Hungary

Hungary has one of the lowest income per capita in the OECD. Hungary's GDP per capita is over a third below the OECD average and the difference has narrowed only slightly in the past decade. Productivity performance has been weak since the crisis. Employment rates were strongly affected by the crisis but have recovered since 2011 and in 2018 were around the OECD average.

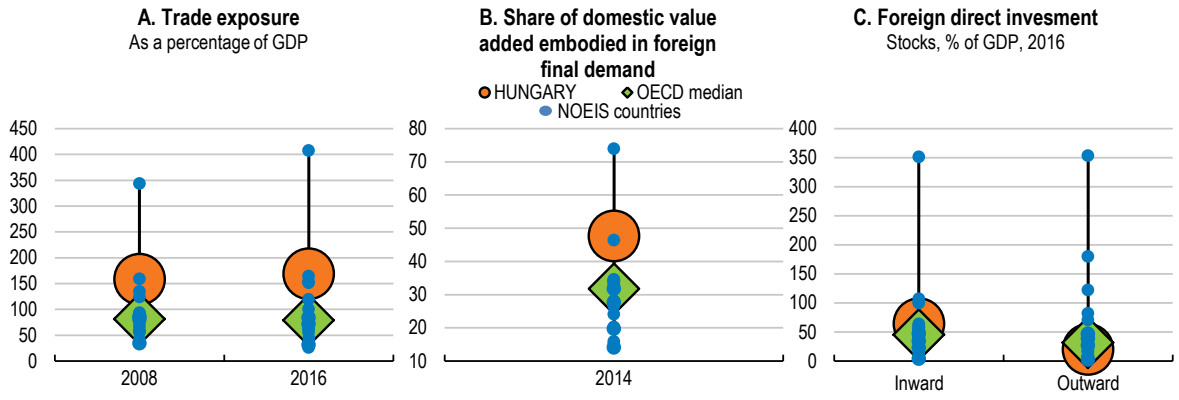
Hungary's catching up to the OECD average has been slow

HUNGARY	Pre-crisis 2003-08	Post-crisis 2011-16
Levels		
GDP per capita**	21652 (33712)*	23017 (35776)*
GDP per hour worked**	26.3 (41.6)*	31.2 (45.6)*
Employment rate, %	56.9 (66.4)*	60.4 (66.8)*
Average annual growth rate		
GDP per capita	3.1 (2.8)*	2.4 (1.4)*
GDP per hour worked	3.4 (2.0)*	-0.1 (1.1)*
Employment	-0.4 (1.6)*	3.0 (1.0)*
Median household disposable income***		6.4 (1.4)*

Note: * Unweighted OECD average in brackets.
** USD, constant 2010 PPPs and constant prices.
*** Data refer to 2011-15 and are deflated by the consumer price index. 2012-14 for Hungary.
Source: OECD, National Accounts, Productivity, Labour Force Statistics and Income Distribution Databases.

