taken to encourage **women's participation in the labour market**: e.g. the new labour code encourages flexible working arrangements, as well as easing the conditions of return of new parents to the labour market. Progress on expanding childcare has been meagre, mainly due to the lack of funding (it is relevant to know here that the child tax allowances and the child benefits are not means-tested). The pressures on the system, especially in regions characterised by more favourable demographic trends, will only increase since the mandatory age for kindergarten participation was lowered from five years to three (taking effect in 2014). Support for alternative childcare services from EU sources (ESF) has been increased from HUF 6 bn to HUF 8 bn, but the overall amounts are small, while the sustainability of institutions established mainly from EU (ERDF) funding is challenging given that the responsibility for operational costs remains with local governments.

The policy responses to the 2011 recommendation on activation policies therefore have only been partially relevant to the extent that the instruments chosen to address the impact of the tax reform on low earners have been suboptimal, while the measures to

strengthen women's participation in the labour market are a very small step in the right direction and they are too limited to have a significant impact. The policy instruments cannot be considered ambitious since their scope is rather limited in comparison to the challenge. .

Regarding the 2011 recommendation on active labour market policies, the **Public Employment Service** has been reorganised again as of January 2012, including a merger with the Office for Labour Supervision and the National Institute for Vocational Education. This has brought with it a downsizing in the Public Employment Service, whose capacity has already been under pressure given high unemployment since the crisis. In parallel, a National Rehabilitation Authority is being set up to become operational in July 2012, with the staff to be drawn from the local Public Employment Service offices. Furthermore, half of the institution's overall capacity is now committed to managing the new public work scheme. Rather than strengthening the capacity of the Public Employment Service, therefore, developments are pointing in the opposite direction.

Active labour market policies are also undergoing large-scale restructuring, with cuts in training expenditure but doubling the funds allocated to public works compared to 2011. However, there is no comprehensive evidence-based evaluation of running active labour market policies that would back these changes. Insofar as training programmes may have been relatively ineffective, it would have been preferable to improve the provision of training instead of cutting down on it. It would also be desirable to facilitate mobility support (as also encouraged by the Commission's Employment Package). The public works scheme serves the double purpose of targeting social inclusion and activation, but the latter element should be strengthened in order to increase the chances of finding employment in the open labour market. Conducting job search is difficult for participants when most employment in the public works scheme is full time (as of this year), without making allowances for this within the structure of the public works scheme. There is a risk that the drastic cut in unemployment benefit, together with the reduced capacities of the Public Employment Service, will result in channelling and locking people in to public works.

A new European Social Fund active labour market programme for integrating **disadvantaged groups** has been launched, with some modifications relative to the previous such programme. In regions with a high proportion of low skilled inhabitants and long-term unemployed, more focus will be given to training, counselling and job search assistance. The indicators set for this four-year programme are evidence based and there is close monitoring. The Social Renewal Operational programme is also being modified to increase the allocation to active labour market policies and life-long learning, general foreign language and IT training and on-the-job training programmes. A new programme is being set up to help disadvantaged people develop life management skills.

In sum, there has been no progress towards meeting the recommendation regarding the Public Employment Service. Some of the measures aiming to provide tailor-made services for disadvantaged groups are relevant (the European Social Fund programmes), others are ambitious insofar as the activation of some disadvantaged groups is concerned, but unlikely to be effective in improving the placement of participants in the open job market (public works). In the absence of a comprehensive evaluation of active labour market policies provision, there has not been much progress in linking funding to results.

In terms of AGS priorities, Hungary has embarked on important advances in supporting employment, including of young people. The government's youth policy framework

programme (New Generation Programme) was approved at the end of 2011, with an emphatic element on improving youth employment. Vocational education and training is being revised to better respond to skills demand in the labour market, and rigidities of contracts have been reduced. It should nevertheless be noted that the reduced attention to elementary, general skills in vocational education could become a concern without significant and coordinated efforts in parallel to improve the output of primary education given the current poor state of affairs and the fact that employers seek adaptability.¹⁷ The Dobbantó pilot project helping pupils in need to catch up appears to be successful. Mainstreaming its features into the Bridge Programme framework would be promising from an educational point of view, but this cannot happen without appropriate funding and the NRP does not foresee additional resources for this purpose.

Funding for tertiary education has been cut given the need for fiscal consolidation. Science and mathematics placements have been privileged within this context, but raising the overall tertiary attainment rate should remain a priority since, at 25.7% in 2010, it is well below the EU average and the NRP target. As students from lower socio-economic backgrounds tend to be more averse to taking on financial risks, it would be important to monitor their participation in the student loan scheme. In addition, elements of the new legislation on school education risk increasing the number of early school leavers and further segregation in the Hungarian school system, while the low participation rate in lifelong learning hampers competitiveness and labour market adaptation. Progress has been mixed in mobilising labour for growth. The activity rate has been increasing, but several sectors with the highest employment potential ('white jobs' in the health and social sectors) are chronically underfunded and a forward looking health workforce strategy would also be important to retain healthcare professionals to meet the growing demands of healthcare. There is also room to improve the promotion of entrepreneurial skills.

Finally, Hungary recent policy record in protecting the vulnerable is in sharp contrast to the AGS recommendations. The effectiveness of social protection systems decreased, while the share of the population at risk of poverty or exclusion increased from 28.2 in 2008 to 29.9% in 2010, and the proportion of those affected by material deprivation from 17.9 in 2008 to 21.6% in 2010.¹⁸ In the absence of the EU-IMF balance of payments assistance, the crisis would likely have been much worse and these indicators could have risen yet further. In the context also of the fact that Hungary's child poverty rate is about 1.5 times the EU average, the higher emphasis on early childhood development in the Social Inclusion Strategy (submitted on 6 December 2011) is welcomed but, together with other important elements in the text, it is not reflected appropriately in the accompanying action plan and in mainstream policies¹⁹. As a bright spot, investments are in the pipeline from EU funds in developing social infrastructure and integrated action in favour of marginalised communities (e.g. the Roma). However, a monitoring system is yet to be launched.

¹⁷ See e.g. János Köllő (2011) *Kudarcisméltó szakoktatás*

¹⁸ The 2012 FRA/UNDP/WB report 'The Situation of Roma in 11 EU Member States' states that the percentage of households at risk of poverty is much higher – more than double – for marginalised Roma households than for marginalised non-Roma households.

¹⁹ Discrepancies can be observed in the fields of education, employment and the accessibility of social services. In addition, the foreseen transfer of schools with a Roma majority to Roma self-governments increases the risk of school segregation.

3.4. Structural measures promoting growth and competitiveness

Hungary's ranking in the Global Competitiveness Index has advanced from 58th position in 2009-10 to 48th in 2011-12, but there remains considerable scope to improve. Cost competitiveness had been considerably declining before the crisis, but then improved on the back on the depreciation of the forint and a decline in real wages. Albeit Hungary continuously gained market share before 2009, its performance lagged behind regional peers. The relative resilience of the export sector to declining cost competitiveness may be linked to the very significant share of high-technology goods (at over 22% of total exports, one of the highest in the EU-27).

