



NÉZŐPONT INSTITUTE: TOWARDS A SNOW-WHITE ECONOMY

**HUNGARY'S ECONOMIC WHITENING PERFORMANCE IN
CENTRAL EUROPEAN COMPARISON**

21 November 2023

ANALYSIS BY NÉZŐPONT INSTITUTE

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1. Summary

Whitening the Hungarian economy has been a success story. Improved public morale, growing confidence in the prosecution of corruption and more efficient tax collection are enabling public spending to be reduced and thus indirectly contributing to the re-whitening of the economy. In the long term, the drive to create a snow-white economy can also be a key to economic growth.

In this year's study on economic whitening, the Nézőpont Institute set out to examine the results of economic whitening in the Central European region, taking into account regional differences and changes over time, by conducting a secondary analysis of Eurobarometer and its own opinion polls, as well as the European Commission's economic estimates.

A comparison of time-series results from nine Central European Countries - Austria, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia - shows that Hungary's economic whitening is successful not only compared to the pre-2010 status, but also relative to the other countries in the region.

1. **After 2010, corruption experienced by the population halved in Hungary.** While in 2005, 22% of Hungarians was confronted with bribery, by 2023 this rate had fallen to less than half, to a mere 9%. Hungary already scored better than Austria in 2022 and 2023 on this indicator.
2. **After 2010, the rate of satisfaction with the efforts of the government to combat corruption tripled in Hungary.** Whereas in 2005 only 12 percent of Hungarians thought that the government's anti-corruption efforts were effective, in 2023 this rate reached 36 percent. Hungary is among the regional leaders in terms of this indicator, after only Austria (39 percent) and Poland (37 percent).
3. **Hungarians are highly committed to economic whitening.** Hungary, along with Austria and the Czech Republic, is in the lead in terms of the proportion of people who believe that you do not need to bend the rules to prosper and that you do not need the support of influential people to succeed.
4. **Hungary is third in terms of VAT fraud reduction.** By 2021, the rate of unlawfully unpaid VAT to the expected theoretical VAT revenue fell by 17.9% in Central Europe compared to 2010; its per capita value was lower in Hungary (EUR 73 per capita) than even in Austria (EUR 98 per person).
5. **Hungary is third in terms of VAT revenue increase.** Since 2010, only Croatia (+332%) and Bulgaria (+111%) have seen a higher increase in VAT revenues than Hungary (+80%), which in turn represents a larger increase in government revenues than the corresponding Austrian (+36%) and Czech (+73%) figures.

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3. A decade of economic whitening in Hungary

Since 2010, the Hungarian government has made a significant shift in approach to public finance policy. While before 2010, left-wing governments repeatedly raised taxes to generate fiscal resources, the Orbán governments have made tax collection more efficient by whitening the grey and black economy.

Tax avoidance has become a structural problem in Hungary as a result of the tax hikes before 2010. At the time, it was estimated that an annual VAT revenue of close to HUF 350-550 billion did not make it to the budget.¹

1. The digital era of economic whitening started between September 2013 and September 2014 with the installation of the first online cash registers that could record and transmit all relevant information to the tax authorities. These have led to a significant whitening of the retail and catering sectors, with the smallest companies in the former seeing a 20-26%, and those in the latter a 30-40% increase in turnover as a result of the activation of the cash registers.²
2. At the beginning of 2015, the Orbán government introduced the electronic public road transport control (EKAER) system, which helped prevent VAT fraud in road transport; in the first two years, 14,000 cases of non-compliance or violation of the law were detected during checks on around 180,000 vehicles.³
3. In 2016, a POS terminal installation programme was launched to encourage more transparent electronic payments. In two phases, 60,000 new terminals were installed with public support, at moderate costs for merchants, and the number of physical acceptance points increased by 25% in one year.⁴
4. Since 2017, social contribution tax payable on gross wages has been reduced from 27% to 13%, and to 10% for companies in the small business tax bracket; this has contributed significantly to the whitening of employment.
5. In 2017, cash was excluded from the wholesale purchase of excise goods, which contributed to Treasury collecting nearly HUF 90 billion more in 2018 than in 2017.⁵
6. Online invoice reporting became mandatory from 1 July 2018 and was extended in two further steps from July 2020 and January 2021, respectively. While the average number of invoices checked by the tax authorities was 2 million in 2019, this figure rose to 66 million in 2022.⁶
7. Since 2021, it is mandatory for merchants and service providers in Hungary to provide for electronic payment. This has contributed to reducing the proportion of shops where the majority of transactions was in cash from 80% to 73% in one year, meaning that people now tend to pay more often electronically than in cash in a quarter of shops.⁷
8. As of 2021, it has been forbidden to give and accept gratuities in the health sector, a measure which, in parallel with the regularisation of doctors' salaries, has had a significant impact on whitening the health sector.

9. In 2022, the Integrity Authority was created as an autonomous public administration body, to carry out official controls in relation to public procurement and to call upon the bodies with powers to control the use of EU funds to initiate proceedings.
10. The latest move took place in the area of gambling. From 1 July 2023, banks are required to reject payment transactions related to unlicensed gambling activities, thus this market segment has also been whitened.

As can be seen from the above, the Hungarian state has used a wide and diverse range of instruments to whiten the economy in the last decade, which have proven effective even in the short term. The following chapters of the analysis examine indirect indicators of economic whitening to project a broader picture of the effectiveness of combating illegal transactions.

4. Hungarian corruption prosecution in the vanguard

There are many forms of non-compliant economic activity, but corruption is seen as a major driver of the grey economy. However, the relevant discourse is complicated by the fact that there is no international consensus on what exactly constitutes corruption, and there are also wide differences in what is culturally accepted in different countries. There is, however, agreement on the most general approach that corruption is an illegitimate abuse involving individual gain that is harmful to the community. In the long term, large-scale corruption has negative effects on economic growth and the tax collection efficiency of the state, undermining public confidence and destroying social norms.