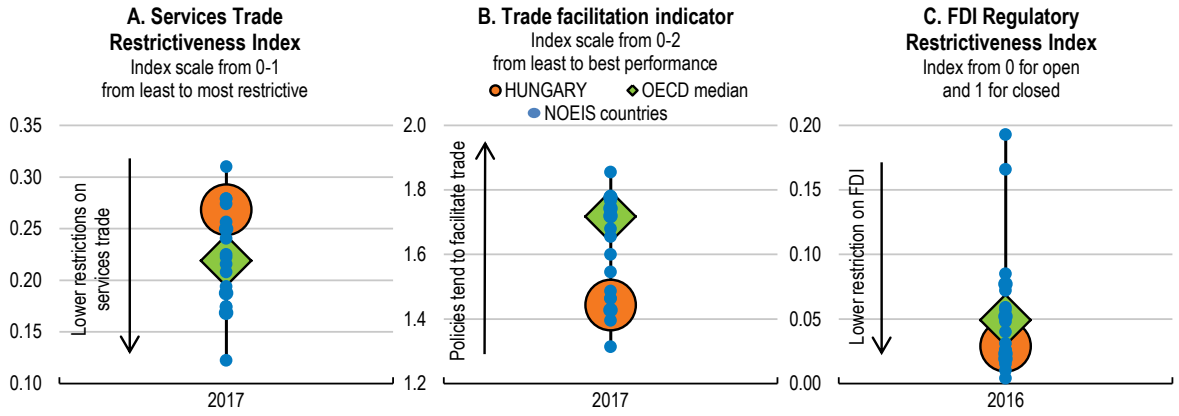
Hungary is highly exposed to trade and well integrated in GVCs. Half of domestic value added is driven by foreign final demand and the import content of exports is high at almost 50%. In manufacturing, Hungary has one of the highest rates of export orientation in the OECD. This integration occurs to a large extent via German value-chains and has been driven by FDI, for which regulatory restrictions are among the lowest in the OECD and NOEIS countries. Foreign affiliates directly support a quarter of private sector jobs and over half the private sector's value added; they are also three times more export intensive than domestically owned firms which have been less successful than in other countries in integrating themselves into GVCs. Hungary applies EU common customs tariffs to goods imports from outside the EU, which are low on average. However, border procedures, as measured by the broad OECD trade facilitation index, are among the most burdensome in the OECD–due to relatively weak performance on information availability, appeal procedures, automation, streamlining of documents and procedures, border agency co-operation (internal and external) and governance and impartiality. Restrictions on trade in services are among the highest, with an above-average score on the STRI in 12 out of 21 sectors. This reflects largely the general regulations that apply to all sectors in the economy.

A very open economy well integrated in GVCs



Source: Panel A: OECD, Economic Outlook Database and World Bank, World Integrated Trade Solution; Panel B: OECD, TIVA Nowcast estimates Database; Panel C: OECD, Foreign Direct Investment Database and UNCTAD.

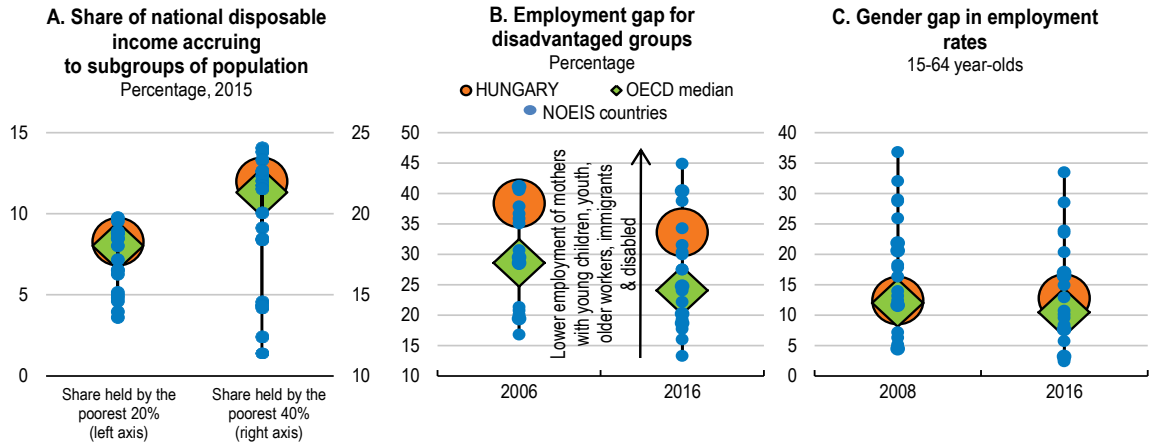
Important restrictions to trade persist



Source: Panel A: OECD, Services Trade Restrictiveness Index Database; Panel B: OECD, OECD, Trade Facilitation Indicators Database; Panel C: OECD, FDI Regulatory Restrictiveness index database.

