

Hungary 2014



Total: 67.77

Quick facts

Population:	9.88 million
Unemployment rate:	7.77 %
GDP:	137.1 billion \$
GDP growth rate:	3.64 %
GDP per capita:	13880 \$

Economic Freedom

Security of Property Rights : 5.61

Property rights, although largely protected, are not always secure in Hungary. Main problems lay in the low level of judicial independence from the executive branch of power, which can influence court proceedings to benefit the political elite or connected parties. The case of acquisition of private pensions (from the second tier, i.e. from mandatory private pension funds) of citizens of Hungary by the state is a vocal example – although compensation in the shape of public social security pensions was offered, this move was a violation of private property. Another problem is meager reliability of the police, which is also influenced by political factors. Acquisition of real property by foreign nationals (apart from EEA citizens who are considered to be al par with Hungarian citizens) is largely restricted. However, legal enforcement of contracts is good, although burdened by a number of procedures. It is conducted in a timely manner, at a relatively low cost.

Size of Government: Expenditures, Taxes, and Enterprises : 5.4

Public spending in Hungary is high, even by European standards, reaching 49.6% of the GDP in 2014. Such a high level of spending needs to be financed by high public revenues through taxes: the VAT rate is set at 27% (the highest in the EU, higher than the maximum level of 25% approved by the European Commission), while the total tax wedge on labour is very high, standing at 49% (only Belgium, Germany and Austria have higher rates). These high labour costs are mostly due to the high social security contributions, divided between the employer and the employee, while the

personal income tax is flat at 16%. Corporate tax rate is set at 19% (10% for small companies). Public debt, although lower than in 2011 when it reached its peak, is still high, being 76.9% of the GDP. The government has concluded a set of measures of renationalization of certain industries, most notably in financial and energy sector.

Regulation of Credit, Labour, and Business : 7.17

Business regulation is overall favourable to conducting business. However, there are visible tendencies towards biased state regulation. Challenges remain in the area of administrative requirements, which are costly for businesses. This is closely connected to bureaucracy costs borne by business entities and partiality within government structures, and even enhanced by regulation which is on purpose written in a way so as to provide rents to private companies with ties to the executive power. Foreign companies, although legally required to be treated in the same manner as domestic ones, are sometimes facing discriminatory regulation due to government's preference to domestically owned companies (recent examples include the working hours of supermarkets). However, starting a business is inexpensive and quick. Obtaining a construction permit is not difficult. There are few industries or occupations with existing licensing restrictions. Labour market regulations are mostly flexible. Redundancy costs and notice period increase with the years of tenure. However, rigidity is preserved in working hours' regulation, which stipulates relatively low maximum for working days, banning possible prolongation due to an increased workload. The minimum wage is high, above 40% of the average wage.

Freedom to Trade Internationally : 8.78

As a member of the European Union since 2004, Hungary applies its common trade policy. Therefore, tariffs are low, although still significant for some products of agriculture. However, the trade barriers in the sense of certification and standardization remain, with long and expensive procedures. Good public transport infrastructure significantly lowers the cost of freight, boosting international trade. Capital controls introduced during the financial crisis in Europe, on the movement of short term capital ("hot money"), still remain. Main trade partner of Hungary is Germany, followed by other EU members.

Rule of Law

Independence of the Judiciary : 4.17

Hungary is on a low ground when it comes to judiciary, although just 33% of citizens consider it as

corrupt - far less than other parts of the public sector. Neither is professionalism a serious problem. The main problem rests in the growing dependence of judiciary on politics. Among the first measures in a broader program of changing the liberal democratic fabric of the contemporary Hungary, which Fidesz government carried after it had assumed power in 2010, was putting more limits to independence of judiciary. The responsibilities of the Constitutional Court were reduced, notably in evaluating the constitutionality of economy- or property-related legislation, as well as in the control of subsequent changes of the Constitution. Positions in the national bodies that supervised judiciary were filled with ruling party loyalists appointed by the parliament. At the same time government tried to jeopardize the principle of life tenure of judges, prosecutors and notaries, by lowering their mandatory retirement age from 70 to 62, but in 2012 the measure was overturned by the Constitutional Court. Same happened with several other laws, some of which jeopardizing human rights, e.g. equality of the small religious communities. With various proposed changes in the criminal justice system (such as life sentences without parole or even reintroduction of death penalty), Hungary became more at odds with the EU standards in the field. Should it seriously violate the European or international covenants on civil rights, its credibility as a member of the Council of Europe (hence also of the EU) would come into question.