Corruption being an economically damaging and morally sensitive issue, it is no wonder that its measurement via different methods is subject to intensive media interest. However, this does not mean that the analyses that have been widely reported are reliable. Indicators that quantify the extent of abuse in monetary terms are often unsubstantiated or highly questionable⁸, and peer-reviewed rankings such as Transparency International's Corruption Perceptions Index are misleading and tend to be used to subjectively stigmatise a country.⁹

Another genre of corruption research is based on public opinion polls, i.e. it investigates the respondents' corruption perceptions. It is important to note here that respondents from different social groups and cultural backgrounds may have different perceptions of corruption and, despite the media's loud headlines, the public's perception of corruption is not the same as the actual extent of corruption.

Since 1973, the European Commission has been conducting international public opinion surveys on various topics, mainly focusing on the Member States of the European Union, formally to facilitate the preparation of decisions, under the name Eurobarometer. Eurobarometer has carried out nine public surveys on corruption perceptions by country. Nézőpont Institute has examined the Eurobarometer public opinion polls on corruption by comparing data from the Central European EU Member States back to 2005 in order to get a more complete picture of corruption perceptions and better understand the Hungarian perspective in the region.¹⁰

4.1. Low and declining perceptions of corruption in Hungary

Although in general the majority of nations suspects significant levels of corruption in the home country, only a minority have actually witnessed or been involved in some way in cases of corruption. Until 2011, Eurobarometer looked at whether respondents had asked for or expected bribes in return for their services in the previous year; from 2013 onwards, they asked how many had experienced or witnessed corruption.

In 2023, 9 percent of Hungarians experienced or witnessed corruption, the figure being identical with the Czech and Slovak ones, ahead of that of Austria (10 percent), Bulgaria (15 percent) and Croatia (18 percent), with only Poland (3 percent), Romania (5 percent) and Slovenia (6 percent) reporting less relevant experience.

For Hungary, there is a clear upward trend. While between 2005 and 2011, almost one fifth of respondents (17-22%) recalled that they had met with bribery in their own life, after 2013 the level of corruption experienced fell from 14% to 9% in 2023. In 2022 and 2023, the figures

were even better than in Austria (10% and 9%, respectively). In Austria, since 2005, typically one tenth of the population has reported having experienced corruption in some way: 11% in 2022 and 10% in 2023.

	2005	2007	2009	2011	2013	2017	2019	2022	2023
Austria	10	14	13	11	9	7	14	11	10
	86	84	84	84	84	90	84	87	87
Bulgaria		21	17	25	13	12	11	19	15
		72	81	72	84	78	81	80	83
Czech Republic	18	17	15	18	13	7	7	10	9
	76	76	84	80	83	90	91	90	90
Croatia					11	16	15	18	18
					87	80	82	81	80
Hungary	22	19	17	20	14	10	12	10	9
	72	76	80	78	80	87	86	90	90
Poland	15	10	14	14	16	7	5	5	3
	82	89	82	81	83	91	92	95	96
Romania		29	27	31	14	6	9	4	5
		65	68	63	79	90	88	95	94
Slovakia	25	29	22	27	21	9	10	7	9
	72	67	76	68	74	87	86	91	89
Slovenia	6	5	6	7	8	7	10	8	6
	93	94	94	92	90	92	88	92	93

experienced and/or witnessed corruption 
 did not experience and/or witness corruption 

Figure 1: Perceptions of corruption in some Central European countries (Source: Eurobarometer; question 2005-2011: Over the last 12 months, has anyone (IN YOUR COUNTRY) asked you, or expected you, to pay a bribe for his or her services? Question from 2013: In the last 12 months, have you experienced or witnessed any case of corruption?)

Bulgarian corruption perceptions are more volatile: almost one in five Bulgarians experienced services provided for bribes between 2007 and 2011 (taking into account the statistical margin of error); the proportion of reported corruption cases shrank then between 2013 and 2019 (to 11-13%), and regained the previous high level only in 2022 (19%). While the temporary improvement in the trend may be due to the introduction of online cash registers in Bulgaria, the recent deterioration is attributable to scandals surrounding unstable governments.

Less than one fifth of Czechs (15-18%) had experienced bribery between 2005 and 2011, while fewer (7-13%) have reported corruption experienced since 2013. For Croatians, the trend has slightly worsened since the start of Croatian data collection in 2013, with the percentage of those affected in some way by corruption increasing from 11 percent then to 18 percent in 2023.

Typically, more than 10 percent of Poles gave or received (or saw others give) a bribe between 2005 and 2013 (10-15 percent), but from 2017 this rate fell by more than half (7 percent), gradually declining further to 3 percent in 2023. Currently, the Polish figure is the best in the Central European region.

Between 2007 and 2011, nearly one third of Romanians (29-31 percent) had experienced bribery transactions, but in 2013 half as many remembered a corrupt practice (14 percent). For Slovaks, the proportion remembering a bribery transaction was high between 2005 and 2013, between 21 and 29 percent, but from 2017 it has varied between 7 and 10 percent. In Slovenia, as in Austria, there seems to be no significant change, with no more than 10 percent remembering either a bribe or a corrupt transaction in any year.

4.2. Hungarians’ satisfaction with anti-corruption law enforcement has improved significantly since 2010

An important question is what people think about the effectiveness of anti-corruption law enforcement. Between 2005 and 2011, Eurobarometer asked whether each nation thought there were enough successful prosecutions to deter people from giving and accepting bribes. From 2013, the same question was asked about deterring corrupt practices.

	2005	2007	2009	2011	2013	2017	2019	2022	2023
Austria	43	48	44	31	39	50	53	47	44
Bulgaria		23	26	12	9	13	17	15	18
Czech Republic	12	20	21	12	15	25	29	22	23
Croatia					23	31	28	31	23
Hungary	20	25	22	22	27	35	39	37	34
Poland	20	27	32	31	30	41	43	47	37
Romania		28	41	21	34	55	58	44	39
Slovakia	21	24	31	12	21	28	37	36	28
Slovenia	24	17	26	9	12	24	23	20	26

Enough successful prosecutions to deter people from corrupt practices 

Figure 2: Percentage of adults satisfied with anti-corruption law enforcement (source: Eurobarometer; Question: For each of the following statements, could you please tell me whether you totally agree, tend to agree, tend to disagree or totally disagree with it. 2005-2011: "There are enough successful prosecutions (IN OUR COUNTRY) to deter people from giving or receiving bribes." From 2013: "There are enough successful prosecutions (IN OUR COUNTRY) to deter people from corrupt practices.")

