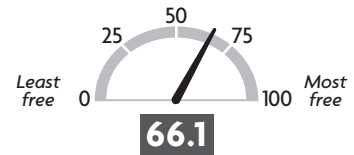


HUNGARY

Economic Freedom Score



World Rank: **51**

Regional Rank: **24**

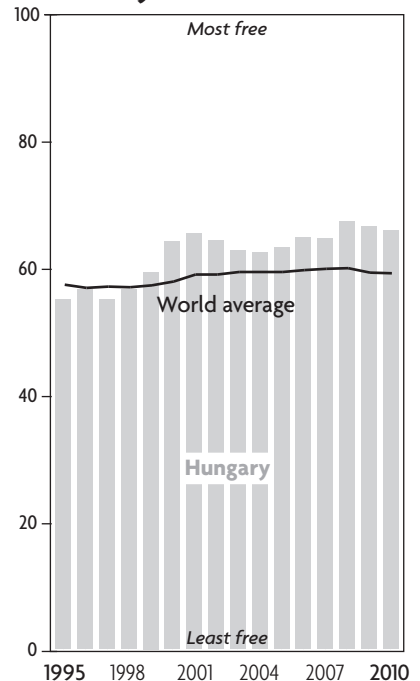
Hungary's economic freedom score is 66.1, making its economy the 51st freest in the 2010 *Index*. Its score has decreased by 0.6 point, reflecting declines in six of the 10 economic freedoms that offset improvements in three others. Hungary is ranked 24th out of 43 countries in the Europe region, and its overall score is well above the world average.

Greater openness and flexibility have led to robust entrepreneurial activity and substantial inflows of foreign direct investment. The overall business environment is aided by strong trade freedom, business freedom, property rights, and investment freedom. Investing is easy, and foreign capital and domestic capital enjoy virtually the same protections. The rule of law is respected, and corruption is perceived as moderate.

Hungary needs fiscal consolidation and better management of public finance. The size of government is Hungary's biggest weakness, with its score far below the world average. The fiscal deficit is high, and economic competitiveness has declined somewhat with worsening economic fundamentals and a growing tax burden. The global financial turmoil led to immediate financing difficulties for the government, with its already high levels of official debt.

BACKGROUND: Hungary emerged from 40 years of Communist rule more politically and economically open than its formerly Communist neighbors. It rapidly transformed itself into a market economy and in 2004 joined the European Union. The ruling coalition of the Hungarian Socialist Party and the liberal Alliance of Free Democrats collapsed in April 2008, but the Socialists have continued in power as a minority government with slightly less than half of the seats in Parliament. With Hungary hit hard by the global financial crisis and the economy contracting, Socialist Prime Minister Ferenc Gyurcsany resigned in May 2009. Former economy minister Gordon Bajnai took over as prime minister and has enacted spending cuts and other reforms intended to enhance competitiveness.

Country's Score Over Time



Quick Facts

Population: 10.0 million

GDP (PPP): \$194.0 billion

0.6% growth in 2008

2.4% 5-year compound annual growth

\$19,330 per capita

Unemployment: 7.8%

Inflation (CPI): 6.1%

FDI Inflow: \$6.5 billion

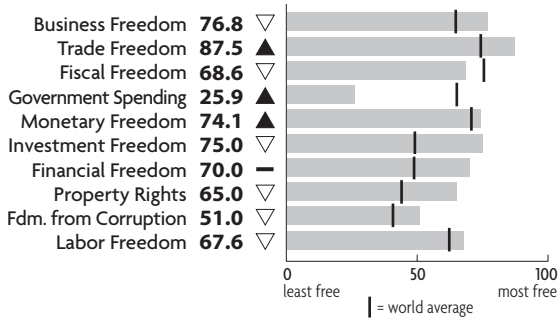
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

HUNGARY'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 76.8

The overall freedom to start, operate, and close a business is relatively well protected under Hungary's regulatory environment. Starting a business takes four days, compared to the world average of 35 days, but obtaining a business license requires more than the world average of 18 procedures.

TRADE FREEDOM — 87.5

Hungary's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Hungarian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Restrictive biotechnology regulations, non-transparent government procurement, and weak enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Hungary's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 68.6

Hungary has a relatively high income tax rate but a relatively low corporate tax rate. The top income tax rate is 36 percent, and the top corporate tax rate is 16 percent. Other taxes include a value-added tax (VAT), a property tax, and a gift tax. In the most recent year, overall tax revenue as a percentage of GDP was 39.9 percent.

GOVERNMENT SPENDING — 25.9

Total government expenditures, including consumption and transfer payments, are high. In the most recent year, government spending equaled 49.7 percent of GDP. The government remains directly involved in agriculture, electric power, and railways.

MONETARY FREEDOM — 74.1

Inflation has been relatively high, averaging 6.3 percent between 2006 and 2008. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural

products. It also regulates prices for energy, telecommunications services, and subsidized pharmaceutical products, among others. Ten points were deducted from Hungary's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 75

Foreign capital receives domestic legal treatment, and foreign companies account for a large share of manufacturing, telecommunications, and energy. The government allows 100 percent foreign ownership with the exception of some defense-related industries. Deterrents include bureaucracy, inadequate judicial capacity, and a non-transparent investment code. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on current transfers or repatriation of profits and no restrictions on issues or sales of capital market instruments; there are some reporting requirements. Only private Hungarian citizens and EU citizens resident in Hungary and engaged in agricultural activity may purchase farmland; others may lease it.

FINANCIAL FREEDOM — 70

Hungary's financial sector is dominated by banking. There are 29 commercial banks and eight special credit institutions. The government has largely withdrawn from banking, and over two-thirds of the sector is foreign-owned. Capital markets are relatively developed, and foreign investors participate freely. The Budapest Stock Exchange has low volumes of trading and lists about 60 companies. After years of robust growth, banking expansion has slowed considerably, and profitability is down. With mutual funds heavily exposed to the real estate market, the financial sector has been severely strained by the global financial crisis.

PROPERTY RIGHTS — 65

Secured interests in property are recognized and enforced, but there is no title insurance. The judiciary is constitutionally independent, and this is respected in practice. The threat of expropriation is low. The courts are slow and severely overburdened, and a final ruling on a contract dispute can take more than a year. Protection of intellectual property rights has improved somewhat.

FREEDOM FROM CORRUPTION — 51

Corruption is perceived as present. Hungary ranks 47th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. There are persistent reports of corruption in government procurement. Hungary is a party to the OECD Anti-Bribery Convention and has incorporated its provisions into the penal code, as it has with subsequent OECD and EU requirements on the prevention of bribery.

LABOR FREEDOM — 67.6

Labor regulations are relatively inflexible. The non-salary cost of employing a worker is burdensome, and dismissing an employee is relatively costly. Regulations on work hours are not flexible.