Corruption : 5.4

According to Transparency International's Corruption perception Index 2013, while scoring 54, Hungary slightly fell, from the place 46 of 176 (with a score 55) to 47 of 177 countries of the world. Global Corruption Barometer showed that citizens perceived political parties (by 68%), business community (64%), parliamentarians (56%) and media (51%) as the most corrupt. The campaign spending of both the biggest political parties, which, one after another, have dominated the political scene since 1990, is non-transparent. Businesses close to the current ruling party Fidesz have an increasingly favourable position in franchising the state monopolies, such as on tobacco sale, in public procurement or in pursuing other interests. Unofficial payments are occasionally necessary to resolve administrative tasks. That is the case both on the central and at the local level (where, true, a few cases were discovered and prosecuted). Government does little to make the business relations between public and private sector more transparent. To the opposite, open criticism of the very idea of liberal democracy by the PM Viktor Orbán offers a gloomy perspective regarding corruption – the more intervention into banks or unnecessary regulation of trade and overall economy is exercised by the government, the more space will be open for corruption, either immediately or in future, regardless of the will of politicians. Corruption is not systemic yet, but such involution is likely if state control further tightens.

Protection of Human Rights : 7.6

Similar to the economy, judiciary or other fields, the post-2010 Fidesz government brought restrictive changes also regarding human rights. Freedom of speech and expression was once again challenged in November 2013 by the new defamation rules which regulated video or audio recordings in media or, as added in early 2014, also on the Internet. Various other restrictions were put against the media. Majority of academic institutions, think tanks and NGOs operate freely, yet those who are perceived as “opposition” face a hostile environment. Church is separated from the state and freedom of worship is guaranteed. Attempts by the ruling majority between 2011-2013 to deprive a number of small religious communities of their beneficial tax status or other rights which other, “accepted churches” enjoyed, as well as to authorize the parliament instead of courts to decide upon their status, failed due to several consecutive nullifications by the Constitutional Court. “Visible minorities” such as Roma, as well as immigrant communities, face discrimination. Romophobia is widespread, unhidden and a common fact of life,

in spite of sporadic government declarations or legal measures to prevent violence against Roma (themselves the largest ethnic minority in the country). Schools regularly discriminate or segregate Roma children. Even anti-Semitic, Islamophobic or other xenophobic groups operate legally. Some (e.g. Jobbik) compete at elections and hold MP or MEP seats. Women enjoy less equality than in comparable countries. Only 35 out of 386 MPs are women. Domestic violence and transit trafficking of sex slaves are a huge problem, to which authorities responded in 2013 by severing the provisions of the criminal code. Domestic partnerships faced frequent changes of regulation aimed at depriving them of the same status as married couples. Same sex partnerships were legalized, but marriages are not possible under current constitutional provisions.

Political Freedom

Free and Fair Elections : 9.64

Generally, elections in Hungary are free, but according to Freedom House and Transparency International they are not fair. Viktor Orban's government, with its 2/3 majority, has adopted a new electoral law which favored the dominant party, put pressure on the media and influenced the public opinion. The opposition and other organizations oppose the new law. According to them, it brought unequal opportunities for voters living abroad and has redefined constituencies in favour of the ruling Fidesz party. Since 2014, a unicameral National Assembly, which elects the president and the prime minister, consists of 199 deputies, instead of 386 before the reform.

Absence of Unconstitutional Veto Players : 7.5

There are currently no unconstitutional veto players in Hungary. Although, emerging corruption and reduced scope of publicly available information could be seen as an indicator for unconstitutional processes within the state. Hungarian government often speaks about their commitment to deal with the corruption, but their frequent interference in the markets seems to indicate at the contrary.

Freedom of Press : 6.5

The press in Hungary is partly free. There is a large variety of printed and online media, television and radio stations, but freedom is under threat by a new advertising tax and laws which introduced firmer government control over media. There have been suspicions that Viktor Orban's government tried to influence, through heavy taxation, the content of one of the most important sources of news for Hungarians, the television station RTL Klub. Self-censorship remains over the years as one of the huge problems in Hungarian media, according to international media organizations which often receive complains from employees from the public or private media sector. After a huge protest in Budapest in October, the government decided to withdraw its proposed tax on Internet usage, which would, if adopted, be unique in the world.