Overall, a minority of respondents in each country considers these prosecutions sufficient, but the questions do not make it clear whether they consider the prosecutions insufficient or successful prosecutions insufficient deterrents. The number of prosecutions is considered sufficient by most in Austria (44 percent), followed by Hungary (34 percent), Romania (39 percent) and Poland (37 percent). Slovakia (28 percent), Slovenia (26 percent), the Czech Republic and Croatia (both 23 percent) are slightly behind. The corresponding rate (sufficient in number and anti-corruption effect) is lowest in Bulgaria (18 percent).

Austrians are also the most satisfied in general: in no year since 2005 has any of the countries surveyed had a higher rate of people satisfied with the number of prosecutions. Only in 2011 did this rate fall below 40 percent (31 percent) there, while in 2017 and 2019, uniquely in the region, the proportion of satisfied people reached an absolute majority (50 and 53 percent).

At the opposite pole, Bulgarians are generally among the most dissatisfied: while until 2011 over 20 percent considered the number of prosecutions sufficient, since 2011 this indicator has been below 20 percent, and it attained a regional low at 9 percent in 2013.

Interestingly, the Czechs, who like the Austrians are generally sanguine, are also quite pessimistic about law enforcement, with the proportion of those satisfied with the number of prosecutions mostly below 20 percent (12-21 percent) between 2005 and 2011, and persistently above 20 percent in 2017 (22-29 percent). Croatia has been in the middle of the range since its accession in 2013 (23-31 percent), but there was a major drop in 2023. This year, only 23 percent has been satisfied with the deterrent effect of procedures, down from 31 percent.

In Hungary, there was a visible positive turn in 2010. In 2005, only 20 percent of respondents considered state prosecutions sufficient to deter from criminal activities those seeking to exert influence with bribes. However, the proportion of those who were positive has gradually increased since 2010 and has been consistently above 30 percent (34-39 percent) since 2017.

A similar positive change is observable in Poland, where the proportion of those satisfied with the number of prosecutions exceeded 30 percent in 2009 and 40 percent in 2017, with a more significant drop (to 37 percent) only in 2023.

In Romania, the proportion of those satisfied with the number of prosecutions varied until 2013 (21-41 percent), with the most striking change between two surveys occurring in 2017 (from 34 to 55 percent), followed by gradual decline (44 percent in 2022, 39 percent in 2023) in the number of the hopeful. Slovakia also saw a slight improvement in sentiment between 2005 and 2009 (21-31 percent) and then, after a low in 2011 (12 percent), the rate concerned jumped again to above 30 percent (36-37 percent), until another major drop in 2023 (28 percent). Slovenia is one of the more pessimistic countries overall, with no success rate above 30 percent since 2005, and a low of 9 percent, as in Bulgaria, in 2009.

4.3. Austrians, Poles and Hungarians are the most satisfied in the region with their government's anti-corruption efforts

In addition to personal experience and the deterrent effect of prosecutions, another important question is what people think about the effectiveness of their government's anti-corruption efforts. Eurobarometer's research of this issue since 2009 examines the extent to which people agree with the statement that their national government is making effective efforts to fight corruption. Overall, it is clear that in no country does the majority think that the relevant government efforts are effective enough.

In 2023, more than one third (36%) of Hungarians was satisfied with the government's anti-corruption efforts; this is the third highest rate in Central Europe. The Austrians (39 percent) and Poles (37 percent) are ahead of Hungary by a margin close to the statistical margin of error, followed by the Romanians (29 percent) and Slovaks (27 percent) in the middle field, with the Slovenes (23 percent) and Croats (22 percent) and Czechs (21 percent) closing the line with a much lower satisfaction rate and Bulgarians (18 percent) bringing up the rear.

	2009	2011	2013	2017	2019	2022	2023
Austria	37	31	38	47	50	40	39
Bulgaria	28	29	16	15	16	17	18
Czech Republic	11	11	12	20	24	22	21
Croatia			28	27	24	30	22
Hungary	12	24	31	31	37	41	36
Poland	30	31	28	43	42	43	37
Romania	18	16	27	39	45	37	29
Slovakia	17	16	21	28	36	32	27
Slovenia	10	7	10	21	18	20	23

Government's efforts to combat corruption effective

Figure 3: Percentage of the adult population who think their (national) government is making sufficient efforts to combat corruption (source: Eurobarometer; question: "Please tell me whether you agree or disagree with each of the following. (NATIONALITY) Government efforts to combat corruption are effective.")

Austrians are the most satisfied also considering the whole period; even their lowest score represented the international record in 2011, and by 2019 the share of people who considered the Austrian government's efforts to combat corruption effective had reached 50%.

Bulgarians are among the most dissatisfied again: the already not very positive assessment of their government's anti-corruption work in 2009 and 2011 (28-29 percent) has shown steady deterioration since then. The Bulgarian government's work is the worst perceived in the region (15-18 percent).

The Czech Republic is also among the more pessimistic countries: the satisfaction rate doubled from 11 and 12 percent before 2013, but could only exceed 20 percent (20-24 percent). For Croats, a more optimistic year in 2022 (30 percent) was followed by a more dissatisfied one in 2023 (22 percent).

In Hungary, an improving trend is discernible also here: while in 2009 only 12 percent of Hungarians considered the government's anti-corruption efforts effective, the share of satisfied Hungarians gradually increased after 2010, reaching 41 percent in 2022, and more than three times as many Hungarians are satisfied with the government's anti-corruption efforts today as before Viktor Orbán's government was formed in 2010.

A positive turn occurred also in Poland: the satisfaction rate increased from 28-31% before 2017 under Donald Tusk, to over 40% between 2017 and 2022 (42-43%), falling back to 36% in 2023, but not reaching the 2013 low again.