Research and innovation

As the NRP also notes, **R&D expenditure** in Hungary (1.16% in 2010) is significantly below the EU average. Unhelpfully from the point of view of incentivising R&D in the private sector, the direct costs of research and development can no longer be deducted from the innovation tax payable by enterprises. Coordination between the authorities responsible for different tasks does not appear effective, as reflected for instance in the significant delay in the preparation of the new R&D&I strategy, and predictability in funding rules has not yet been achieved. On the positive side, several schemes, discontinued after June 2010 and co-financed from the EU Structural Funds, were reopened in 2011. According to the NRP, Hungary is preparing to position itself for fully maximising EU funds and programmes in the next funding period.

Hungary ranks as a moderate innovator in the **Innovation** Union Scoreboard with a performance below EU average, with business R&D investment driven primarily by foreign-owned enterprises. In terms of indicators of SME innovation (introducing a new product or a new process), Hungary ranks among the lowest in the EU together with Latvia. In patent statistics, Hungary is ranked 16th among the Member States with 1.3 PCT patent applications per billion GDP (compared to the EU average of 4), and the trend is slightly decreasing. **Human resources for research** are currently projected to be insufficient by 2015, although the number of students in maths, science and technology supported from public sources will increase significantly according to the new tertiary education act. Researcher mobility has long been low both in terms of inter-sectoral and cross-border mobility. In 2010, foreign researchers employed in Hungary accounted for only 3% of the total number of researchers.

Internal market, liberalisation and competition

Several **postal services** remain significantly shielded from competition, particularly in the letter mail segment, despite gradual market opening introduced by the Postal Services Directives and implemented by the Postal Act in Hungary. Excessively restrictive licensing requirements introduced into the national regulatory framework are widely perceived to be the main reason behind the lack of actual entry into the letter mail delivery service, and limited entry into related market segments despite interest by various market actors. Furthermore, the effect of the recent amendment of the 2003 Postal Act will be a de facto re-monopolisation of integrated mail, which is an added value service that is currently provided freely on the market. This is a significant step backward as the measure carries a strong negative signal value for further potential entrants in other segments as well.

Competition is lagging in the **professional services**. Among the 21 Member States included in the Organisation for Economic Cooperation and Development regulatory index on professional services, Hungary is the fourth worst ranked. Despite the

judgments of the CJEU of 24.5.2011 (concerning 8 other Member States), Hungary refused to repeal the nationality requirement for the profession of notary. In the **retail sector**, Hungary now prohibits the establishment of new large scale retail stores and has imposed excessive licensing requirements for issuing hot meal vouchers (de facto restricting the market to nation-wide banks), while a state monopoly has been imposed on issuing cold meal vouchers.

Infrastructure and public investment

Structural and Cohesion Funds co-finance a substantial part of the investments included in the New Széchenyi Plan (adopted in January 2011). The planned aggregate public investment to be co-financed in the 2007-2013 period amounts to EUR 29.7 billion. The implementation and delivery system of the **Economic Development Operational Programme** as well as the planning and monitoring system can be considered effective, although highly centralised within one single National Development Agency. Following a successful reorganisation, implementation appears to be back on track. In 2011 an ambitious initiative was carried out to streamline the delivery system, particularly with regard to aid to enterprises: applications can now be submitted more easily and quickly, which contributes to the acceleration of implementation. At the same time however, improvements are needed in the public procurement system, where real competition needs to be ensured.

On 22 March 2012, the European Commission referred Hungary to the Court of Justice of the European Union over the extraordinary levy on the telecom sector. Increasing the financial burden of telecoms operators, as indicated in the 2012 Convergence Programme, is likely to impede investment in a sector expected to drive growth under the Digital Agenda. The **digital switchover** is currently expected only at the end of 2014 instead of 2012, although making spectrum available for wireless broadband could help reduce the digital divide, introduce more choice in broadband, and enable innovation in other sectors.

Regarding **transport**, the liberalisation of the rail freight sector has not advanced fast enough and the market share of the incumbent remains above 80%. Travel times with the Hungarian Railways have been gradually increasing because of the growing number of speed limits due to the state of the tracks, which is the result of a long period of underspending on maintenance. Almost $\frac{3}{4}$ of the railway company's rolling stock is out of date, and the technical assets of the Budapest Transport Company have reached the limits of their utility: 85.2% of them have been used beyond their planned lifetime.²⁰ The NRP contains plans to renew the outdated vehicle park and establish an electronic ticketing system with the use of EU funds.

There has been limited progress towards at increasing the efficiency of public transport and reducing its dependence of public funding, although the convergence programme rehearses previous goals and outlines some measures. The lack of progress in restructuring public transport has been an important reason for budget slippages in recent years.²¹ According to the convergence programme, an electronic road toll system is now planned to be introduced by July 2013. A recent positive development has been the introduction of competitive tendering for bus services in Budapest. As regards inland

²⁰ Report of the State Audit Office of Hungary on the Budapest Transport Company, January 2012 (<http://www.asz.hu/jelentes/1202/jelentes-a-budapesti-kozlekedesi-zrt-gazdalkodasanak-ellenorzesrol/1202j000.pdf>)

²¹ E.g. only about $\frac{3}{4}$ of railway passengers need to buy a ticket at all (http://www.mav.hu/res/MAV_CSR_jelentes_2009.pdf)

waterways, over 30 bottlenecks hamper traffic on the Danube, with an impact on the whole Danube transport corridor. The reallocation of funds previously earmarked for improving inland waterways, as indicated in the 2012 NRP, would compromise the navigability of the Danube.

Energy and the environment

Environmental protection was not mentioned in the NRP, but the potential of improving **waste management** could be explored both from a growth enhancing and an environmental point of view. Full implementation of the existing legislation could create more than 13 000 jobs and increase the annual turnover of the waste sector by nearly €1.400 million.²² Hungary is on track to overachieve its **CO₂ emission reduction** target by 36.2% compared to the base year. Nonetheless, Hungary is not exploiting the growth potential that moving towards a low-carbon economy could unlock, as energy intensity remains high by EU standards and the NRP pays relatively little attention to R&D. Following through on the ambitious energy sector plans reflected in the National Energy Strategy (October 2011) would help limit energy dependence for growth, particularly in industry and from transport. It would be beneficial develop a long-term roadmap and a consistent monitoring mechanism in order to make sure that progress is achieved as planned.

