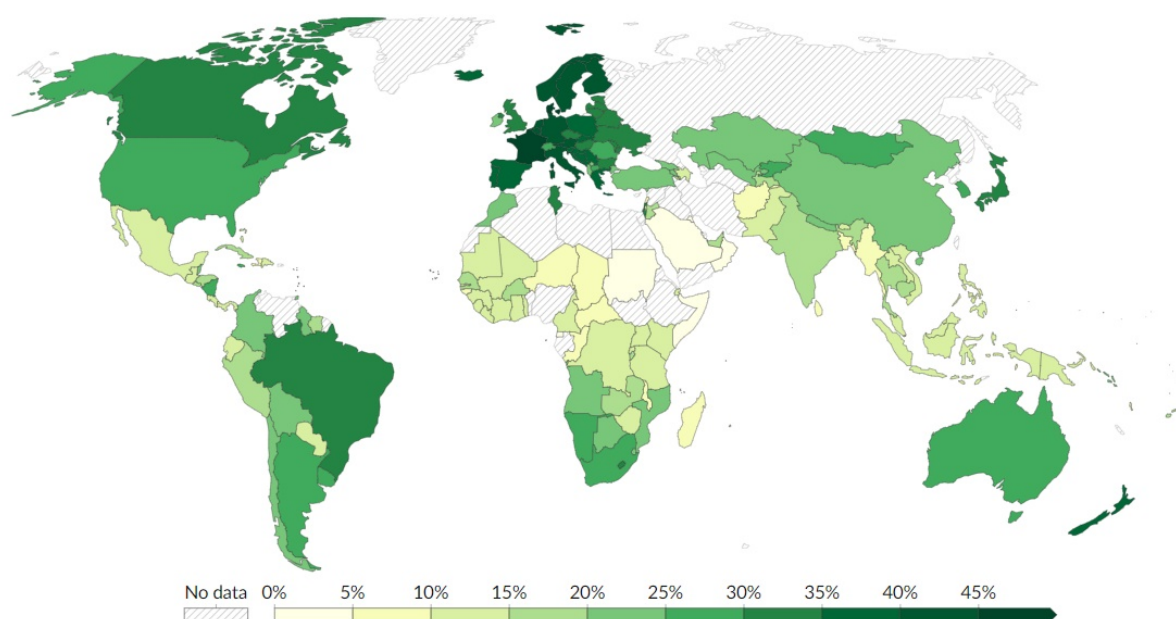


DO HUNGARIANS REALLY PAY A LOT OF TAXES?

Public discourse often criticizes Hungary's high domestic tax rates. Without any deductions, 18.5% of your gross salary goes towards social security contributions, and the state takes an additional 15% as personal income tax. This leaves you with 66.5% of your original income, which is then subject to a 27% VAT on most goods. This significantly reduces purchasing power by nearly half. Additionally, Hungarian companies pay a 9% corporate tax on their profits and contribute a 13% social security tax on their employees' gross wages. Companies also pay local business taxes, windfall taxes, and various other taxes, all of which are inevitably embedded in the prices of products and services.

Despite Wagner's law—which suggests that demand for public services and government expenditures increase proportionally with economic growth—not always holding true, it's evident that **economically advanced regions tend to have higher tax revenues as a percentage of GDP.**

