

Changing Local Government Finance in Hungary: New Directions

Abstract
for

**Annual International Scientific Conference
Public Administration and Territorial Development:
Interconnection, Challenges and Solutions beyond World Crisis
(28-29 May, 2014 – Irkutsk, Russia)**

by

Mihály Lados

West Hungarian Research Department of HAS CERS IRS

The paper would join the topic of Session 1 on **National and European Trends in Public Administration**.

Hungary is among those 15 countries which required IMF loan to avoid the bankruptcy of the state when the global financial and economic crises reached the country in 2009. The crisis arrived at the Hungarian border when the country has started to implement the consolidation of the state budget because of the high – above 80% of the GDP – public debt, including fast growing local public debt. The country was under double pressure to handle the negative processes. After twenty years of the start of Transition in Hungary there was the first time when the winner party had more than two-third majority in the Parliament. It gave the chance for changes in the Hungarian local government system (LGS) which accumulated plenty of problems by the disharmony between the scale of local governments (LGs) and the allocation of functions, local responsibilities (task assignments) and resources. The weak financial conditions of LGs became more visible by the global financial and economic crisis. The new government adopted a new act on local governments in December 2011 which was going into force from 2013.

The objective of the paper is to demonstrate the space for local actions of municipalities to react on a situation when both global crises and national consolidation of public debt effect local governments.

The paper consists of three main sections:

1. Direction of changing governance in Hungary after 2010 to handle the crisis
 2. Evaluation of potential effects of changes to local government finance (LGF)
 3. Case of Municipality of Győr
-
1. The direction of changes in Hungary since 2010 has been align the emerging theory of Neo-Weberian State since the second half of the 2000s. However, for the Hungarian Government that means strong central government(CG) and centralisation of public functions. This is just against with the courses of decentralisation of the state in Hungary in the last two decades. By the real actions, these directions implement two substantial changes in the system affecting LGS:

- a) To separate LG responsibilities and the state administration functions which were delegated to LGs in the past 20 years by creating Government Offices on the county level and District Offices on the level of small regions.
 - b) Changing the responsibilities for primary and secondary education and public health (hospitals) from LGs to CG.
2. The described changes affect both side of local budgeting. Both the separation of LG responsibilities and state administration functions and the transfer of part of education and public health responsibilities from LG to CG reduce the pressure on local expenditures. The question is that how CG able to finance those services where LGs ensured significant additional local resources to complete the required financial background. Parallel to the decreasing costs, CG reduces CG transfers: normative grants and social security transfers and shared taxes – Personal Income Tax (PIT) and Motor Vehicle Tax – to LGs. To eliminate the negative effects of the strong decrease of local revenues CG consolidates the entire local public debt in 2013 and 2014.
3. The third part of the paper evaluates the effect of global crises and the national consolidation of public debt and the new directions of governance on the case of a municipality. Győr is a 130,000 inhabitant city, the sixth biggest city in Hungary. This municipality had been rather a better of position during the two decades course of decentralisation. It is an industrial city, a major target area of Foreign Direct Investment in Hungary and with significant local tax revenues. The analysis focuses on the relative changes of this position discussing the following questions:
- a) Potential space for local actions to handle the effects of global economic crises: local economic development by municipality of Győr.
 - b) Effects of the changing structure of responsibilities and revenues on the balance of local budget.

The final part of the paper is concluding the interconnection of the findings about the general situation in the countries and the specific experience of a local government. This provides a good starting point for formulation of conclusions and potential policy recommendations both on the national and local level.

Győr, 25 March, 2014

Mihály Lados