HUNGARY

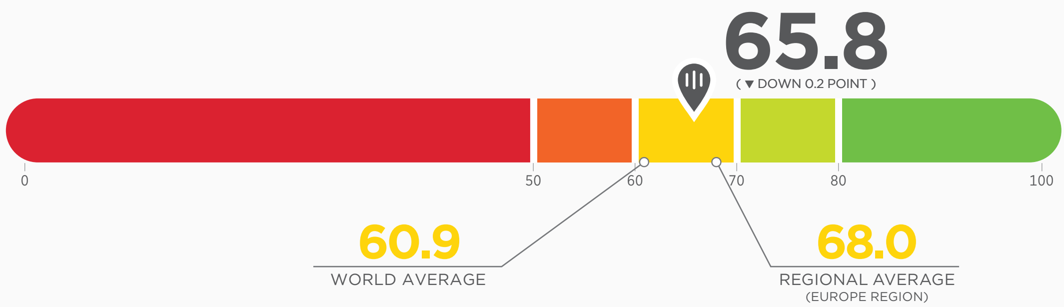
WORLD RANK: **56** | REGIONAL RANK: **27**

ECONOMIC FREEDOM STATUS: **MODERATELY FREE**

Hungary has implemented critical reforms in many areas. Licensing procedures have been streamlined, and the overall entrepreneurial environment is further aided by strong trade freedom, business freedom, and investment freedom. Since January 2016, the personal income tax rate has been lowered to a flat rate of 15 percent, down from 16 percent.

The economy has grown at a robust pace over the past few years and now has significant momentum. Consolidating public finances and further encouraging economic growth remain policy priorities. Additional fiscal adjustments are needed to put public debt on a firmly downward path and provide more space for vibrant private-sector activity.

ECONOMIC FREEDOM SCORE

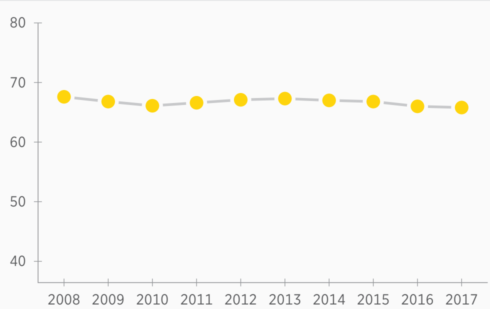


NOTABLE SUCCESSES:
Open Markets, Monetary Stability, and Tax Policy

CONCERNS:
Government Spending, Judicial Effectiveness, and Government Integrity

OVERALL SCORE CHANGE SINCE 2013:
–1.5

FREEDOM TREND



QUICK FACTS

POPULATION:
9.9 million

GDP (PPP):
$258.4 billion
2.9% growth in 2015
5-year compound annual growth 1.7%
$26,222 per capita

UNEMPLOYMENT:
7.0%

INFLATION (CPI):
–0.1%

FDI INFLOW:
$1.3 billion

PUBLIC DEBT:
75.5% of GDP

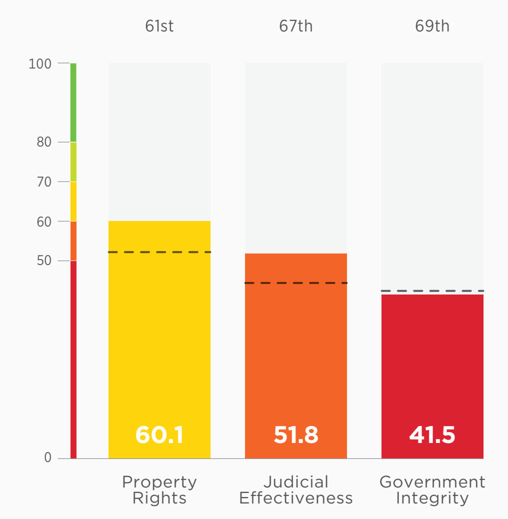
2015 data unless otherwise noted. Data compiled as of September 2016

BACKGROUND: Hungary has been a member of NATO since 1999 and a member of the European Union since 2004. In the April 2014 parliamentary election, held in accordance with a new constitution that took effect in January 2012, the center-right Fidesz–Hungarian Civic Alliance won the majority of seats, and Prime Minister Viktor Orbán, in office since May 2010, was able to form a new government. Robust exports and increased domestic demand have helped Hungary's economy to achieve strong growth. Public works programs, including building border fences, have succeeded in lowering unemployment but also have swallowed a growing percentage of GDP. Hard-currency indebtedness and a shortage of labor remain key vulnerabilities.

KEY: — — WORLD AVERAGE

12 ECONOMIC FREEDOMS | HUNGARY

RULE OF LAW



GOVERNMENT SIZE

Rank

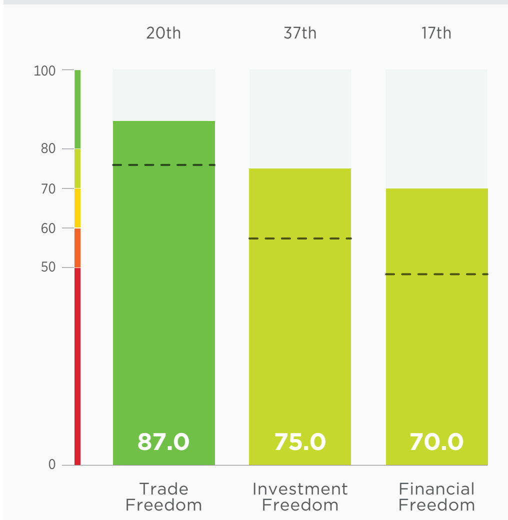
Citizens have the right to own property and establish private businesses, but cronyism remains a serious concern, and critics cite recent taxes targeted to drive out or take over foreign businesses. Judicial independence is increasingly threatened. Corruption remains a notable problem. Government allies lead state agencies that have anticorruption roles, and several companies with close ties to the government are supported primarily by public funds.

The personal income tax rate has been cut from 16 percent to a flat 15 percent. The top corporate tax rate is 19 percent. Other taxes include a value-added tax. The overall tax burden equals 38.5 percent of total domestic income. Government spending has amounted to 49.9 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.4 percent of GDP. Public debt is equivalent to 75.5 percent of GDP.

REGULATORY EFFICIENCY

OPEN MARKETS

Rank



The regulatory framework allows business formation and operation to be efficient and dynamic. Bankruptcy proceedings are relatively straightforward. Labor regulations lack flexibility. Most prices are set by the market, but the government administers prices on tobacco and pharmaceuticals, surcharges in the state-run mobile payment system, and fees on connections to district heating systems, telecommunications, and electric companies.

Trade is extremely important to Hungary's economy; the value of exports and imports taken together equals 171 percent of GDP. The average applied tariff rate is 1.5 percent. There is no general screening of foreign investment. State-owned enterprises distort the economy. Credit to the private sector has continued to contract, and the number of nonperforming loans, while declining, remains significant.