The Gini index

The Gini index (or Gini coefficient) is the indicator most frequently applied for **measuring income inequalities.** The figure may vary on a scale of 0 to 1, or it is often expressed in percentages. The figure 0 indicates that incomes are perfectly evenly distributed and 1 signals absolute inequality, that is all incomes are owned by one person (which, of course, is an extreme example which can never occur in reality.)

The advantage of applying this indicator is that it disregards the size of an economy and this coefficient makes income distribution comparable between rich or poor countries with small or large populations. In analyzing the figure, however, one needs to be cautious as there are **always at least two such income distribution situations which generate the same Gini index.** For example, if in a country the 10 percent of overall wealth is owned by half the population and the 90 percent in concentrated at the other half of the population or in another country half of the wealth is owned by the 90 percent of the population and the other half is concentrated at the 10 percent of the population, in both cases the Gini index of the country is 0.4.

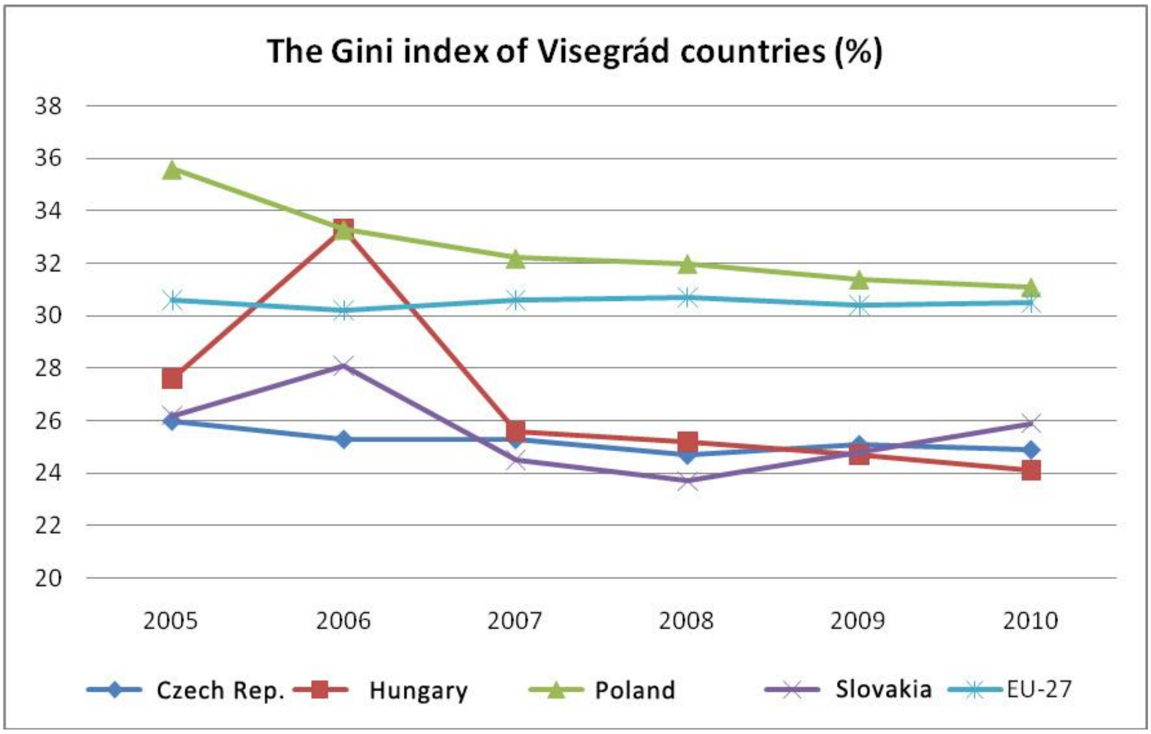
<u>The indicator in the European Union</u>

According to Eurostat data, the **Gini coefficient of Hungary** in the past decade, except for 2006, was between 24-27 percent and has been declining in the past couple of years. In 2012 it was **already the lowest among the Visegrád countries** that is **income distribution was the most balanced in Hungary.** By this figure Hungary was ranked third in regard to the European Union after Norway (23.6 percent) and Slovenia (23.8 percent), and tied with Sweden (24.1 percent).

Among the Visegrád countries income inequalities were relatively low in Hungary, the Czech Republic and Slovakia, while gaps appear to be **much greater in Poland**. Although the index has been declining there as well, it is still higher than the average of the EU 27.

