Hungary’s economic freedom score is 66.4, making its economy the 62nd freest in the 2020 Index. Its overall score has increased by 1.4 points due particularly to a higher government integrity score. Hungary is ranked 33rd among 45 countries in the Europe region, and its overall score is well below the regional average and well above the world average.

The Hungarian economy has been in the upper ranks of the moderately free for more than a decade. GDP growth has been respectable over the past five years and increased in 2018, stimulated by strong consumer demand, industrial activity, and construction.

The biggest threat to continued economic growth and economic freedom in Hungary is the excessive level of government spending. The country’s 2020 budget, approved by parliament in July 2019, is promising in this regard because the main target of the budget is reduction of the fiscal deficit to 1 percent of GDP.

**BACKGROUND:** Once part of the Austro–Hungarian Empire, Hungary emerged from 45 years of Communist rule to become fully independent in 1990. It joined NATO in 1999 and became a member of the European Union in 2004. Prime Minister Viktor Orbán, in office since 2010, won reelection to a third term in 2018. His center-right Fidesz-Hungarian Civic Alliance won two-thirds of the seats in parliament. Orbán’s government has clashed repeatedly with the European Union, particularly over migration issues. Economic growth is led by exports, domestic demand, and the construction industry. Unemployment is low. The government’s more nationalist and populist approach to economic management has set the country somewhat apart from its neighbors.
Secured interests in property, both moveable and real, are recognized and enforced, in part through a reliable land registry. Although it is generally felt that ordinary courts operate independently under largely fair and reliable judicial procedures, concerns about growing executive branch influence on the court system and intimidation of judges by court administration are increasing. Corruption and cronyism plague the public sector.

The personal income tax rate is a flat 15 percent, and the top corporate tax rate is 19 percent. The overall tax burden equals 37.7 percent of total domestic income. Government spending has amounted to 46.7 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 2.1 percent of GDP. Public debt is equivalent to 69.4 percent of GDP.

Taxes paid by employers have been lowered, facilitating the ease of doing business. Unpopular amendments to the labor code passed in 2018 allow employers to request more overtime and extend “time banking” schemes for up to three years, which could delay payment for overtime. Most prices in Hungary are set by the market, but prices are administered in such sectors as pharmaceuticals, telecommunications, and electricity.

The total value of exports and imports of goods and services equals 168.3 percent of GDP. The average trade-weighted applied tariff rate (common among EU members) is 1.8 percent, with 637 EU-mandated nontariff measures reportedly in force. Hungary has an additional 95 country-specific nontariff barriers. A new measure for national security review of foreign investments has been in place since January 2019. The state has largely withdrawn from the banking sector.