The independence of the **energy** regulator is not ensured and it is not yet equipped with adequate means to independently set network tariffs and to fulfil its tasks and responsibilities as defined in the Third Energy Package. Subsidies are not currently targeted to vulnerable consumers, which translates to an environmentally harmful subsidy to energy consumers. Moreover, the current cross-border capacities in gas and electricity are not sufficient to ensure the integration of national markets on a regional level, which would boost competition and improve the resilience of the energy sector to external supply shocks. Hungary will require investment into its energy infrastructure but the current regulatory environment discourages private companies from making investments, which may in the future put additional pressure on public finances.

3.5. Modernisation of public administration

Institutional aspects rank high among the most problematic factors for doing business in Hungary, and are the single worst performing indicator in the Global Competitiveness Index. Corruption is the fourth most important concern among respondents to the Competitiveness Survey, and the burden of government regulation places Hungary 135th out of 142 countries surveyed.²³ As indicated in the NRP, the most recent estimate for the overall administrative burden on firms is over 10% of GDP. Still, progress over the past decade has been remarkable in some specific areas: starting business costs dropped from over 100% of income per capita in 2002 to under 10% in 2011.

As set out in the NRP, the Simple State Programme (launched in the second half of 2011) aims at reducing the administrative burden significantly, targeting savings of 1.7% of GDP in 2012 alone. Implementation is at risk of delay as responsibilities have not been clearly defined and the evaluation of the first set of measures has not been delivered

²² Based on European Commission DG ENV (2011) Implementing EU Waste Legislation for Green Growth.

²³ World Economic Forum (2011-12) Global Competitiveness Report.

yet.²⁴ Some elements of e-government such as the single document management are now being applied in a limited way, and points of single contact have been set up, although the Hungarian e-portal does not yet allow for the completion of all administrative procedures. In the context of the Magyary Programme, the total number of public administrative bodies has been reduced from 649 in 2010 to 318 mainly through integration many responsibilities were transferred from the local government level to the state, and one-stop shops for citizens were created at the county level. It is important to guarantee an adequate local regional partnership in the implementation of development programmes, mainly regional operational programmes within the Cohesion Policy.

As far as tax measures are concerned, a number of new taxes have been introduced whose administrative impact is likely to be high compared to the revenues generated (e.g. on unhealthy packaged food and on pornographic content). The complexity of tax rules on the whole affects firms of various sizes differently: the government estimates that larger firms devote on average 1% of their turnover to the administration of taxes, while the same figure is near 10% for small enterprises.²⁵ The compensation mechanism to alleviate the increased PIT burden on low earners further risks offsetting the potential administrative simplification gain associated with the introduction of the flat PIT rate. Importantly, rapid lawmaking in itself also exacerbates the administrative burden. An aspect of this is the extensive practice of individual MPs submitting bills, thereby circumventing the requirement of impact assessment.

In general, apart from the tax area, the envisaged measures are relevant and go in the right direction, but implementation is lagging. The very comprehensive public consultation procedure prior to adopting the programme reflects good practice. **Progress towards meeting the 2011 recommendation on business administration, therefore, has been partial,** and the size of the challenge together with the high ambition of the plans point towards a need for further close monitoring of the implementation in view of the envisaged impact.

The 2012 Annual Growth Survey notes the importance of improving **the transparency and quality of public administration and the judiciary**. This is relevant for Hungary who ranks 64th on judicial independence on the Global Competitiveness Index, with the Commission having referred Hungary to the European Court of Justice regarding the retirement age of judges on 25 April 2012 and administrative letters sent about the independence of the judiciary in January and March. In terms of other performance indicators, the length of proceedings and case backlog do not appear to present major problems within the Hungarian judicial system.²⁶ Regarding public administration, Hungary ranks 81st in the transparency of government policymaking, 109th in the diversion of public funds, and 130th concerning public trust in politicians. The German-Hungarian Chamber of Industry and Commerce also reported in April 2012 that 87% of its respondents are unsatisfied with the unpredictable economic environment (the worst result compared to previous years) and 62% rate the erosion of trust in legal security stemming from non-transparent legislation as the key factors behind declining investor

²⁴ According to the Government Decree (1133/2011) on the first steps of administrative burden reduction adopted in May 2011 a first evaluation should have been prepared six months after the adoption of the Decree.

²⁵ See also Reszkető Petra (2012) *Vállalkozni kicsiben és nagyban –Magyarország* (Budapest Institute).

²⁶ CEPEJ (European Commission for the Efficiency of Justice), 2010 Report, : http://www.coe.int/t/dghl/cooperation/cepej/evaluation/default_EN.asp?

sentiment. This is also a concern since increasing FDI could be an important channel for reducing the currently very high net international investment position.

The scope to improve is therefore considerable, and recent developments have been in the wrong direction. The weakest pillars of the National Integrity System, as presented by Transparency International,²⁷ remain similar to the situation under previous governments (e.g. political parties, the business sector). However, the two-thirds majority won by the government in 2010 has significantly relaxed the external constraints on appointments and the reorganisation of institutions and rules. This has facilitated, for instance, limiting the remit of the Constitutional Court, and rewriting the Basic Law without genuinely broad consultation, which provoked strong criticism inter alia by the Venice Commission and the EU. Party financing has also been a long-standing concern: the State Audit Office only examines invoices submitted by the political parties rather than assessing real expenditure. The lack of control has the potential to seriously undermine anti-corruption efforts.

Finally, there is room to reinforce internal compliance mechanisms as regards state aid. The number of prohibition decisions taken by the Commission in the 2004-2011 period was the 8th highest in Hungary in the EU (with the number of positive decisions taken into account for those Member States who would otherwise tie in the rankings). The size of sectoral (as opposed to horizontal) aid as a percentage of GDP, which can be an unfavourable indicator of the quality of aid, was the highest in Hungary among the Member States in 2010, although much of this reflects aid volumes granted prior to accession, and set to end according to country-specific treaty provisions. On the positive side, Hungary demonstrated the fourth highest level of compliance with the State Aid Best Practices code.

²⁷ Transparency International (2012) Corruption Risks in Hungary 2011.