In Romania, the perception of the government's efforts to combat corruption was similar to that of the deterrent effect of prosecutions: while before 2011 it was below 20 percent (16-18 percent), in 2017 it reached 45 percent, gradually declining to 29 percent since the peak.

Between 2009 and 2013, Slovakia experienced a low of 16 – 21 percent in general feelings, followed by a shorter period of improvement (36 percent in 2019). In Slovenia, satisfaction was the lowest, at between 7 and 10 percent, before 2017, and there was no further improvement after 2017 (18-23 percent).

5. Hungarians are highly committed to economic whitening

Deteriorating economic conditions always increase the risk of greying in the economy, and it is a major challenge for individual governments to continue to encourage compliance in the population. The Russia – Ukraine military conflict and the European Union's sanctions policy proclaimed in response to it have made life in Central Europe significantly more expensive. The state of public morale after 18 months of war can be an indicator of the effectiveness of government efforts; therefore, Nézőpont Institute examined public morale affected by the war and by war inflation, based on its own Central European public opinion polls.¹¹

5.1. Despite high inflation, Hungary has maintained its economic whitening results in employment

Based on the perception of the population, in the first war year there was an improvement in employment whiteness in all countries except Poland, but in the second war year the region shows a mixed picture. In 2023, 29% of Hungarians had an acquaintance who received part or all of their salary “in their pocket” (envelope wages), which puts them in the middle field in the region, on a par with the Czech Republic. Croats, Slovenians and Poles had the lowest proportion of acquaintances paid envelope wages (16% each), followed by Austrians (20%), Slovaks (22%) and Czechs (28%). Bulgarians (35%) and Romanians (38%) were at the end of the line in this respect.

	2020	2021	2022	2023
Austria	27	28	21	20
Bulgaria	53	36	35	35
Czech Republic	24	15	12	28
Croatia	46	43	19	16
Hungary	38	35	26	29
Poland	44	22	32	16
Romania	56	47	35	38
Slovakia	47	37	32	22
Slovenia	35	18	19	16

knows someone who gets paid in untaxed cash 

Figure 4: Percentage of the adult population with acquaintance receiving their salary in untaxed cash (Source: CEPER, question: Do you know anyone who gets partly or fully paid in untaxed cash?)

In Austria, there was a significant improvement after the last year of the coronavirus epidemic, in 2021: the proportion of people who know anyone who gets paid in untaxed cash fell from 28% to 21% in 2022, and has remained stagnant since then.

In Bulgaria, a similar phenomenon can be seen, with the proportion of people with an acquaintance employed in the grey area falling from 53 percent in 2020 to 36 percent in 2021, a share that has remained stagnant since then.

In the case of the Czechs, this group halved from 24 percent in 2020 to 12 percent in 2022, but in 2023 its share rose even higher than it was in 2020, to 28 percent, a turnaround that suggests

that the Czechs were looking to grey employment as a remedy for war and sanctions inflation. The opposite effect was seen in Croatia – according to the Croatians' own declaration –, where the proportion of people with acquaintances paid partly or fully in untaxed cash fell from 46 percent in 2020 to less than half, 19 percent, in 2023, with 2022 marking the turning point.

The situation in Hungary also improved in 2022 compared to 2020 and 2021. In three years, the share of grey-paid acquaintances fell from 38 percent to 26 percent, changing to 29 percent, within the statistical margin of error, in 2023.

Some countries in the region have recorded sustained improvement. Poland shows overall improvement (with temporary deterioration from 22 percent to 32 percent in 2022), with the share of acquaintances partly or fully paid in untaxed cash falling from 44 percent in 2020 to 16 percent in 2023. For Romanians, there is also a positive change, followed by stagnation, with a decrease from 56 percent in 2020 to 35 percent in 2022, and only a slight increase in 2023 (38 percent). Slovaks experienced gradual improvement despite the war crisis, with a decrease from 47 percent in 2020 to 22 percent in 2023. For Slovenians, a turnaround occurred in 2021, when the rate of the group surveyed fell from 35 to 18 percent, a rate that has not changed significantly since.

5.2. Austrians, Hungarians and Czechs believe most in the benefits of compliance with the rules

In the context of the increasingly difficult living conditions due to the war and sanctions crisis, it is important whether people believe that they can make progress in life within a legal framework, in compliance with the rules. The research conducted by the Nézőpont Institute examined how many people agreed with the statement that "Anyone who wants to be successful has to break some rules in your country". The ratio of sanguine vs pessimistic people by country projects a rather mixed picture again.

Austria (63%), Hungary and the Czech Republic (41-41%) have the highest proportions of those who clearly believe that breaking rules is not absolutely necessary to succeed. Slovakia (36 percent), Slovenia (33 percent), Romania (31 percent), Poland (30 percent) and Croatia (29 percent) represent the wider middle band, while Bulgarians have the least faith in success being feasible through legal operation (20 percent).

The 63 percent rate of Austrians who believe in compliance with the rules is a slight improvement from the 57 percent recorded a year earlier. The Hungarians and Czechs have some of the most positive attitudes, but there has been some hesitation among them over the past year, presumably due to the more difficult living conditions. This indicator has decreased by 8 percentage points in Hungary, and 10 percentage points in the Czech Republic, with the difference that Hungarian optimists changing their mind tended to join the camp of the undecided, giving "wavering" answers, whereas most Czechs changed their position not partially but completely.

There was also a slight improvement in Slovakia, close to the margin of error, compared to 33% last year, while Slovenia showed a slight decline of 2 percentage points in the opposite direction. Romania boasts a big improvement, from 22 percent last year to 31 percent, meaning that fewer and fewer people in our south-eastern neighbour think that breaking the rules is inevitable for success.