Tax Revenues as a Percentage of GDP, 2022

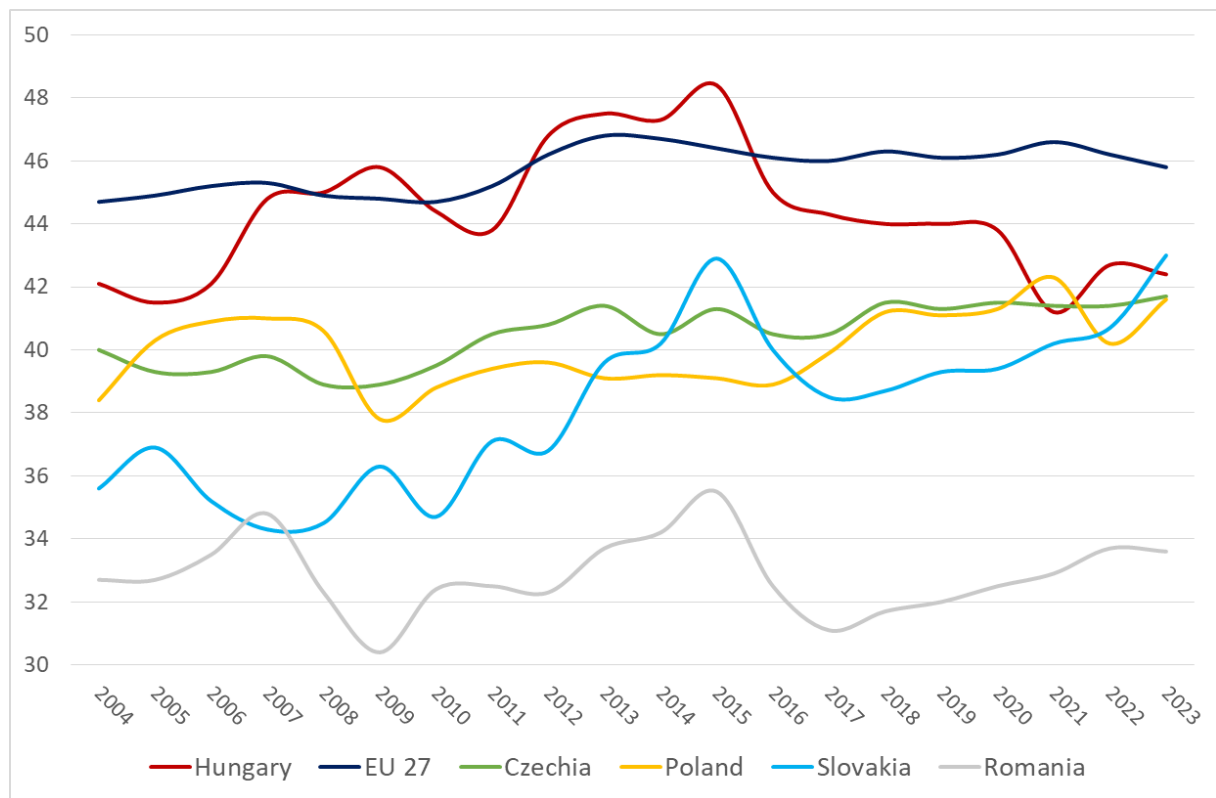


Source: UNU-WIDER, Our World in Data (2023)

There is also a debate on whether higher government spending is a "luxury" of wealthy countries or if these countries are developed precisely because they invest heavily in positive-return public expenditures (such as infrastructure development, education, and R&D). Thus, high taxes are not necessarily bad; the question is **how effectively they are utilized.**

But is it true that Hungarians pay a lot of taxes?

Government Revenues as a Percentage of GDP (2004-2023)



Source: Eurostat (2024)

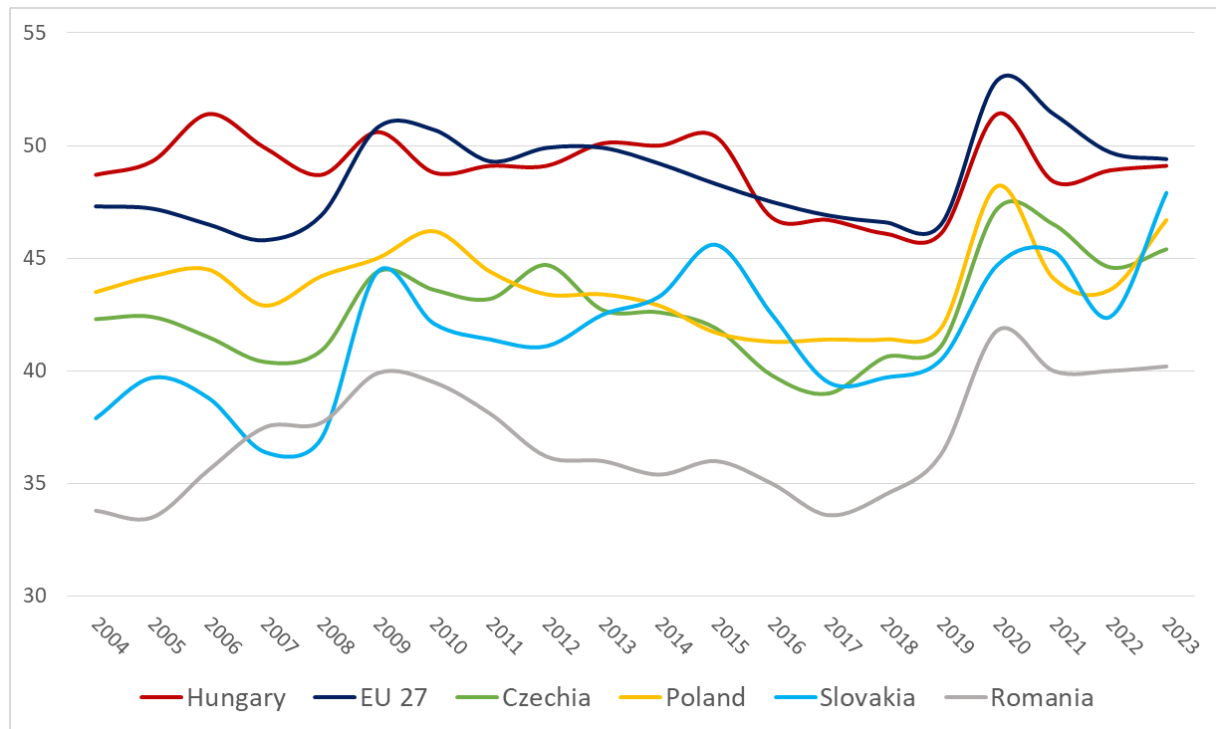
Like any national budget, Hungary's revenue primarily comes from **taxes and contributions**. Additionally, significant income is derived from EU funding, which is notably higher than the regional average. Alongside these major sources, various smaller revenue streams contribute to the budget.

Hungary's state revenue as a percentage of GDP is 3.4 percentage points lower than the EU average, yet at 42%, it aligns with the other Visegrád countries. It took us 20 eventful years to arrive at this point. Upon joining the EU, Hungary's revenue ratio was higher than its regional competitors, further increased by the 2006 fiscal consolidation package. In the five years following the 2010 government change, the revenue ratio surged to 48.4%. However, from the mid-2010s, revenue growth did not keep pace with GDP growth. By the early 2020s, Hungary's revenue ratio aligned with the Visegrád countries but diverged from the EU average of 46%.

Less Revenue = Less Spending?

While Hungary's revenue is average within the region, it has the highest state spending relative to GDP among the Visegrád countries, at 49% of its GDP.

Government Expenditures as a Percentage of GDP (2004-2023)



Source: Eurostat (2024)

Since 2016, Hungary has consistently had the largest GDP-proportionate deficit among the V4 countries, culminating in a 6.7% deficit in 2023, making it the country with the second-largest budget deficit in the EU. Unfortunately, this high level of state spending is not reflected in the quality of public services.