4. OVERVIEW TABLE

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
<p>CSR 1: Strengthen the fiscal effort in order to comply with the Council recommendation to correct the excessive deficit in a sustainable manner, inter alia by avoiding the structural deterioration in 2011 implicit in the planned 2 % of GDP budget surplus and ensure that the budget deficit is kept safely below the 3% of GDP threshold in 2012 and beyond, contributing to the reduction of the high public debt ratio. Fully implement the announced fiscal measures and adopt additional measures of a permanent nature if needed at the latest in the 2012 budget to secure the budgetary target for that year. The 2012 budget should also identify the additional measures in order to attain the 2013 target in the convergence programme. Ensure progress towards the medium-term objective (MTO) by at least 0.5 % of GDP annually until the MTO is reached and use possible windfall revenues to accelerate the fiscal consolidation.</p>	<p>The government has achieved considerable progress regarding the implementation of the consolidation and structural reform measures included in the 2011 convergence programme and further saving measures adopted as part of the 2012 budget. Moreover, a new package of consolidation steps, concentrating mainly on the revenue side, was announced in the 2012 convergence programme with the ambition to attain the deficit targets in 2012 and 2013. Whereas no effort was made to avoid the structural deterioration in 2011 the fiscal adjustment is assessed to be sufficient to attain the official 2012 deficit target thanks to a structural improvement of over 2% of GDP. For 2013, the 2012 Spring Forecast projects a deficit of 2.9% of GDP, which could even be somewhat better based on most recent information. At the same time this deficit forecast assumes that all extraordinary reserves are eliminated i.e. no buffer remains to offset any unforeseen adverse developments. This forecast is still above the official target of 2.2% of GDP as a number of announced measures are not yet sufficiently substantiated, e.g. some expenditure cuts related to the budgetary chapters.</p>
<p>CSR 2: Adopt and implement regulations specifying the operational aspects of the new constitutional fiscal governance framework, including, inter alia, the numerical rules that will be implemented at the central and local level until the debt ratio has declined to below 50 % of GDP. Regarding the fiscal framework, implement and strengthen multiannual fiscal planning, improve the transparency of public finances and broaden the remit of the Fiscal Council.</p>	<p>New regulations have been adopted related to the operationalisation aspects of the new constitutional fiscal governance framework but some weaknesses pertaining to its design features can be identified. The medium-term budgetary planning is still indicative in the new framework. The analytical remit and the necessary resources of the Fiscal Council are not commensurate to its newly granted strong veto power. Finally, the availability of budgetary information is still not sufficient.</p>
<p>CSR 3: Enhance participation in the labour market by alleviating the impact of the tax reform on low earners in a budget-neutral manner. Strengthen measures to encourage women's participation in the labour market by expanding childcare and pre-school facilities.</p>	<p>The policy responses have only been partially relevant to the extent that the instruments chosen to address the impact of the tax reform on low earners have been suboptimal, while the measures to strengthen women's participation in the labour market are too limited, thus constitute a very small step in the right direction. The policy instruments cannot be considered ambitious since their scope is rather limited in comparison to the challenge.</p>
<p>CSR 4: Take steps to strengthen the capacity of the Public Employment Service and other providers to increase the quality and effectiveness of training, job search assistance and individualised services.</p>	<p>There has been no progress towards meeting the recommendation regarding the Public Employment Service. Some of the measures aiming to provide tailor-made services for</p>

<p>Reinforce active labour market measures delivering positive evidence-based results. In consultation with stakeholders, introduce tailor-made programmes, for the low-skilled and other particularly disadvantaged groups.</p>	<p>disadvantaged groups are relevant (the ESF programmes), others are ambitious insofar as the activation of some disadvantaged groups is concerned, but unlikely to be effective in improving the placement of participants in the open job market (public works). In the absence of a comprehensive evaluation of ALMP provision, there has not been much progress in linking funding to results.</p>
<p>CSR 5: Improve the business environment by implementing all the measures envisaged for regulatory reform and lowering administrative burdens in the national reform programme; assess the effectiveness of current SME support policies and adjust public programmes in order to improve access to non-bank funding.</p>	<p>In general, apart from the tax area, the envisaged measures are relevant and go in the right direction. The very comprehensive public consultation procedure prior adopting the program also reflects good practice. Progress towards meeting this part of the fifth 2011 CSR, therefore, has been encouraging although not uniformly so, but the size of the challenge and the high ambition of the plans point towards a need for further close monitoring of the implementation in view of the envisaged impact. Efforts to improve access to non-bank funding have been relevant, but they lack in ambition compared to the current scope of the problem, in the context of contracting credit to the corporate sector.</p>
<p>Europe 2020 (national targets and progress)</p>	
<p>Employment rate target (in %): 75%</p>	<p>Employment rate (%): 60.5% (2009), 60.4% (2010), 60.7% (2011).</p> <p>The 2011 Convergence Programme calculated with the creation of 400,000 new jobs for 2011-2015. As can be seen from the latest data for 2011, there has only been a slight increase. The effect of the public works programme is already reflected in the 2011 employment data and will be responsible for most of the expected employment growth in 2012-2013. However, it would be desirable to focus on policies that facilitate reaching the employment rate by organic job creation in the market. Reasonable progress has been made towards the achievement of this objective.</p>
<p>R&D target (in %): 1.8%</p>	<p>Gross domestic expenditure on R&D (in % of GDP): 1.17%% (in 2009), 1.16% (2010 provisional figure).Hungary has recently changed the regulation of the private sector's innovation obligations and access to funds. The compulsory innovation contribution (a percentage of their net revenues that enterprises pay to the so called Research, Technology and Innovation Fund) was abolished and the tender system for using the funds from this innovation contribution fund is under renewal. Parallel to this, the state contribution to the innovation fund will be decreased by 0.1% of GDP in 2013 according to the new NRP. The effectiveness of these schemes is currently under review. Some</p>

	progress has been made towards achieving this objective, the results are inconclusive.
CO ₂ emission reduction target (development in %) of the Member State: -10%	Greenhouse gas emissions, base year 1990. Index 1990 = 100: 69 (in 2009) After 1990 a strong increase appeared in the CO ₂ emission that was due to increased public transport activity. Since 2003, CO ₂ emissions in Hungary follow a declining path although this decrease is slow. Some progress has been made towards achieving the objective
Renewable energy target: 14.65% in overall final energy consumption	Share of renewable energy in gross final energy consumption: 7.3% (2009). Over the last decade, the share of renewable energy in all energy usage doubled in Hungary (it was 3.3 in 1999). However, it still does not reach the average of the Member States. Some progress has been made towards achieving this objective, but there is a great deal of room left for progress.
Energy efficiency: Reduction in primary energy consumption by 2020 (in Mtoe) 2.96Mtoe	Gross inland consumption of energy divided by GDP (kilogramme of oil equivalent per 1 000 euros): 414.2 (2009), 419.5 (2010) The energy efficiency objectives are set according to national circumstances and national formulations. As the methodology to express the 2020 energy consumption impact of these objectives in the same format was agreed only recently, the Commission is not yet able to present this overview.
Early school leaving target (in %): 10%	Early leavers from education and training (percentage of the population aged 18-24 with at most lower secondary education and not in further education or training): 11.2% in 2009 and 10.5% in 2010. After the modest decrease from 2009 to 2010 (2011 data is not available yet) the mandatory school age will be changed. From the next academic year, the upper age limit for compulsory schooling will be decreased from 18 years to 16, allowing students to leave school earlier. This is not aligned with the stage at which secondary school qualifications are received and it may increase the rate of early school leaving.
Tertiary education target (in %): 30.3%	Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education): 25.1% in 2009 and 26% in 2010. Hungary has made considerable progress in this area since 2006: each year on average over percentage point growth was achieved, but the Hungarian figure is still below the EU average. In the academic year starting in September 2012, the implementation of the new higher education bill will start. It is already noticeable that partly because of the