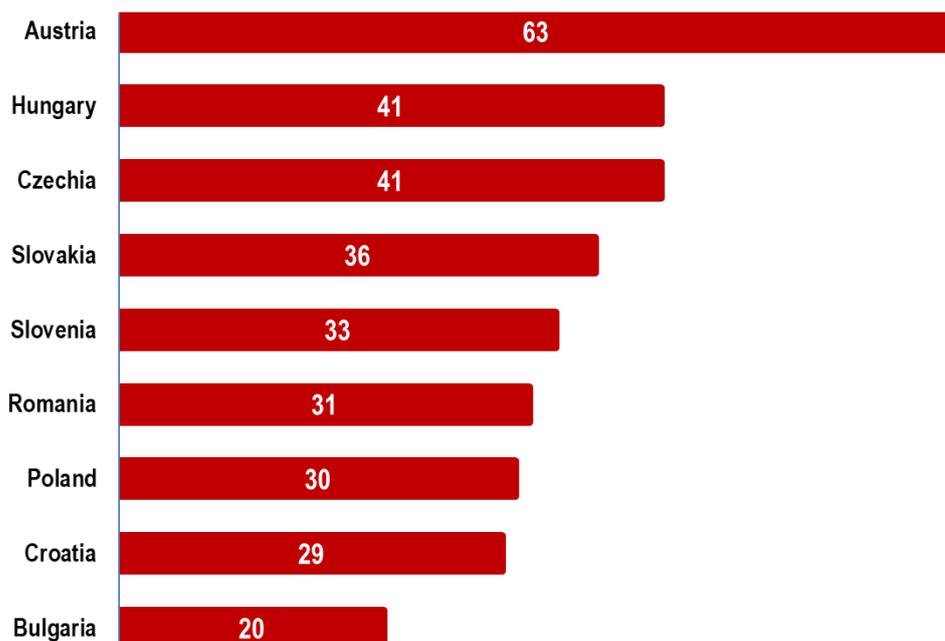


Figure 5: Belief in the benefits of following the rules among the adult population (source: CEPER 2023, question "To what extent do you agree or disagree with the following statements? "Anyone who wants to be successful has to break some rules in your country.")

In Poland, the opposite trend was observed: the share of optimists fell from 46% last year to 30%. In contrast, the percentage of Croatians who think that it is not necessary to break the rules to succeed is exactly the same as it was last year (29%). Although the Bulgarians rank last again, the share of those who do not believe that it is necessary to break the rules has increased from 15% to 20% in the last year.

5.3. Few people in Hungary believe in favouritism

An important question for public morale is what each nation thinks about the fact that it is not possible to do business successfully without the support of influential people. Overall, the Czechs have the highest proportion of people who believe that it is possible to succeed in business without such support (45 percent), followed by Austrians (38 percent) and Hungarians (30 percent) in the Central European ranking. In the broader midfield are Poles (27 percent), Slovaks (26 percent), Romanians (25 percent), Croats (22 percent) and Slovenes (22 percent), with Bulgarians (12 percent) bringing up the rear again.

The relevant Czech morale has improved significantly, with the proportion of those who believe that it is possible to do business successfully without the support of influential people rising from 39% to 45% in a year. But among Austrians, the figure has fallen from 45% last year to 38%. Among Hungarians, there is also a decrease compared to last year (38%), but this, again, is more about uncertainty, as the number of those who agreed has not increased, only that of the undecided rose.

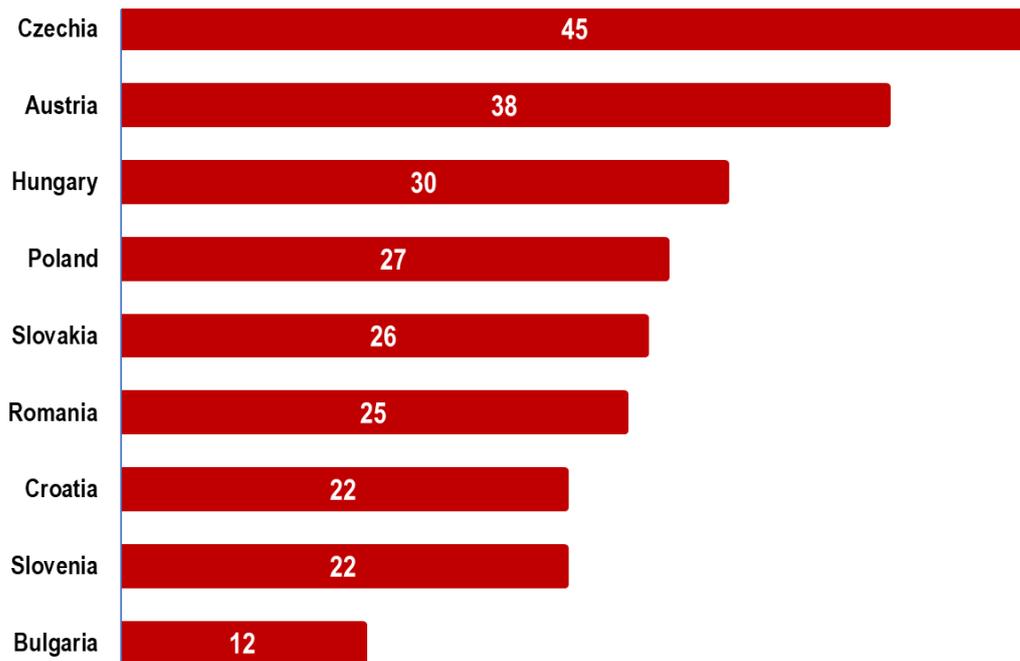


Figure 5: Percentage rate of people who do not believe in favouritism in the adult population (source: CEPER 2023; question: To what extent do you agree or disagree with the following statements? "You cannot do business successfully without the support of influential people." "Disagree" respondents)

A more negative change occurred in Poland, with a 12 percentage point drop in a year in the proportion who think it is possible to get by in business without the support of an influential person. The same proportion of Slovaks thinks that an influential patron is not necessary, the same as last year, while among Romanians this figure has risen from 11 to 25 per cent. Croatians show a slight increase of 2 percentage points compared to a year ago (20 percent), while Slovenians have seen their optimism about enterprising on your own fall from 29 percent to 22 percent. Only 12 percent of Bulgarians, at the end of the list, still thinks that they do not need the support of an influential person to run a successful business.