From 20005 on, the EU average was around 31 percent. The income gap was the greatest in Latvia, where the coefficient was varying between 26 and 37 percent, but in 2006 it even reached 39 percent, an EU record. In 2010 distribution inequality was the highest among Lithuanians (36.9 percent), followed by Latvians (36.1 percent) and the Spanish and Portuguese with a figure around 34 percent. **Hungary scores even better than the average of old (pre-2004) member**

countries, incomes are also more evenly distributed within the various income brackets than, for example, in the United Kingdom (33 percent), France (30 percent) or Germany (29.3 percent).



Source: Eurostat, NGM

The coefficient in the OECD countries

In the long term, we can conclude on the basis of the OECD data that in the case of Hungary in the era before the regime change **pre-tax** income inequality had changed but little. The figure of about 0.5 at the middle of the 1990s declined by 0.03 percentage points by the year of 2000, and after that it by the middle of the 2000s it increased again to the prior level and **has been slightly on the rise ever since.**

It is noteworthy that according to the latest data among the Visegrád countries **the difference between the pre-tax and after-tax Gini index is the highest in Hungary,** that is our tax system and allowances are narrowing income gaps to the greatest extent. The pre-tax coefficient is 46.6 percent, whereas after tax and transfers the figure is only 27.2 percent. **This difference of 19.4 percentage points is above the 14.3 percent average of OECD countries in the survey.** Among our competitors in the region, **Hungary has the highest government welfare spending as of GDP.** Such expenditures totaled 17.8 percent of GDP in Hungary in 2010, while in Slovakia, for example, the corresponding figure was only 12.3 percent. In this field the government can primarily contribute to the narrowing of income gaps via disability allowances, family benefits and home grants.

On the basis of the OECD ranking, as far as pre-tax and after-tax differences are concerned, we ranked as seventh in Europe after Austria, Belgium, Germany, Finland, Italy and Luxembourg. At the bottom of the list are Switzerland, Greece and the Netherlands, where according to this statistics redistribution can narrow income gaps by the lowest extent.

	Gini coefficient (before taxes and transfers)				Gini coefficient (after taxes and transfers)			
-	mid-90s	around 2000	mid-2000s	latest year	mid-90s	around 2000	mid-2000s	latest year
Country								
Austria	..	..	0,433	0,472	0,238	0,252	0,265	0,261
Belgium	0,472	0,464	0,494	0,469	0,287	0,289	0,271	0,259
Czech Republic	0,442	0,472	0,474	0,444	0,257	0,26	0,268	0,256
Denmark	0,417	0,415	0,417	0,416	0,215	0,226	0,232	0,248
Estonia	..	..	0,504	0,458	..	..	0,349	0,315
Finland	0,479	0,478	0,483	0,465	0,218	0,247	0,254	0,259
France	0,473	0,49	0,485	0,483	0,277	0,287	0,288	0,293
Germany	0,459	0,471	0,499	0,504	0,266	0,264	0,285	0,295
Greece	0,446	0,466	0,454	0,436	0,336	0,345	0,321	0,307
Hungary	0,496	0,463	0,497	0,466	0,294	0,293	0,291	0,272
Iceland	..	..	0,365	0,382	..	..	0,257	0,301
Ireland	..	..	..	..	0,324	0,304	0,314	0,293
Italy	0,508	0,516	0,557	0,534	0,348	0,343	0,352	0,337
Japan	0,403	0,432	0,443	0,462	0,323	0,337	0,321	0,329
Luxembourg	0,427	0,421	0,454	0,482	0,259	0,261	0,258	0,288
Netherlands	0,484	0,424	0,426	0,426	0,297	0,292	0,284	0,294
Norway	0,404	0,426	0,447	0,41	0,243	0,261	0,276	0,25
Poland	..	..	0,542	0,47	..	0,316	0,349	0,305
Portugal	0,49	0,479	0,542	0,521	0,359	0,356	0,385	0,353
Slovak Republic	..	..	0,458	0,416	..	..	0,268	0,257
Slovenia	..	..	0,452	0,423	..	..	0,246	0,236
Spain	..	..	..	0,461	0,343	0,342	0,319	0,317
Sweden	0,438	0,446	0,432	0,426	0,211	0,243	0,234	0,259
Switzerland	..	..	..	0,409	..	0,279	0,276	0,303
United Kingdom	0,453	0,512	0,5	0,506	0,336	0,352	0,331	0,342
United States	0,477	0,476	0,486	0,486	0,361	0,357	0,38	0,378
OECD Total	..	..	0,467	0,457	..	..	0,316	0,314