	<p>significant cut in the number of fully state-funded places the number of registrations suffered a major setback by 30 000. At the same time, the full implementation is a longer process, so it is too early to evaluate.</p> <p>Progress has been made towards achieving this objective, albeit recent changes could slow down the improvement.</p>
<p>Target for the reduction of the population at risk of poverty or social exclusion: 450,000</p>	<p>The number of Hungarian citizens at risk of poverty or social exclusion was 2,924,000 in 2009 and 2,948,000 in 2010.</p> <p>Despite the common endeavour and probably as the result of the crisis, poverty has not declined, it even grew. No progress has been made towards achieving this objective.</p>

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	2.4	4.2	2.2	-6.8	1.3	1.7	-0.3	1.0
Output gap ¹	-2.1	0.5	3.1	-5.1	-3.9	-2.3	-2.7	-2.0
HICP (annual % change)	16.5	7.1	5.4	4.0	4.7	3.9	5.5	3.9
Domestic demand (annual % change) ²	1.9	4.5	0.6	-10.5	-0.5	-0.5	-2.0	-0.3
Unemployment rate (% of labour force) ³	8.7	6.0	7.5	10.0	11.2	10.9	10.6	9.6
Gross fixed capital formation (% of GDP)	22.3	23.3	22.0	20.7	18.0	16.7	16.2	15.8
Gross national saving (% of GDP)	20.0	17.7	16.2	17.8	19.4	20.0	20.7	21.7
General government (% of GDP)								
Net lending (+) or net borrowing (-)	-6.5	-6.0	-6.5	-4.6	-4.2	4.3	-2.5	-2.9
Gross debt	68.5	56.6	66.9	79.8	81.4	80.6	78.5	78.0
Net financial assets	-28.4	-36.4	-50.8	-59.6	-61.0	n.a	n.a	n.a
Total revenue	45.2	43.2	44.0	46.9	45.2	52.9	46.1	44.6
Total expenditure	51.7	49.2	50.5	51.5	49.4	48.6	48.6	47.6
<i>of which: Interest</i>	8.3	4.5	4.1	4.7	4.1	4.1	4.1	4.2
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	-4.1	-2.3	-1.6	4.3	6.1	n.a	n.a	n.a
Net financial assets, non-financial corporations	-104.2	-104.7	-109.8	-128.4	-121.4	n.a	n.a	n.a
Net financial assets, financial corporations	-0.9	-2.3	-4.9	2.7	5.2	n.a	n.a	n.a
Gross capital formation	16.8	15.4	14.8	9.6	11.0	n.a	n.a	n.a
Gross operating surplus	16.8	20.1	22.5	21.9	24.8	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	5.9	1.1	1.5	1.3	1.0	n.a	n.a	n.a
Net financial assets	58.7	62.3	62.0	66.4	66.9	n.a	n.a	n.a
Gross wages and salaries	33.5	35.5	36.7	37.0	35.9	n.a	n.a	n.a
Net property income	5.7	4.2	3.4	3.6	2.9	n.a	n.a	n.a
Current transfers received	16.9	17.5	19.3	20.1	19.3	n.a	n.a	n.a
Gross saving	10.8	6.4	6.0	6.0	4.7	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	-4.8	-7.4	-6.7	1.0	2.8	2.9	5.4	7.0
Net financial assets	75.0	81.9	103.7	120.2	111.3	n.a	n.a	n.a
Net exports of goods and services	-0.3	-2.8	-0.4	4.9	6.5	7.4	9.0	10.5
Net primary income from the rest of the world	-4.7	-5.0	-6.0	-4.4	-4.9	-6.2	-6.6	-6.6
Net capital transactions	0.0	0.2	0.8	1.2	1.8	2.0	3.2	3.3
Tradable sector	47.7	45.8	45.7	43.5	45.0	47.6	n.a	n.a
Non-tradable sector	37.8	40.0	40.1	41.0	39.6	37.2	n.a	n.a
<i>of which: Building and construction sector</i>	4.2	4.7	4.4	4.1	3.7	3.3	n.a	n.a
Real effective exchange rate (index, 2000=100)	96.2	120.1	140.6	132.2	127.9	130.9	125.7	128.2
Terms of trade in goods and services (index, 2000=100)	101.6	101.1	98.8	98.8	98.8	97.4	97.2	97.7
Market performance of exports (index, 2000=100)	83.1	108.3	134.7	149.3	153.5	157.8	163.2	168.3
Notes:								
¹ The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.								
² The indicator for domestic demand includes stocks.								
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.								
Source:								
<i>Commission spring 2012 forecast</i>								

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	1.7	1.7	-0.3	0.1	1.0	1.6	2.5	2.5
Private consumption (% change)	0.0	0.0	-1.5	-1.4	0.0	0.3	2.5	2.6
Gross fixed capital formation (% change)	-5.4	-5.4	-2.3	-2.3	-0.7	0.3	3.5	3.5
Exports of goods and services (% change)	8.4	8.4	5.4	4.7	8.0	8.8	10.5	10.5
Imports of goods and services (% change)	6.3	6.3	4.0	2.8	7.4	8.0	10.9	10.9
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	-1.1	-1.1	-1.8	-1.3	-0.3	0.2	1.9	2.0
- Change in inventories	0.5	0.5	0.0	-0.6	0.0	-0.1	-0.1	-0.1
- Net exports	2.2	2.2	1.6	2.0	1.3	1.5	0.7	0.7
Output gap ¹	-2.3	-2.4	-2.7	-3.0	-2.0	-2.6	-1.7	-1.2
Employment (% change)	0.3	0.8	1.0	1.2	1.4	2.2	3.0	3.4
Unemployment rate (%)	10.9	10.9	10.6	10.9	9.6	10.3	9.5	8.9
Labour productivity (% change)	1.4	0.9	-1.3	-1.1	-0.4	-0.6	-0.5	-0.8
HICP inflation (%)	3.9	3.9	5.5	5.2	3.9	4.2	3.0	3.0
GDP deflator (% change)	3.5	3.5	4.6	4.2	3.6	2.9	3.0	2.7
Comp. of employees (per head, % change)	5.8	3.2	3.7	2.4	2.9	3.5	4.5	3.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.9	3.6	5.4	6.5	7.0	7.3	7.3	6.4
<u>Note:</u>								
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.								
<u>Source:</u>								
Commission' spring 2012 forecasts (COM); Convergence programme (CP).								