6. VAT collection in Hungary among the most effective

Hungary’s positive economic whitening trends are confirmed not only by the subjective perceptions of the population, but also by objective economic indicators. One objective indicator of economic whitening is the VAT gap, defined as the ratio of unpaid VAT to the total expected VAT revenue, and its decline indicates the change in tax collection efficiency. The annual VAT gap reports published by the European Commission confirm that the Hungarian government has made considerable progress in the area of economic whitening. Hungary is one of the four success stories highlighted in the European Commission's 2023 Report: the country achieved an outstanding level of whitening in the last decade or so.¹²

6.1. Hungary third in VAT evasion reduction

According to the latest calculations (2021), only 4.4 percent of VTTL (VAT Total Tax Liability) was not collected by the state in Hungary (this was the 4th lowest rate in the region). Only Slovenia (2 percent), Austria (2.8 percent) and Poland (3.3 percent) have had better results, followed by Bulgaria (4.9 percent), Croatia (5.7 percent), the Czech Republic (7 percent), Slovakia (10.6 percent) and Romania (36.7 percent).

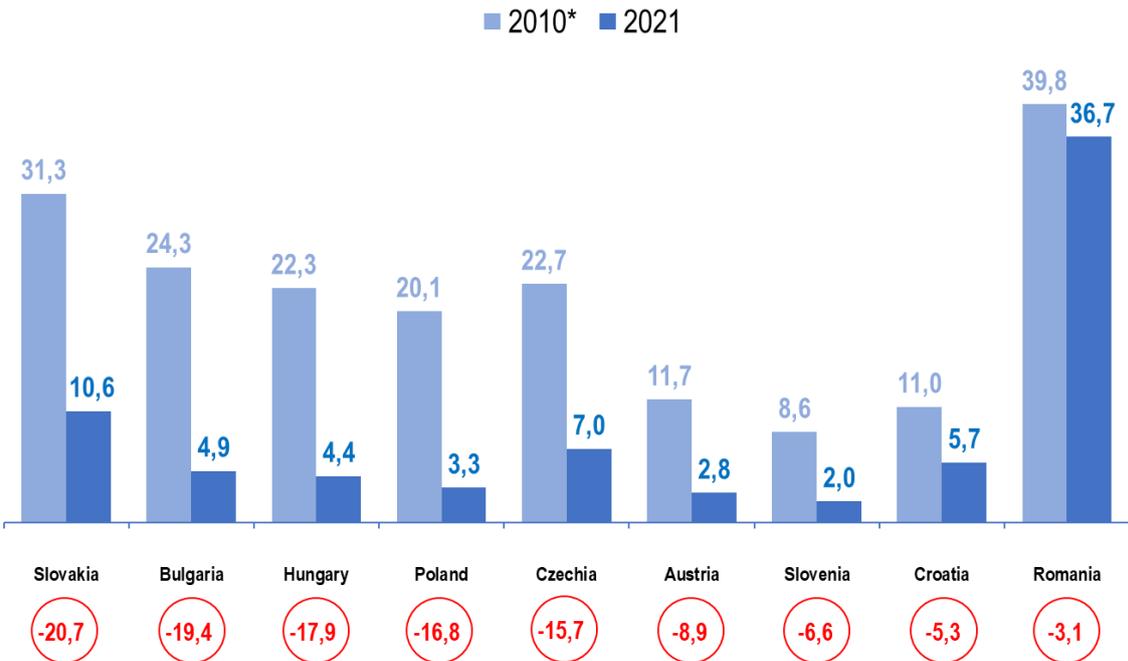


Figure 6: Rate of lost VAT to VTTL (VAT Total Tax Liability) in the Central European Countries in 2010 (*Croatia: in 2015) and in 2021, and rates of change (source: European Commission)

However, the current situation is further differentiated by the respective starting VAT evasion levels of these countries. In this respect, Hungary has seen the third largest decrease in the region (17.9 percentage points) since 2010. While in 2010 the VAT collection rate was 22.3%, by the end of the decade it fell to less than half, to 10.4%, a trend that continued into the new decade. In 2020, the VAT gap was only 7.1%, and the momentum continued in 2021, when it fell to a mere 4.4%. Only Slovakia (20.7 percentage points) and Bulgaria (19.4 percentage points) have made more progress in whitening in terms of VAT collection efficiency, but neither has managed to match Hungary's narrow VAT gap.

Poland (16.8 percentage points) and the Czech Republic (15.7 percentage points) have also achieved significant whitening, starting from similar VAT gap levels as Hungary in 2010, but the volume of their economic whitening performance as reflected by this indicator lagged behind that of Hungary in 2021. The narrowing of the VAT gap for Austria (8.9 percentage points), Slovenia (6.6 percentage points) and Croatia (5.3 percentage points compared to 2015) can be explained by the already lower levels of uncollected VAT, while the regionally outstanding VAT gap of Romania changed the least (3.1 percent).

6.2. Hungary fourth in per capita VAT loss due to fraud

If we look at the countries of the region numerically, based on Eurostat's VAT revenue data and the European Commission's VAT gap analysis, we see that in 2021 Hungary had EUR 701 million VAT loss due to non-compliance, less than Slovakia (EUR 889 million), Austria (EUR 892 million), the Czech Republic (EUR 1.361 billion), Poland (EUR 1.683 billion) and Romania (EUR 8.993 billion). Only Slovenia (EUR 88 million), Bulgaria (EUR 343 million) and Croatia (EUR 438 million) had less VAT missing from the Treasury.¹³

