Hungary

Hungary’s economic freedom score is 66.9, making its economy the 48th freest in the 2022 Index. Hungary is ranked 29th among 45 countries in the Europe region, and its overall score is below the regional average but above the world average.

Hungary’s economic growth decelerated in 2019, turned negative in 2020, and rebounded in 2021. The country has slightly improved its economic freedom over the past five years. With an increase in the property rights score outpacing a loss of fiscal health, Hungary has recorded a 1.1-point overall score gain since 2017 and remains in the upper half of the “Moderately Free” category. Trade freedom and investment freedom are strong, but the score for government spending is weak.

**IMPACT OF COVID-19**: As of December 1, 2021, 34,713 deaths had been attributed to the pandemic in Hungary, and the government’s response to the crisis ranked 155th among the countries included in this Index in terms of its stringency. The economy contracted by 5.0 percent in 2020.

**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 and accusations of government encroachment on independent media and the judiciary. Tourism and a robust automotive manufacturing sector power the economy. The government’s more nationalist and populist approach to economic management has set Hungary somewhat apart from its neighbors.
Hungarian law protects property rights, and the land registry is reliable. The judiciary is independent. Courts generally operate without interference under fair and reliable judicial procedures. Navigating the legacy of burdensome government regulations reportedly can involve bribes and other irregular payments. Some administrative procedures suffer from excessive red tape and a lack of transparency and predictability.

The flat individual income tax rate is 15 percent, and the flat corporate tax rate is 9 percent. There are special taxes on banks, financial firms, and companies in the energy sector. The overall tax burden equals 35.8 percent of total domestic income. Government spending has amounted to 47.7 percent of total output (GDP) over the past three years, and budget deficits have averaged 4.2 percent of GDP. Public debt is equivalent to 81.2 percent of GDP.

Some national and government-linked companies benefit from favorable sector-specific tax and regulatory policies. The employer-paid welfare contribution of 27 percent in 2016 was gradually cut to 15.5 percent in 2020. Most prices in Hungary are set by the market, but prices in such sectors as pharmaceuticals, telecommunications, and electricity are administered.

As a member of the EU, Hungary has 46 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 2.9 percent with 640 EU-mandated nontariff measures in force. Hungary has an additional 95 country-specific nontariff barriers. Foreign investment remains generally free from government interference. No restrictive measures have been implemented in the financial sector during the past year.