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	52.9	46.1	46.0	44.6	45.2	45.3	44.9	-8.0
<i>of which:</i>								
- Taxes on production and imports	16.6	17.4	17.5	17.1	17.6	17.4	17.1	0.5
- Current taxes on income, wealth, etc.	6.4	6.9	6.9	6.7	6.8	6.9	7.0	0.6
- Social contributions	13.0	13.0	13.0	13.0	13.0	13.0	12.9	-0.1
- Other (residual)	16.9	8.7	8.6	7.9	7.8	8.0	7.9	-9.0
Expenditure	48.6	48.6	48.5	47.6	47.4	47.2	46.4	-2.2
<i>of which:</i>								
- Primary expenditure	44.5	44.6	44.4	43.4	43.2	43.1	42.7	-1.8
<i>of which:</i>								
Compensation of employees	10.1	10.1	10.1	9.9	9.9	10.2	10.2	0.1
Intermediate consumption	7.5	7.0	6.9	6.8	6.5	6.4	6.2	-1.3
Social payments	17.9	17.2	17.1	16.8	16.6	16.2	15.9	-2.0
Subsidies	1.2	1.0	1.0	1.1	1.0	0.9	1.1	-0.1
Gross fixed capital formation	2.9	4.4	4.3	4.6	4.4	4.4	4.2	1.3
Other (residual)	4.9	4.9	5.0	4.3	4.8	4.9	5.1	0.2
- Interest expenditure	4.1	4.1	4.1	4.2	4.2	4.1	3.7	-0.4
General government balance (GGB)	4.3	-2.5	-2.5	-2.9	-2.2	-1.9	-1.5	-5.8
Primary balance	8.3	1.5	1.6	1.2	2.0	2.2	2.2	-6.1
One-off and other temporary measures	9.6	0.8	0.8	0.0	0.2	0.0	0.0	-9.6
GGB excl. one-offs	-5.3	-3.3	-3.3	-2.9	-2.4	-1.9	-1.5	3.8
Output gap ²	-2.3	-2.7	-3.0	-2.0	-2.6	-1.7	-1.2	1.1
Cyclically adjusted balance ²	5.3	-1.3	-1.1	-2.0	-1.0	-1.1	-0.9	-6.3
Structural balance³	-4.3	-2.1	-1.9	-2.0	-1.2	-1.1	-0.9	3.3
<i>Change in structural balance</i>		2.2	2.3	0.1	0.8	0.1	0.2	
Structural primary balance³	-0.2	2.0	2.2	2.1	3.0	3.0	2.8	3.0
<i>Change in structural primary balance</i>		2.2	2.4	0.1	0.9	0.0	-0.2	
Expenditure benchmark								
Public expenditure growth ⁴ (real)		14.41	-9.47	-0.11	-2.49	1.70	2.17	-
Reference rate ^{5,6}		0.54	0.54	0.54	0.54	0.54	0.54	-
Lower reference rate ^{5,7}		-0.57	-0.57	-0.57	-0.57	-0.57	-0.57	-
Deviation in % of GDP from applicable reference rate		6.61	-3.76	0.20	-0.75	0.44	0.62	-
Two-year average deviation in % of GDP from applicable reference rate		n.a.	n.a.	3.41	-2.26	-0.16	0.53	-
Notes:								
¹ On a no-policy-change basis.								
² Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by the Commission on the basis of the information in the programme.								
³ Structural (primary) balance = cyclically adjusted (primary) balance excluding one-off and other temporary measures.								
⁴ Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.								
⁵ The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.								
⁶ The (standard) reference rate applies starting in the year following the one in which the country reaches its MTO.								
⁷ The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.								
Source :								
Convergence programme (CP); Commission spring 2012 forecasts (COM); Commission calculations.								

Table IV. Debt dynamics

(% of GDP)	Average 2006-10	2011	2012		2013		2014	2015
			COM	CP	COM	CP	CP	CP
Gross debt ratio ¹	73.4	80.6	78.5	78.4	78.0	77.0	73.7	72.7
Change in the ratio	3.9	-0.8	-2.1	-2.2	-0.4	-1.4	-3.3	-1.0
<i>Contributions</i> ² :								
1. Primary balance	1.2	-8.3	-1.5	-1.6	-1.2	-2.0	-2.2	-2.2
2. Snow-ball effect	1.7	0.0	0.8	0.8	0.7	0.9	0.1	0.0
<i>Of which:</i>								
Interest expenditure	4.2	4.1	4.1	4.1	4.2	4.2	4.1	3.7
Growth effect	0.3	-1.3	0.2	-0.1	-0.7	-1.2	-1.8	-1.7
Inflation effect	-2.8	-2.7	-3.5	-3.2	-2.7	-2.1	-2.1	-1.9
3. Stock-flow adjustment	1.0	7.5	-1.4	-1.4	0.1	-0.2	-1.2	1.2
<i>Of which:</i>								
Cash/accruals diff.				0.0		0.0	0.0	0.0
Accum. financial assets								
<i>Privatisation</i>								
Val. & residual effects								
		2011	2012		2013		2014	2015
			COM/SP ³	SP ⁴	COM/SP ³	SP ⁴	SP	SP
Gap to the debt benchmark ^{5,6}	-	-	-	-	-	-	-	-
Structural adjustment ⁷	-	-	-	-	0.8	0.8	0.1	0.2
<i>To be compared to:</i>								
Required adjustment ⁸	-	-	-	-	0.2	0.0	0.0	0.0
Notes:								
¹ End of period.								
² The snowball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, the accumulation of financial assets and valuation and other residual effects.								
³ Assessment of the consolidation path set in CP assuming growth follows the COM forecasts.								
⁴ Assessment of the consolidation path set in the CP assuming growth follows the SP projections.								
⁵ Not relevant during EDP that were ongoing in November 2011 and in the three years following the correction of the excessive deficit.								
⁶ Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.								
⁷ Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.								
⁸ Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (CP) budgetary projections are achieved.								
<i>Source:</i>								
<i>Convergence programme (CP); Commission spring 2012 forecasts (COM); Commission calculations.</i>								

Table V. Sustainability indicators

	HU		EU27	
	No-policy change scenario	Convergence programme scenario	No-policy change scenario	SCPs scenario
S2	0.5	0.0	2.9	0.7
<i>of which:</i>				
Initial budgetary position (IBP)	-0.5	-1.1	0.7	-1.6
Long-term change in the primary balance (LTC)	1.0	1.1	2.3	2.4
<i>of which:</i>				
pensions	0.4	0.6	1.1	1.2
health care and long term care	1.0	1.0	1.5	1.5
others	-0.4	-0.5	-0.3	-0.3
S1 (required adjustment)*	-0.7	-1.8	2.2	-0.1
Debt, % of GDP (2011)	80.6		82.8	
Age-related expenditure, % of GDP (2011)	22.3		25.8	

Source: Commission, 2012 convergence programme.

Note: the 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.

* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Figure. Medium-term debt projection

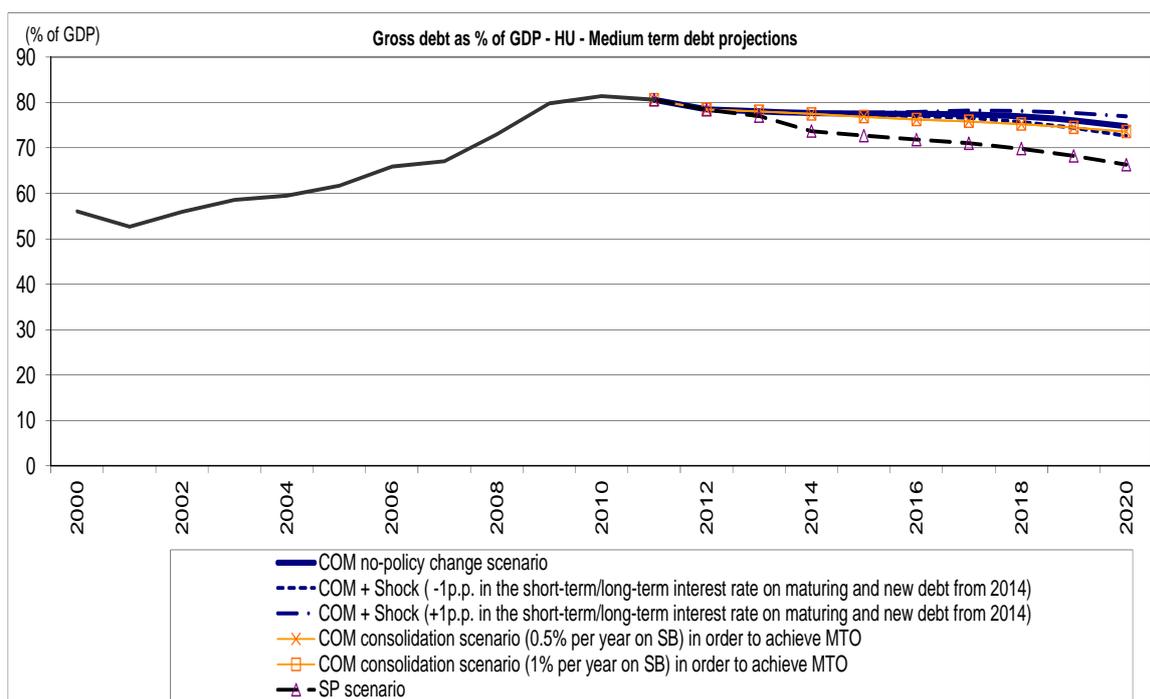


Table VI. Taxation

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	38.7	37.4	40.4	40.3	40.1	37.7
Breakdown by economic function (% of GDP) ¹						
Consumption	14.7	14.5	14.7	14.3	15.2	14.8
of which:						
- VAT	8.1	8.4	8.1	7.8	8.6	8.7
- excise duties on tobacco and alcohol	1.1	1.2	1.4	1.4	1.6	1.3
- energy	2.3	2.1	2.0	2.0	2.0	2.0
- other (residual)	3.1	2.8	3.2	3.2	3.1	2.7
Labour employed	18.6	17.9	19.3	19.8	19.0	17.4
Labour non-employed	0.7	0.3	0.8	1.0	1.0	0.9
Capital and business income	3.7	3.3	4.2	3.8	3.4	2.2
Stocks of capital/wealth	1.0	1.3	1.4	1.5	1.5	2.5
<i>p.m.</i> Environmental taxes ²	2.9	2.8	2.8	2.7	2.7	2.6
VAT efficiency ³						
Actual VAT revenues as % of theoretical revenues at standard rate	48.2	48.8	58.7	57.1	49.8	52.4
Note:						
1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.						
2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.						
3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.						
Source: Commission						

Table VII. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	113.1	121.3	142.7	129.7	115.7
Share of assets of the five largest banks (% of total assets)	54.1	54.4	55.2	54.7	...
Foreign ownership of banking system (% of total assets)	57.9	64.0	54.1
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	2.3	3.0	6.7	9.8	12.3
- capital adequacy ratio (%) ^{1) 2)}	10.4	12.4	13.9	13.9	13.5
- return on equity (%) ^{1), 3)}	18.4	16.7	8.3	0.4	1.3
Bank loans to the private sector (year-on-year % change)	16.0	13.8	-5.0	0.5	-12.3
Lending for house purchase (year-on-year % change)	15.9	18.5	0.0	6.8	-14.0
Loan to deposit ratio	128.4	139.2	132.4	136.7	128.1
CB liquidity as % of liabilities	0.0	0.6	0.0	0.1	0.0
Banks' exposure to countries receiving official financial assistance (% of GDP) ⁴⁾
Private debt (% of GDP)	...	65.2	71.5	68.4	...
Gross external debt (% of GDP) ⁴⁾					
- Public	34.6	38.8	46.4	46.0	51.1
- Private	56.0	76.9	85.5	70.2	65.6
Long term interest rates spread versus Bund (basis points)*	252.8	425.4	590.1	453.8	502.7
Credit default swap spreads for sovereign securities (5-year)*	53.1	205.8	338.3	288.3	382.4
Notes:					
¹⁾ Latest September 2011.					
²⁾ The capital adequacy ratio is defined as total capital divided by risk weighted assets.					
³⁾ Net income to equity ratio.					
⁴⁾ Latest data 2011Q3.					
* Measured in basis points.					
Source:					
<i>Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt), ECB (all other indicators).</i>					

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	62.6	62.6	61.9	60.5	60.4	60.7
Employment growth (% change from previous year)	0.7	-0.1	-1.2	-2.5	0.0	0.8
Employment rate of women (% of female population aged 20-64)	55.7	55.5	55.1	54.4	55.0	54.9
Employment rate of men (% of male population aged 20-64)	69.9	70.2	69.0	67.0	66.0	66.8
Employment rate of older workers (% of population aged 55-64)	33.6	33.1	31.4	32.8	34.4	35.8
Part-time employment (% of total employment)	4.0	4.2	4.7	5.6	5.9	6.8
Part-time employment of women (% of women employment)	5.6	5.8	6.2	7.5	8.1	9.3
Part-time employment of men (% of men employment)	2.6	2.8	3.3	4.0	3.9	4.8
Fixed term employment (% of employees with a fixed term contract)	6.7	7.3	7.9	8.5	9.7	8.9
Unemployment rate ¹ (% of labour force)	7.5	7.4	7.8	10.0	11.2	10.9
Long-term unemployment ² (% of labour force)	3.4	3.4	3.6	4.2	5.5	5.2
Youth unemployment rate (% of youth labour force aged 15-24)	19.1	18.0	19.9	26.5	26.6	26.1
Youth NEET ³ rate (% of population aged 15-24)	12.4	11.3	11.5	13.4	12.4	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.6	11.4	11.7	11.2	10.5	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	20.7	22.0	24.0	25.1	26.0	:
Labour productivity per person employed (annual % change)	3.5	0.1	2.4	-4.2	0.9	1.4
Hours worked per person employed (annual % change)	-0.2	-0.2	0.2	-0.9	-0.3	0.9
Labour productivity per hour worked (annual % change; constant prices)	3.7	0.3	2.2	-3.2	1.3	0.5
Compensation per employee (annual % change; constant prices)	2.0	0.9	1.5	-4.8	-5.3	2.2
Nominal unit labour cost growth (annual % change)	2.0	6.3	4.3	2.9	-3.2	4.4
Real unit labour cost growth (annual % change)	-1.4	0.8	-0.9	-0.6	-6.1	0.8
Notes:						
¹ According to ILO definition, age group 15-74)						
² Share of persons in the labour force who have been unemployed for at least 12 months.						
³ NEET are persons that are neither in employment nor in any education or training.						
Sources:						
Commission (EU Labour Force Survey and European National Accounts)						