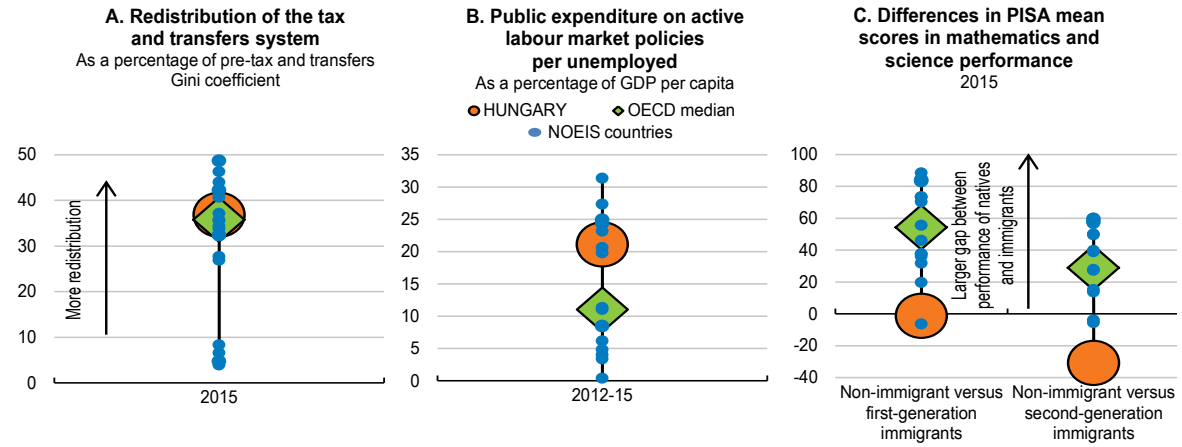
Income inequality is relatively low but employment gaps are high. The share of income accruing to low income groups is relatively high and is supported by a relatively redistributive tax and transfer system. Spending on active labour market policies is significant, but with a high – albeit recently decreasing - share targeted at public work schemes with a low exit rate to the primary labour market. Despite recent increases, employment rates for mothers with young children, youth, disabled and older workers remain low. Labour market outcomes for people of Roma ethnicity also lag behind. Education outcomes measured by PISA are below average and have deteriorated. Individual scores are strongly influenced by students' socio-economic background, and the integration of Roma children is a challenge. Immigrants perform no worse than natives on average but partly as Hungary has a small foreign-born population, mostly made of ethnic Hungarians from neighbouring countries. The gap in employment rates between men and women is around the OECD median, but has not declined in the past decade, in contrast to most OECD countries. Few women with small children work, even though they often have tertiary education. This reflects long parental leave and, despite recent progress, insufficient availability of childcare facilities for children below 3 years old. However, for working women, the gap in earnings (for full time jobs) and hours worked vis-à-vis men is one of the lowest in OECD.

Income inequality is relatively low but employment gaps are high



Source: Panel A: OECD, OECD, Income Distribution Database and World Bank, World Development Indicators Database; Panel B: OECD (2018), OECD Jobs Strategy Analytical Volume, forthcoming; Panel C: OECD, Labour Force Statistics Database and ILO, Key Indicators of the Labour Market.

Policies support activation and redistribution



Source: Panel A: OECD, OECD, Income Distribution Database; Panels B: OECD, OECD, Public expenditure and participants stocks on Labour Market Programmes on Labour Market Programmes and Economic Outlook Databases; Panel C: OECD, PISA 2015 Results (Volume I): Excellence and Equity in Education, Annex B1.7 Results (tables): Immigrant background, student performance and students' attitudes towards science.

METADATA ANNEX

Economic openness

- **Trade exposure** is defined as exports and imports over GDP.
- **The share of domestic value added embodied in foreign final demand** is defined as domestic value added, from industry, meeting foreign final demand, as a percentage of industry value added. It can be considered as a measure of an industry's reliance on foreign final demand. Here, the denominator is value added adjusted to be consistent with final demand (both domestic and foreign).
- **Foreign Direct Investment stocks** are defined as the total level of direct investment at a given point in time, usually the end of a quarter or of a year. The outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies. The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy. For the Netherlands, FDI stock data exclude positions to and from resident Special Purpose Entities (SPEs); SPEs are entities whose role is to facilitate the internal financing of the MNE but that have little or no physical presence in an economy. Excluding such entities from the FDI statistics provides a better measure of the FDI of the country that is having a real impact on its economy.

