

HUNGARY

UNITARY COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Forint (HUF)**

POPULATION AND GEOGRAPHY

AREA: **93 028** km²

POPULATION: **9.867** million inhabitants (2014), a decrease of -0.3% per year (2010-14)

DENSITY: **106** inhabitants/km²

URBAN POPULATION: **70.8%** of national population

CAPITAL CITY: **Budapest** (17.3% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **247.3** billion (current PPP international dollars) i.e. 25 061 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **12 400** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **22%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.828** (very high), rank **44**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
3 178	-	19	3 197
LOCAL AUTHORITIES (TELEPÜLESI ÖNKORMÁNYZATOK) AVERAGE MUNICIPAL SIZE: 3 125 INHABITANTS		COUNTIES (MEGYÉK)	

MAIN FEATURES OF TERRITORIAL ORGANISATION. Hungary has a two-tier system of local government, made up of 19 counties and 3 178 municipal authorities comprising villages, cities, cities of county rank and the capital city of Budapest and its 23 districts. The number of counties excludes Budapest which has had special status since 1991 and has an organisation similar to a county. The 2012 Constitutional reform and the 2011 Local Government Act (LGA, in effect from 2013) have profoundly transformed SNGs, reducing their scope, functions and financing resources. In parallel, a large State reform in 2013 introduced a new administrative structure in the form of 175 districts (*járás*), including three districts in the capital. These new central government offices at the local level took over many functions exercised previously by municipalities and are also in charge of SNG legal and financial supervision.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The LGA has drastically reduced SNG responsibilities. It recentralised several (or parts of) functions in education (primary and secondary education), healthcare (free medical services, hospitals, excluding specialised clinics), social protection (social allowances e.g. for the elderly, families, etc.), public hygiene, water works, and administration (document office duties). Municipal responsibilities are of two types: compulsory and voluntary. Compulsory tasks include road maintenance, public transport, child protection support, social provision tied to local government ordinances, issuance of various permits, some administrative tasks, etc. Most county responsibilities which included health, secondary and specialised education, economic development, spatial planning, environment protection, tourism have been recentralised. Counties are now primarily responsible for regional development.

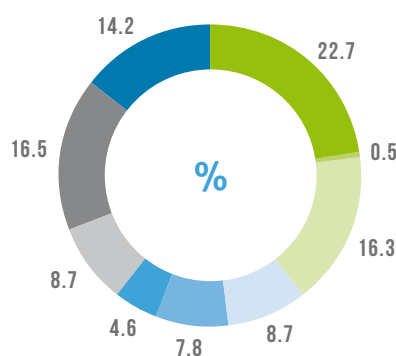
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	7.5%	15.1%	100%
CURRENT EXPENDITURE	5.6%	-	74.9%
STAFF EXPENDITURE	2.4%	23.3%	31.4%
INVESTMENT	1.6%	39.4%	21.8%

As a result of the recentralisation of a large part of SNG responsibilities, the share of SNG expenditure in GDP and public expenditure decreased significantly, by respectively 5 and almost 10 percentage points between 2010 and 2013. The share of SNG staff spending in total staff spending went from 50% to 23%, resulting from large transfers of personnel from SNGs to the central government, in particular to the new government offices. Similarly, the share of SNGs in public investment and GDP has fallen, respectively from 59% to 39% and from 2.2% to 1.6% of GDP.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



Main categories of SNG spending in 2013 included general public services, education (municipalities continue to manage school buildings and facilities but are no longer responsible for teaching and administrative staff) and economic affairs (mainly transport) and social protection.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	10.0%	21.2%	100%
TAX REVENUE	2.3%	8.9%	22.5%
GRANTS AND SUBSIDIES	6.7%	-	67.1%
OTHER REVENUES	1.0%	-	10.4%

The new Local Government Act also modified SNG sources of financing and borrowing rules.

TAX REVENUE. Counties are not allowed to levy taxes. The highest municipal tax is by far the local business tax (74% of local tax revenue in 2013) which is imposed on companies located or registered in the municipal area and based on corporate gross margins. The rate is decided by the municipality, but capped at 2%. Property taxes are the second highest tax (18% of local tax revenue i.e. 0.4% of GDP). Including a building tax and a land tax, they are paid by owners, based either on area or floor space or on the adjusted market value. Tax rates are set by each municipality, up to certain limits. There are some other minor taxes such as a tax on motor vehicle or the communal tax on households, tourist tax, etc.

GRANTS AND SUBSIDIES. The 2011 reform also modified the grants system and reduced their amounts, in accordance to the recentralisation of several responsibilities, for example fall of funds from the Health Insurance Fund. A stricter grant system was set up in 2013, going from an income-based system to a task-based, expenditure-oriented system. Grants are now earmarked. The reform included the tightening of distribution rules and new equalisation criteria based on the tax capacity of each municipality.

OTHER REVENUES. Other revenues for municipalities include mostly user tariffs and fees for public services which represent around 9% of local revenue.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	2.1%	2.2%

Tighter budgetary restrictions and new borrowing controls have been introduced for SNGs by the LGA. It forbids any operating deficit, and stipulates that SNGs are responsible for their own financial management. The LGA also set up an authorisation framework for local borrowing in 2012. Following the 2013 reform, SNG debt has also been recentralised, the central government taking over local debt. It was done progressively in three stages based on the size of SNGs. As a result, the amount and the structure of outstanding debt in 2014 profoundly changed, SNG debt accounting for 0.7% of GDP and 0.7% of public debt. It is made up other accounts payable for 79%, the remaining part being financial debt (18% of loans and 3% of bonds instead of 48% and 26% in 2013).

A joint- study of:



Sources: OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015) Hungary: Towards a Strategic State Approach, OECD Public Governance Review • Lentner C. (2014) The Debt Consolidation of Hungarian Local Governments, Public Finance Quarterly • Sivák J. (2014) A systemic approach to the Local Government System, Public Finance Quarterly • Hajnal G. and Kovacs E. (2014) "Government Windows": One-Stop Shops For Administrative Services In Hungary' COCOPS • Soós G. and Dobos G. (2014) Against the Trend: Recentralization of the Local Government System in Hungary • Government of Hungary (2014) Convergence Programme of Hungary 2014 – 2017 • Council of Europe (2013) Local and regional democracy in Hungary, CG(25)7FINAL.