Table VIII. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	6.41	6.35	5.67	5.62	5.68
Invalidity	2.12	2.16	2.15	2.10	2.09
Old age and survivors	7.83	8.00	8.42	8.84	9.10
Family/Children	2.53	2.83	2.85	2.86	3.03
Unemployment	0.62	0.67	0.77	0.83	0.97
Housing and Social exclusion n.e.c.	0.51	0.54	0.92	0.72	0.63
Total	21.9	22.5	22.7	22.9	23.4
of which: Means tested benefits	1.14	0.96	1.42	1.22	1.17
Social inclusion indicators	2006	2007	2008	2009	2010
Risk-of-poverty or exclusion ¹ (% of total population)	31.4	29.4	28.2	29.6	29.9
Risk-of-poverty or exclusion of children (% of people aged 0-17)	37.7	34.1	33.4	37.2	38.7
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	23.9	21.1	17.5	17.5	16.8
At-risk-of-poverty rate ² (% of total population)	15.9	12.3	12.4	12.4	12.3
Value of relative poverty threshold (single household per year) - in PPS	3646	3894	3958	4102	4011
Severe material deprivation ³ (% of total population)	20.9	19.9	17.9	20.3	21.6
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	13.0	11.3	12.0	11.3	11.8
In-work at-risk-of poverty rate (% of persons employed)	6.8	5.8	5.8	6.2	5.3
Notes:					
¹ People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).					
² At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.					
³ Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.					
⁴ People living in households with very low work intensity: share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.					
Sources:					
For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table IX. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity ¹ total economy (annual growth in %)	4.1	1.1	2.1	-4.0	1.0	1.7
Labour productivity ¹ in manufacturing (annual growth in %)	7.6	6.0	-0.4	-6.3	12.1	n.a.
Labour productivity ¹ in electricity, gas, water (annual growth in %)	-1.7	4.5	13.4	-12.0	n.a.	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	-0.1	-9.1	-4.2	-4.8	-4.7	n.a.
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	0.9	0.9	0.7	n.a.	n.a.	n.a.
Policy indicators	2002-2006	2007	2008	2009	2010	2011
Enforcing contracts ³ (days)	n.a.	335	335	395	395	395
Time to start a business ³ (days)	n.a.	16	5	4	4	4
R&D expenditure (% of GDP)	1.0	1.0	1.0	1.2	1.2	n.a.
Tertiary educational attainment (% of 30-34 years old population)	17.2	20.1	22.4	23.9	25.7	n.a.
Total public expenditure on education (% of GDP)	5.5	5.2	5.1	n.a.	n.a.	n.a.
	2005	2006	2008	2009	2010	2011
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	1.3	n.a.	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	2.1	n.a.	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁵ (Index; 0=not regulated; 6=most regulated)	2.8	2.6	1.8*	n.a.	n.a.	n.a.
Notes:						
¹ Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.						
² Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
³ The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies for the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html . The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.						
⁵ Aggregate ETCR.						
* figure for 2007.						
Source:						
Commission, World Bank - <i>Doing Business</i> (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						

Table X. Indicators on green growth

Hungary		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
<i>Macroeconomic</i>							
Energy intensity	kgoe / €	0.46	0.43	0.41	0.41	0.41	0.42
Carbon intensity	kg / €	1.39	1.21	1.18	1.13	1.11	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	2.60	2.36	1.84	2.05	1.80	n.a.
Waste intensity	kg / €	n.a.	0.35	0.33	0.31	n.a.	n.a.
Energy balance of trade	% GDP	-2.8%	-6.3%	-4.6%	-6.2%	-4.8%	-5.0%
Energy weight in HICP	%	13	13	13	14	14	15
Difference between change energy price and inflation	%	n.a.	3.3	15.4	7.5	3.1	1.6
Environmental taxes over labour taxes	ratio	14.7%	15.4%	14.0%	13.0%	13.3%	n.a.
Environmental taxes over total taxes	ratio	7.2%	7.6%	7.0%	6.7%	6.6%	n.a.
<i>Sectoral</i>							
Industry energy intensity	kgoe / €	0.22	0.17	0.15	0.15	0.14	n.a.
Share of energy-intensive industries in the economy	% GDP	10.7	11.0	11.1	11.2	11.2	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	0.06	0.08	0.08	0.11	0.12	0.10
Public R&D for energy	% GDP	n.a.	0.04%	0.01%	0.01%	0.01%	n.a.
Public R&D for the environment	% GDP	n.a.	0.04%	0.01%	0.02%	0.02%	n.a.
Recycling rate of municipal waste	ratio	11.6%	18.7%	20.4%	23.8%	24.9%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	33.2%	35.6%	37.3%	33.6%	n.a.
Transport energy intensity	kgoe / €	0.75	0.77	0.66	0.68	0.77	n.a.
Transport carbon intensity	kg / €	2.03	2.13	1.82	1.82	2.05	n.a.
Change in the ratio of passenger transport and GDP	%	-4.4%	-3.6%	-10.5%	0.3%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	59.3%	62.7%	61.3%	63.4%	58.8%	n.a.
Diversification of oil import sources	HHI	n.a.	0.96	0.95	1.00	1.00	n.a.
Diversification of energy mix	HHI	0.29	0.28	0.27	0.27	0.25	n.a.
Share of renewable energy in energy mix	%	3.6%	4.5%	5.1%	5.9%	7.3%	n.a.
Country-specific notes:							
The year 2011 is not included in the table due to lack of data.							
General explanation of the table items:							
Source: Eurostat unless indicated otherwise; ECFIN explanations given below							
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)							
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)							
Carbon intensity: Greenhouse gas emissions (in kg CO ₂ equivalents) divided by GDP (in EUR)							
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)							
Waste intensity: waste (in kg) divided by GDP (in EUR)							
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP							
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP							
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)							
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"							
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)							
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP							
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste							
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP							
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)							
Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)							
Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector							
Passenger transport growth: measured in %-change in passenger kilometres							
Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers							
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin							
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels							
Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents							