

## Administration cuts for Hungary's competitiveness

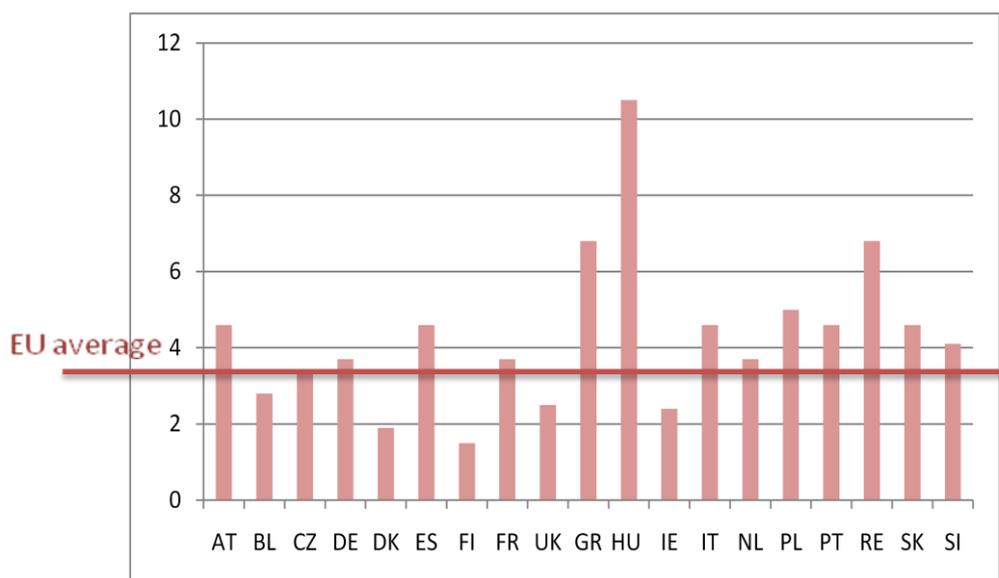
**Red tape spending now at 10.5 per cent of GDP**

### Focus

With continued economic policy efforts to put businesses at the forefront, the Government is planning moves to make the entrepreneurs' life easier through administration cuts as a part of structural reforms on the agenda. For Hungary to regain its leading position in the region and to become one of Europe's most business-friendly countries, it is inevitable to ease the administrative burden on businesses that could weaken competitiveness of those.

### Background

Administrative expenses in Hungary are too high both in global terms and compared to the Visegrad countries. While those make 3.8 per cent relative to GDP on EU average, Hungary sees **10.5 per cent** in the same relation. Domestic and international measurements both prove that our country is among the laggards in Europe



According to the Kox-study, which serves as the basis of the European Union's cost-cutting program, early in the 2000s, administrative expenses made 6.8 per cent of GDP in Hungary while the European Union showed 3.8 per cent on the average. With this figure, our country was the last in the ranks of the countries in the study. Based on the measurement by the background study ordered by the Ministry for National Economy, administrative expenses by the businesses mirror a higher cost level making 10.5 per cent of GDP. In this context, operating expenses of public administration alone make 3.1 per cent of GDP.

According to measurements of administrative burden of businesses in November 2008, 1,560,000 businesses that worked at that time had spent some HUF 800 billion on administration implying the remarkable state of affairs that **red tape costs each business approximately HUF 500,000.**

To meet the requirements of information supply by the State, domestic businesses assume costs involving significant resources thereof that would be desperately needed for investments, employment to be widened, innovation and efficiency to be enhanced. In addition, auditing and processing the figures concerned increase public spending as well. Neither businesses nor the Government can afford to finance administration at such a very high level. Funds so released could be spent on making public jobs to be done more rationalistic and on better compliance audit.

Red tape affecting businesses to this extent is a **serious drawback in competition** for Hungary. Based on the competitiveness index of the World Economic Forum (WEF), Hungary lost 19 places since 2002 in the ranking with the position no.134 in terms of government regulation. Also, our country is significantly lagging behind the regional counterparts including the Visegrad countries in particular.

High administrative expenses impose a huge burden on the businesses with the **blown-up red tape and unpredictable changes of regulation hindering their competitiveness** and viability. As argued by the studies analyzing the matter:

- Market regulation is often opaque and much more bureaucratic than necessary. Complying possibly with all the regulations in force **involve so high costs that may well paralyze normal business course;**
- Administrative costs of taxation are **to hit small businesses above all** causing competitive disadvantage against major firms;
- For the company executives, it takes 65 hours a year on the average (or more than 3 per cent of their full working time) to do their jobs of administration;
- Domestic SMEs particularly expect from the Government to create a stable and predictable **business environment, typically with public charges and administrative burden lower than those now in force.**

The EU Member States are also committed to reducing administrative burden. The European Union decided in March of 2007 on reducing the burden from EU regulation by 25 per cent at the least until 2012. In addition, Member States were invited to define target values for administrative burden to be reduced to and to implement strategies with strict schedule to limit obligations of data supply resulting from national legislation.

## **‘Cornerstones’**

### **Economic policy turnaround**

The Government taking office in 2010 set the objective of changing the situation that has brought Hungary at a competitive disadvantage and making the country that one with leading edge in the region. In the recent months, the Government took a lot of measures for the purpose such as easier conditions for casual employment, lower corporate tax, flat-rate taxation introduced, elimination of ten small taxes, one-desk administration, etc. to cut back tax burden paralyzing the economy and to make business regulations more simple and transparent. In accordance with its economic policy focusing on SMEs, **the Government is to take further specific moves to eliminate unnecessary administrative hurdles as a part of the structural reform on the agenda.**

As a result of the Government’s administration-cutting moves, significant economic boost is expected including **GDP growth, better fiscal positions and new jobs created.**

With lower administrative burden as well as ensuring simplification and predictability, the businesses could be in position to cut down their drawbacks in terms of international relations and costs. Furthermore, **funds and resources could be released in this way to be spent on development, innovation, expansion and job creation for the firms.** In addition, administration cuts should contribute to a better reputation of Hungary as a potential business location allowing for FDI inflow to gear up and to improve the economic and financial outlook in relation to the country. By making the purports of administrative responsibilities more practical, **the businesses could feel more comfortable with the regulations,** rather than they would find data requests from government authorities unfamiliar and meaningless. These moves strengthen confidence between government and businesses, the belief in fair way of making profits, promote economic policy credibility of the Government and increase motivation of the entrepreneurs to strive for development, innovation and growth.

## Conclusion

The Government's administration-cutting moves have a positive influence on the competitiveness of businesses and the whole of national economy. Significantly cutting back administrative burden is inevitable for Hungary to catch up with Europe's most competitive countries and to regain our leading position in the region.

Budapest, 22 February 2011.

Ministry for National Economy