Achieving enhanced digitalisation in Hungary: supporting affordability, growth and fiscal stability

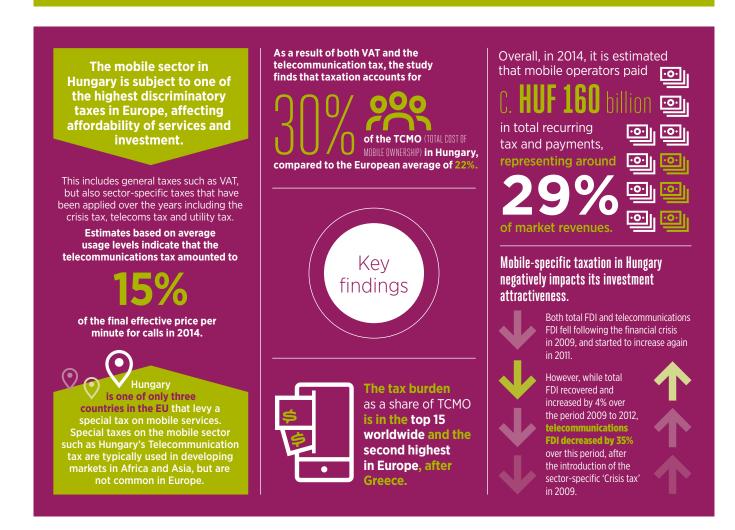
Mobile services connect 60% of the population in Hungary and deliver widespread social and economic benefits. Mobile technology is increasingly important in delivering the benefits of digitalisation, which enhances social development and strengthens economic growth through increased productivity and innovation.

Gaps in digitalisation and the highest mobile-specific taxation in Europe act as barriers to realising the full potential of economic growth in Hungary.

- Annual average subscriber growth is slowing down in Hungary and was 0.1%, compared to the European Union (EU) average of 1.8% between 2009 and 2014.
- Hungary has the lowest mobile internet penetration rate in the EU at 26% compared to an EU average of 60%.
- As a result, Hungary is lagging behind the EU in terms of the development of the digital economy and society. Hungary ranks 21st out of the 28 EU countries in digitalisation mainly due to limited use of digital public services and to poor integration of digital technology by businesses.

However, low unique subscriber penetration in Hungary does not result from infrastructure issues or lack of coverage: 3G networks reach 95% of the population, while 4G networks already cover 82% of the population. Barriers to mobile adoption and increased digitalisation include low affordability of mobile services and inadequate incentives for investment, both affected by taxation policy.

A recent study conducted for the GSMA by Deloitte reviews mobile taxation in Hungary and identifies priorities for policy change.



An alternative approach to mobile sector taxation could extend the benefit of mobile and support the Government's and the EU's digital agendas and support digitalisation, ICT investment and economic growth in Hungary.

A number of areas for tax reform have been identified:

- Reduce taxation of the mobile sector: Higher than standard taxation on mobile operators and consumers distorts production and consumption behavior. Reducing mobile-specific taxation would make mobile services more affordable and incentivise operator investment.
- Apply phased reductions of taxes on established services: Phased reduction of mobile-specific taxes on usage, such as the telecommunication tax, could offer governments the opportunity to benefit from the economic contribution from mobile in the medium term whilst limiting short-term fiscal costs.
- Reduce complexity and uncertainty of mobile taxation: Taxation on mobile operators has varied rapidly and unexpectedly. Any unpredicted tax change that occurs after investment in spectrum licence is made may negatively impact a mobile operator's business plan. The risk of future tax rises is priced into investment decisions and can therefore be expected to reduce both FDI and domestic investment in the medium-term.



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