Trade and FDI

- **The Services Trade Restrictiveness Index (STRI)** identifies which policy measures restrict trade. It provides policy makers information and measurement tools to improve domestic policy environment, negotiate international agreements and open up international trade in services. It can also help governments identify best practice and then focus their domestic reform efforts on priority sectors and measures. The index presented is a geometric average of all sectors and takes value from 0 to 1, where 0 is completely open and 1 is completely closed.
  Data are missing for Argentina and Peru.
- **Trade facilitation indicators (TFIs)** identify areas for action and enable the potential impact of reforms to be assessed and help governments to improve their border procedures, reduce trade costs, boost trade flows and reap greater benefits from international trade. The index takes values from 0-2 (least to best performance). The index presented is a simple average over 11 dimensions of the TFI.
  Data are missing for Iceland.
- **The FDI regulatory Restrictiveness Index** is gauging the restrictiveness of a country's foreign direct investment rules by looking at four main types of restrictions: foreign equity restrictions, discriminatory screening or approval mechanisms, restrictions on key foreign personnel and operational restrictions. Implementation issues are not addressed and factors such as the degree of transparency or discretion in granting approvals are not taken into account. The index takes values between 0 for open and 1 for closed.

Inequality

- **The share of national disposable income held by the poorest 20% and 40%** is defined as the share of income that accrues to subgroups of population indicated by deciles or quintiles.
  For the poorest 20%, data refer to 2014 for Argentina, Germany, Hungary, Luxembourg; 2012 for Japan.
- **The employment gap for disadvantaged groups** is expressed as a percentage of the benchmark group (prime-age male workers). Disadvantaged groups include mothers with young children, youth (15-19 years old) excluding those in full-time education or training, older workers (55-64 years old), non-natives and people with disabilities.
  Data are missing for Colombia and Costa Rica in 2006 and for Peru in 2006 and 2016.
- **The gender gap in employment rates** is defined as the difference between employment to population ratios of men and women aged 15-64.
  Data refer to 2010 and 2014 for Argentina.

Redistribution, activation and inequality of opportunities

- **The redistribution of the tax and transfers system** is measured as the difference between pre-tax and transfer and post-tax and transfers Gini coefficients, relative to the pre-tax and transfer Gini coefficient. The Gini coefficient measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The coefficient takes the value of 0 in the case of perfect equality and 100 for perfect inequality.
  Data refer to 2014 for Germany, Hungary, Luxembourg and Peru; 2012 for Japan. Data are missing for Argentina and Colombia.
- **Public expenditure on active labour market policies per unemployed** are measured by all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. It includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled. Data are expressed as a percentage of GDP per capita. Original data can be accessed under: http://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP. *Data are missing for Argentina, Colombia, Costa Rica and Peru. For Canada, data include federal expenditures on programmes implemented by the provinces and territories, but do not generally include the provinces' and territories' additional or complementary funding of these programmes.*
- **Differences in PISA mean scores (average of mathematics and science) between natives and first and second generations of immigrants**. PISA assesses the extent to which 15-year-old students, near the end of their compulsory education, have acquired key knowledge and skills that are essential for full participation in modern societies
  Data are missing for Japan, Poland and Peru. For Argentina, data refer to the region of the capital city of Buenos Aires.
- **The variance of educational achievement** is measured as the total variance in PISA scores in reading, mathematics and science, compared to the OECD (OECD=100). The Programme for International Student Assessment (PISA) assesses the extent to which 15-year-old students, near the end of their compulsory education, have acquired key knowledge and skills that are essential for full participation in modern societies. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.
  For France, average of PISA scores in mathematics and reading only in 2015. For Argentina, data refer to the region of the capital city of Buenos Aires.