



Hungary is the 48th on the global economic freedom ranking

According to the latest index on economic freedom prepared by the Wall Street Journal and the Heritage Foundation (Index of Economic Freedom), Hungary – having moved up one place – is ranked as the 48th, ahead of Poland and Slovenia, or France and Italy, among others, of the euro-zone countries. The report highlights Hungary's high-quality infrastructure, thriving private sector or well developed regulatory system. With regard to freedom of markets (trade, investments, financial markets) the country's performance is considered outstanding. The freedom of Hungarian trade is placed as the 11th in the global ranking.

The report titled *Index of Economic Freedom*, published by the Wall Street Journal and the Washington-based Heritage Foundation **analyzes economic freedom on the basis of ten indicators in 185 countries of the world.** These ten components are divided into four main categories:

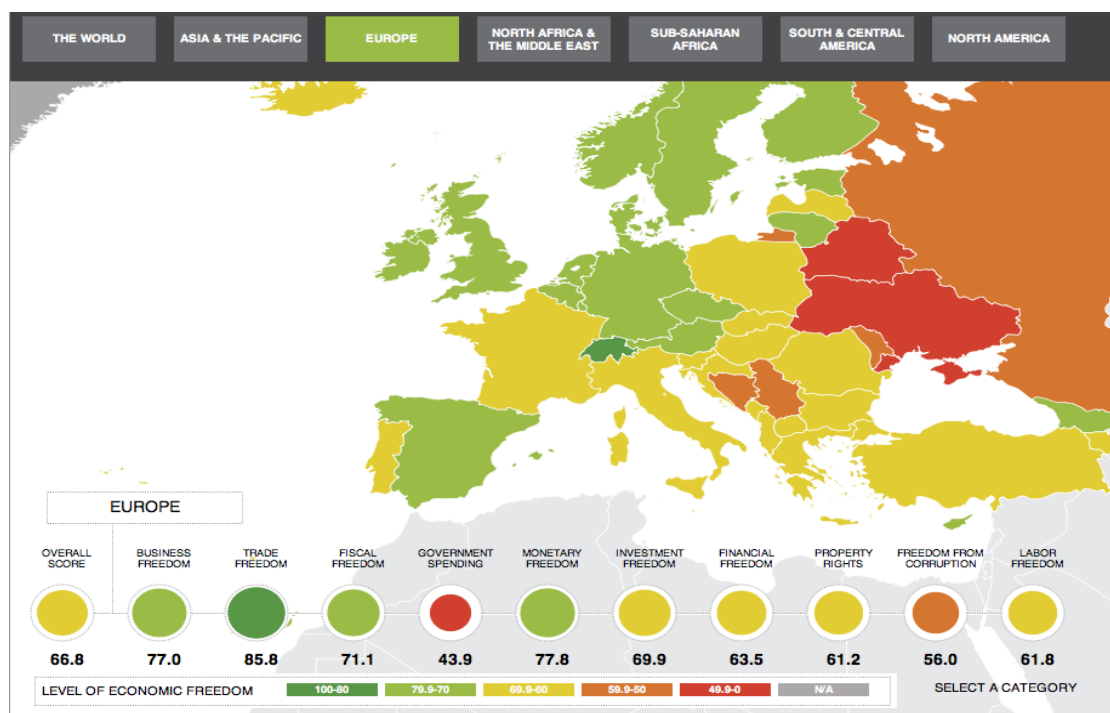
1. Rule of Law: property rights, freedom from corruption;
2. Limited Government: fiscal freedom (tax burden), government spending (as percentage of GDP);
3. Regulatory Efficiency: business freedom, labour freedom, monetary freedom (price stability and price control); and
4. Open Markets (trade freedom, investment freedom, financial freedom).

Each of the freedoms within these four broad categories is individually scored on a scale of 0 to 100 where 100 points represent maximum freedom. A country's overall economic freedom score is a unweighted average of its scores on the 10 individual indicator and on the basis of which the **economies of countries are divided into five categories: free (80-100), mostly free (70-79.9), moderately free (60-69.9), mostly unfree (50-59.9) and repressed (below 50).**

Gauging economic freedom has been crucial as the current and former analyses all signal that a **strong link exists between economic freedom** and social and economic values such as, for example, **income per capita, economic growth**, healthcare, environmental protection, reducing poverty or the general sense of well-being.

