Hungary

In BEEPS V, the top three obstacles in the business environment that Hungarian firms identified were tax administration; political instability; and competitors' practices in the informal sector (Chart 1). The most severe constraints for large firms were competitors' practices in the informal sector, labour regulations and electricity issues. Transport, telecommunications and electricity issues topped the list for young firms.

An unpredictable tax regime

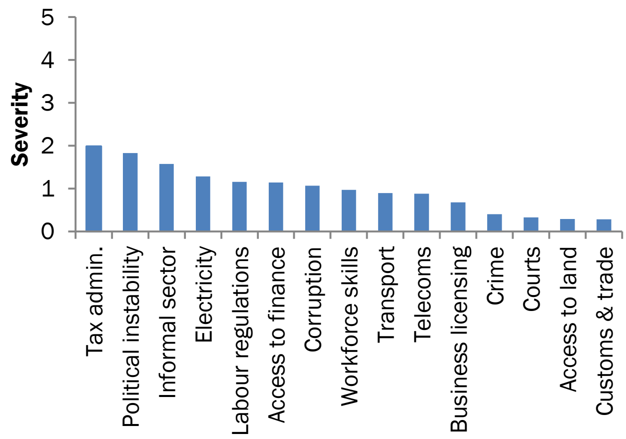
Tax administration became the top obstacle to doing business. The share of firms visited by tax officials increased from 49.8% in BEEPS IV to 56% in BEEPS V, 20 percentage points higher than the central Europe and the Baltic states (CEB) average (Chart 2). The number of times firms were inspected by tax officials also increased: from 1.8 in BEEPS IV to 2.2 in BEEPS V. Foreign firms expressed displeasure with the unpredictability of Hungary's tax regime, the retroactive nature of some of the tax measures, and the volume and speed with which the government was introducing new economic measures and changes. Senior management spent 12.8% of its time dealing with government regulations, slightly above the CEB average of 12.3%.

Political instability may have emerged as one of the top obstacles due to: high levels of budget deficit; the legal uncertainty for businesses resulting from major political reforms launched by the dominant majority government in 2012-13 (over 700 new laws were adopted along with a new constitution); and the government's propensity to use its political majority to target banks with taxes and other costs without sufficient consultation.

Competitors' practices in the informal sector remained among the top three obstacles. According to the European Commission and the International Labour Organization, the size of the shadow economy as a percentage of GDP in Hungary is 22.5%, which is above the EU average of 14.9%. Nevertheless, the share of firms that reported to compete against firms in the informal sector decreased from 49% in BEEPS IV to 13% in BEEPS V, the lowest share in CEB. This improvement may be because of reforms to the process of starting a business – such as online registration – introduced since the previous BEEPS round.

Electricity issues were the fourth major obstacle faced by Hungarian firms. Although the number of power outages in a typical month halved compared with BEEPS IV, the percentage of surveyed firms experiencing them increased from 16.6% to 20.5% in BEEPS V. The losses due to power outages increased from 1.2% of total annual revenue to 5.2% in BEEPS V (Chart 3). This percentage was the highest among countries in CEB, where the average was 2.3%.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Visited or inspected by tax officials

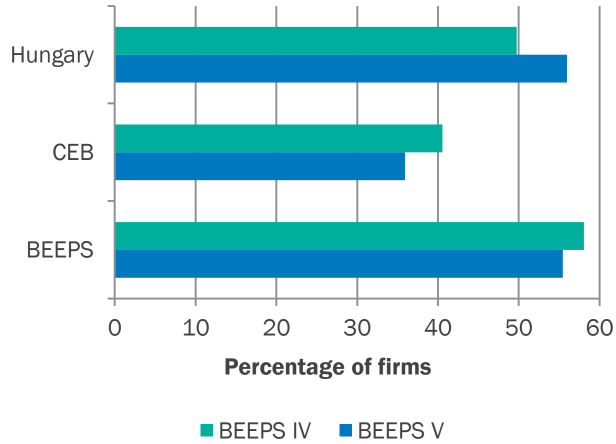
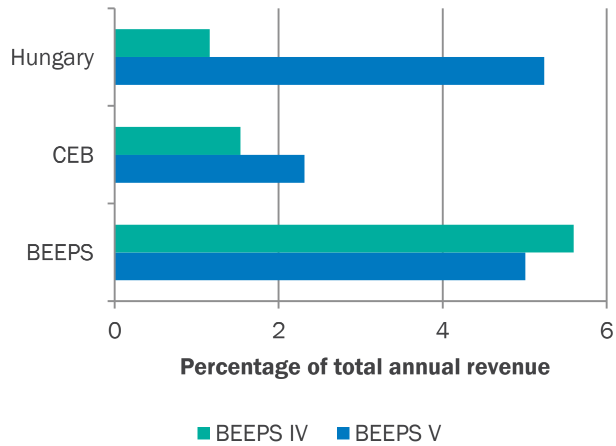


Chart 3. Losses due to power outages



Survey fieldwork period: February 2013 – August 2013. CEB: Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia. Small and medium-sized enterprises (SMEs) have 5-99 employees. Young firms are less than 5 years old.