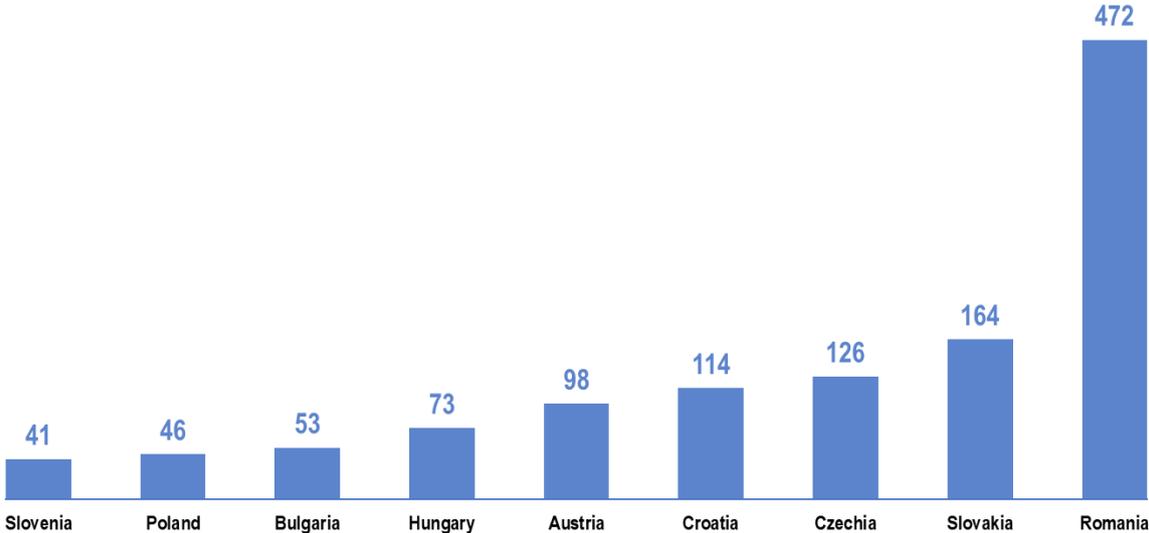


Figure 7: Per capita VAT loss in the Central European Countries in 2021 (EUR) (source: EC VAT Gap Analysis, Eurostat VAT data per country, computations by Nézópont Institute)

Adjusting the quantified VAT gap for the size of the countries, and considering per capita VAT loss our basis, Hungary (EUR 73 per capita) is ahead of Austria (EUR 98 per capita), Croatia (EUR 114 per capita), the Czech Republic (EUR 126 per capita), Slovakia (EUR 164 per capita) and Romania (EUR 472 per capita). Only Slovenia (EUR 41 per capita), Poland (EUR 46 per capita) and Bulgaria (EUR 53 per capita) performed better than these countries.

6.3. Hungary third in VAT revenue increase

In 2021, Hungary's VAT revenue was EUR 15.2 billion, almost the same as that of Romania (EUR 15.5 billion) that has twice the population. This shows the success of economic whitening, although public revenues depend also on VAT rates and the pace of growth of the economy. Apart from Romania, only Poland (EUR 49.3 billion), Austria (EUR 31 billion) and

the Czech Republic (EUR 18.1 billion) have higher VAT revenues than Hungary, while Slovakia (EUR 7.5 billion), Croatia (EUR 7.3 billion), Bulgaria (EUR 6.7 billion) and Slovenia (EUR 4.3 billion) have to make do with less.

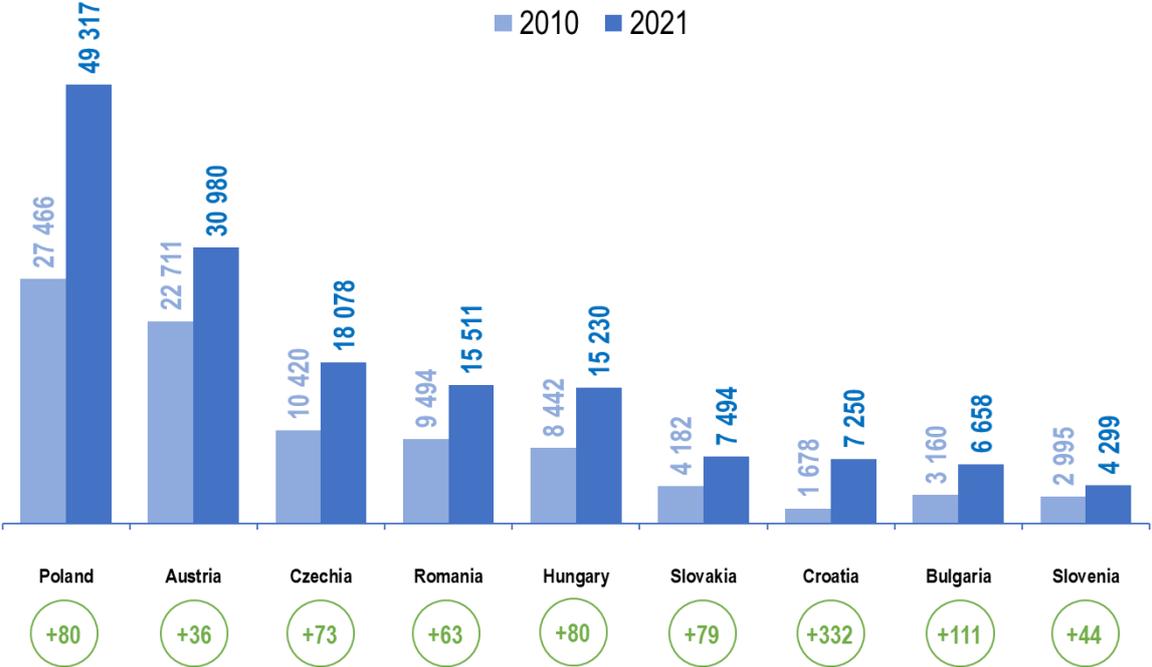


Figure 8: Amount of VAT collected in 2010 and 2021 (million EUR), and % change (source: Nézőpont Institute computations based on EC and Eurostat data)

In Hungary, the amount of VAT collected increased from EUR 8.4 billion in 2010 to EUR 15.2 billion in 2021, an increase of 80 percent, on a par with that in Poland (+80 percent) and Slovakia (+79 percent). This is the third highest increase in Central Europe, with only Croatia (+332 percent), which joined the EU in 2013, and Bulgaria (+111 percent) recording higher increases in VAT revenues since 2010. The Czech Republic (+73%), Romania (+63%), Slovenia (+44%) and Austria (+36%) are also slightly behind Hungary.