In the 2013 ranking the **top position** was awarded – similarly to the previous years – to **Hong Kong (89.3)**, followed by **Singapore (88)**, **Australia (82.6)**, **New Zealand (81.4)** and **Switzerland (81)**. These **five countries constitute the league of “free” economies**. In addition to these, **Canada, Chile, Mauritius, Denmark and the United States were included among the top ten** which make up the **upper one-third of the “mostly free” category**. The countries considered the **least free** are: **Eritrea, Venezuela, Zimbabwe, Cuba and North-Korea**, which occupy the last five places of the ranking.

Fig. 1: Economic freedom of Europe



Source: 2013 Index of Economic Freedom

On the basis of the 2013 report it was Europe among the regions which recorded the **largest improvement**, due to favourable achievements regarding regulatory efficiency and openness of market. Thus the gap with North America has been narrowed.



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Economic freedom improved in 32 countries, while it decreased in nine of them – in Cyprus and Ireland to the greatest extent. In eight out of ten components Europe exceeded the global median score, however, concerning fiscal freedom and government spending it was the last among six regions (Asia and the Pacific; Europe; North Africa and the Middle East; Sub-Saharan Africa; North America; South- and Central America).

The 81 percent of the European-region countries belong to the “moderately free” or “mostly free” categories. There are ten economies in the global ranking among the first 20 free economies, and in Europe only Switzerland qualifies as a “free” economy. Ukraine and Belarus belong to the “repressed” group.

Regarding economic freedom, repositioning is under way in European countries: eight achieved the highest scores ever, among them Georgia, Norway and the Czech Republic reached a higher category. On the other hand, France, countries on the peripheries of the euro-zone and the United Kingdom received fewer scores than at the launch of the index, almost twenty years ago.

The Hungarian economy is the 48th freest in the world

With a score of 67.3 points Hungary’s economy is ranked as the 48th on the basis of the 2013 index. In the past couple of years Hungary’s assessment has improved. From rank 51 in 2011 the country advanced to rank 49 in 2012, and in 2013 Hungary edged up one notch to place 48. Among the 43 countries belonging to the European region Hungary is the 24th on the list, and its total score substantially exceeds the global median figure (59.6 points).

As far as the Central Eastern European (CEE) region is concerned, **Hungary beats Poland, Slovenia**, Romania and Bulgaria and its position is far more favourable than that of the Balkan countries. In the ranking, however, the Czech Republic, Slovakia and Estonia as well as Lithuania are ahead of Hungary. **The Hungarian economy is considered to be more open than the economies of France and Portugal among the euro-zone countries.** Furthermore, Italy, placed as the 83rd, and Greece, placed as the 117th, have ranks far more unfavourable than Hungary’s.



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According to the report, **Hungary is an open country with excellent quality of institutional infrastructure** which benefits from a **thriving private sector**. Commercial law is well-developed and the legal and regulatory frameworks sustain the rule of law and provide effective protection for property rights. **Hungary's scores were the highest in the category of *Open Markets***.

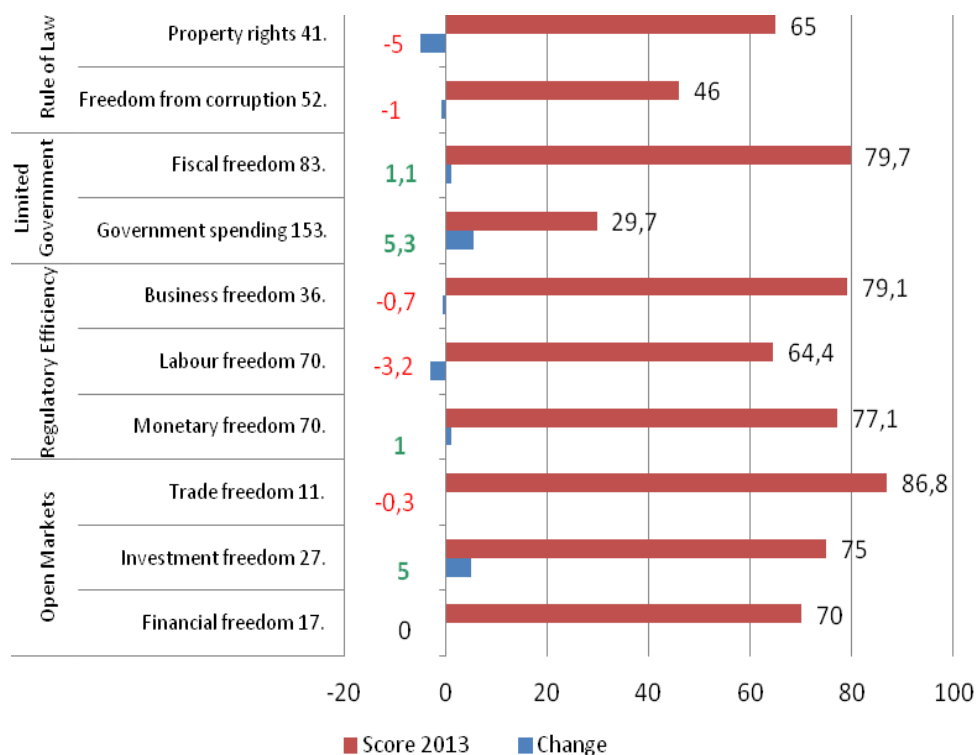
	Rank	Score	Change
Hong Kong	1	89,3	-0,6
Singapore	2	88	0,5
Australia	3	82,6	-0,5
New Zealand	4	81,4	-0,7
Switzerland	5	81	-0,1
Canada	6	79,4	-0,5
Chile	7	79	0,7
Mauritius	8	76,9	-0,1
Denmark	9	76,1	-0,1
United States	10	76	-0,3
United Kingdom	14	74,8	0,7
Germany	19	72,8	1,8
Czech Republic	29	70,9	1
Slovakia	42	68,7	1,7
Hungary	48	67,3	0,2
Poland	57	66	1,8
Romania	59	65,1	0,7
Bulgaria	60	65	0,3
France	62	64,1	0,9
Slovenia	76	61,7	-1,2
Croatia	78	61,3	0,4
Italy	83	60,6	1,8
Serbia	94	58,6	0,6
Greece	117	55,4	0

The freedom of Hungarian trade is ranked as the 11th worldwide, the commercial system is competitive. The analysis considers as freedom of trade the lack of tariffs and non-tariff barriers on the imports and exports of goods and services.

With regard to **investment freedom** the report presumes that there are no barriers to capital flow in a country with a free economy. In case of government spending category, Hungary achieved its largest improvement in this component in comparison to the previous

year: **as the relevant score increased by 5 points (from 70 to 75) Hungary is the 27th in the global ranking**. The report underlines that although Hungary's investment system is relatively efficient, bureaucratic red tape and deficient transparency may hamper the dynamic growth of investments.

Fig. 2: Scores per component and change compared to the 2012 index
(Categories followed by rankings)



Source: 2013 Index of Economic Freedom

The score on financial freedom depends on the efficiency of the banking system and the independence of the financial sector from government control and interference. Hungary's financial sector is open to competition, as its economy is the 17th freest considering the operation of financial and capital markets.

Analyzing the category of *Rule of Law* the report stresses that property rights are relatively well respected, but concerns still remain in the field of corruption in spite of efforts to eradicate the issue. In the *Limited Government* category both components improved in comparison to the survey of 2012. Fiscal freedom could be increased by cutting the tax burden, and the unfavourable score received in the government spending component is attributable to the high ratio of government spending as percentage of GDP.



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The regulatory regime generally allows dynamic and innovative business formation and operation. The survey criticizes labour market flexibility, but this report takes into account the situation in Q2 2011 and Q1 2012, **without considering the measures of the new Labour Code aimed at a more flexible labour market which are expected to improve the score in this component.**

Hungary as the 48th on the global ranking of economic freedom has a competitive trade system and a financial sector, along with the freedom of capital flow. In the other components (especially corruption, government finances) further efforts are required so that nothing can hamper better economic and social performance.