7. Notes

¹ Report on measures taken in response to the Council of Economic and Finance Ministers' recommendation under the excessive deficit procedure of 13 March 2012 (October 2012,

https://2010-2014.kormany.hu/download/5/8f/a0000/edp%20progress%20report%20201210_hu.pdf

² Gergely Baksay & Katalin Szóke 2020. Introduction and results of online cash registers.

<https://www.mnb.hu/letoltes/baksay-gergely-szoke-katalin-az-online-penztargetek-bevezetese-es-eredmenyei.pdf>

³ 5percado.hu <https://5percado.hu/az-ekaer-rendszerrol/>

⁴ Central Bank of Hungary 2018 Fizetési Rendszer Jelentés (Payment Systems Report), p.17

⁵ Ministry of Finance 2019 Government deficit could be much lower than planned

<https://2015-2019.kormany.hu/hu/nemzetgazdasagi-miniszterium/hirek/a-tervezetnel-joval-alacsonyabb-lehet-az-allamhaztartas-hianyja>

⁶ Norbert Izer, State Secretary for Taxation of the Ministry of Finance, report dated 29.05.2023

<https://magyarnemzet.hu/gazdasag/2023/05/izer-norbert-ketmilliard-kozeleben-tart-az-online-szamlak-szama>

⁷ Central Bank of Hungary 2023. Fizetési Rendszer Jelentés (Payment Systems Report), p.9

<https://www.mnb.hu/letoltes/fizetesi-rendszer-jelentes-2023-hun-0626.pdf>

⁸ In 2016, the IMF estimated that bribery alone accounted for roughly 2 percent of global GDP. IMF (2016)

Corruption: Costs and Mitigating Strategies. IMF Staff Discussion Note.

<https://www.imf.org/external/pubs/ft/sdn/2016/sdn1605.pdf#page-9> 5.o

UN Secretary General António Guterres claimed in 2018, citing the World Economic Forum, that the cost of global corruption is 5 percent of GDP. António GUTERRES (2018)

<https://press.un.org/en/2018/sc13493.doc.htm>

However, the claims, oft-quoted by the UN *inter alia*, that "nearly USD 2.6 billion of public money is embezzled every year" or that "corruption is estimated to account for 5 percent of global GDP" have been proven to be unfounded. Also unfounded is the claim, quoted by the World Bank, that "between 10 and 30 per cent of the value of publicly funded infrastructure is lost through corruption". The UN Development Fund, for example, has adopted the unsubstantiated claim that "30-40 percent of spending on the water sector is lost to corruption each year". Cf. Cecile WATHNE, Matthew C. STEPHENSON (2021) The credibility of corruption statistics. A critical review of ten global estimates. CMI Anti-Corruption Resource Centre <https://www.u4.no/publications/the-credibility-of-corruption-statistics>

washingtonpost.com. 2022. Biden's fishy statistics about global cost of corruption

<https://www.washingtonpost.com/politics/2022/05/24/bidens-fishy-statistics-about-global-cost-corruption/>

⁹ Leading the way in shaping the corruption agenda is Transparency International's Corruption Perceptions Index, which has become a flagship of international rankings of countries. It has monopolised corruption research in the media with a measurement project of questionable independence, using incomparable indicators and having results that contradict macroeconomic indicators and other rankings. For more information on the methodological problems see Nézópont Institute, 2022: Hófehér gazdaság felé 2022 (Towards a snow-white economy, 2022), pp 1-4 <https://nezopont.hu/wp-content/uploads/2022/10/Hofeher-gazdasag-fele-2022.pdf>

¹⁰ Comparison based on the corruption results of the Special Eurobarometer (separate from the Standard Eurobarometer). The results used here are from the following data collection reports:

November 2005: Special Eurobarometer 245: Organised crime and corruption

https://data.europa.eu/data/datasets/s1490_64_3_245?locale=en

November – December 2007: Special Eurobarometer 291: The attitudes of Europeans towards corruption

https://data.europa.eu/data/datasets/s636_68_2_ebs291?locale=en

September 2009: Special Eurobarometer 325: Attitude of Europeans towards corruption

https://data.europa.eu/data/datasets/s814_72_2_ebs325?locale=en

September 2011: Special Eurobarometer 374: Corruption

https://data.europa.eu/data/datasets/s1010_76_1_ebs374?locale=en

February – March 2013: Special Eurobarometer 397: Corruption

https://data.europa.eu/data/datasets/s1076_79_1_397?locale=en

October 2017: Special Eurobarometer 470: Corruption

https://data.europa.eu/data/datasets/s2176_88_2_470_eng?locale=en

December 2019: Special Eurobarometer 502: Corruption

https://data.europa.eu/data/datasets/s2247_92_4_502_eng?locale=en

March – April 2022: Special Eurobarometer SP523: Corruption

https://data.europa.eu/data/datasets/s2658_97_2_sp523_eng?locale=en

April – May 2023: Special Eurobarometer SP534: Citizens' attitudes towards corruption in the EU in 2023
https://data.europa.eu/data/datasets/s2968_99_2_sp534_eng?locale=en

Data were collected every year in Austria, the Czech Republic, Hungary, Poland, Slovenia and Slovakia; only from 2007 in Bulgaria and Romania and from 2012 in Croatia.

¹¹ The data are the results of an opinion poll of 1000 - 1000 people, representative of the adult population, conducted in October 2023 in 9 Central European EU Member States, Austria, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia and Poland, carried out by the Nézópont Institute in Hungary and CEPER in the other Central European countries.

¹² In addition to Hungary, Poland, Slovakia and Latvia are also mentioned as examples. In these countries, the value of the VAT gap fell by more than 15 percentage points between 2013 and 2021, while their economies grew dynamically. European Commission, 2023. VAT gap in the EU. 2023 Report

<https://op.europa.eu/en/publication-detail/-/publication/84ba1bdf-7230-11ee-9220-01aa75ed71a1/language-en>

¹³ The exchange rates used here are from the European Central Bank, while the VAT revenues of the countries under study are from Eurostat.

European Central Bank:

https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-huf.en.html

Eurostat: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tax_revenue_statistics