Budapest Hungary

A highway ring road has been under construction in Budapest since the 1980s
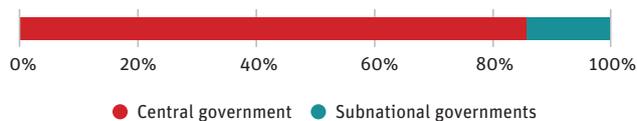
◉ CITY:
1.8 mil. inhabitants

◎ METROPOLITAN AREA
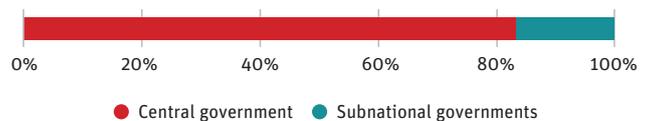3.0 mil.
(+1.0% pop. change/5 years)

GDP: 107% of the average EU28 GDP
(+0.8% average annual change in GDP/5 years)

How local public finance systems work in Hungary

PUBLIC REVENUE

0% 20% 40% 60% 80% 100%

● Central government ● Subnational governments

CAPITAL EXPENDITURE

0% 20% 40% 60% 80% 100%

● Central government ● Subnational governments

Hungary has a **two-tier system of subnational governments** (SNG). It comprises 19 regions, 3,177 municipalities and the Capital City of Budapest. There is no hierarchy established between the SNG levels.

Despite the political autonomy of the local governments, the Hungarian system of public administration is currently relatively centralized fiscally. **Following the economic crisis of 2007–2008 and the critical state of SNG finances, the central government carried out extensive constitutional reform in 2011 leading to the re-centralization of funding, competencies and related expenditures and debt.** While municipalities have retained some local competences and can still collect certain local taxes, regions have now been stripped of all "general competences" and their power of self-governance has gradually declined. Changes in the system strengthened the financial influence of the state.

As a result of the crisis and the constitutional reforms, the share of SNGs in public investment has declined, from 59% in 2011 to 27% in 2016 (OECD 57% and EU28 52%). Investment also declined significantly as a share of the GDP — from 2007 to 2017 local investment in real terms declined by an average of 3% annually.

The greatest share of investment is directed towards public services (36%) and economic affairs and transportation (25%), followed by housing and civic amenities and environmental protection.

Administrative reforms carried out in the name of cutting costs and redistributing tasks between local and central levels altered the system of local finances and limited the fiscal framework for financing SNGs. **The main source**

of revenue is transfers and grants, which represents **nearly 52% of the SNG revenue** (OECD 37% and EU28 44%).

On the other hand, the share of taxes in revenue is low, and amounts to 36% of the revenue (OECD 45% and EU 28 41%). **Municipalities are the only level of SNG that can collect taxes.** While tax revenue accounts for 36% of the SNG revenue, the share of tax revenue in total tax revenue and as a share of GDP (2.3% of GDP) is significantly below the OECD (OECD 32% and 7% GDP) and EU28 (24% and 6% of GDP) averages. **The main local tax is a business tax, which accounts for 76% of the municipal tax revenue and 27% of the total SNG revenue (2016).** This tax is levied on businesses headquartered or registered in the city district/municipality and based on gross company margins. The rate is set by the municipality, but limited to 2%. The business tax is the third largest income-generating tax at a national scale and plays an important role in financing of local governments.

Property tax is the second largest income-generating tax on the local level, but compared to other OECD countries it plays a relatively small role. Income from this tax amounts to 18% of the municipal tax revenue and 6.3% of the total municipal revenue. Property tax amounts to 0.4% of the GDP (OECD 1.1% of GDP, 2016). The property tax collected by municipalities consists of a building tax and a land tax, paid by owners based either on area or floor area, or on the adjusted market value. **Since the tax base typically does not depend on the market value, property tax income remains low despite the increasing value of real estate.** Rates are set by each municipality up to certain limits based on a consumer

price index. A municipal household tax and community tax are also collected. The number of municipalities collecting building tax, land tax and community tax is increasing. These taxes have been introduced by over 85% of the municipalities (2015). Other minor taxes include a vehicle tax (shared tax), a general tourism tax, and an environmental protection fee.

The constitutional reform of 2011 modified and reduced the system of transfers in conjunction with the re-centralization of the local government system. Transfers from 2007 to 2017 declined by an average of 5% annually. In 2013, a stricter subsidy system was put in place that changed from a block transfer system based on income to a system of earmarked grants. **Grants are now earmarked mostly for current expenditures (83% of all transfers),** especially in the areas of education, social policy and culture.

Revenue from fees is in line with the EU28 average (12%). Income from property (0.5%) is low (OECD 2% and EU28 1.2%).

Source: http://www.oecd.org/cfe/regional-policy/Observatory-on- Subnational-Government-Finance-and-Investment.htm

Budapest highway ring road

Southern, eastern and northern sections of highway M0, including a new bridge over the Danube; length 79 km

(1) Southern section - the oldest and also busiest section (29 km) was constructed during the late 1980s and 90s. From 2011 to 2013, this section was expanded to 3 + 3 lanes, partially by adding a new southern roadway and the southern half of the bridge over the Danube, and partially by building an entirely new highway. Costs for modernizing this section amounted to roughly HUF 100 billion.

(2) The eastern section of the ring between highway M3 and road no. 4 (26 km) was completed in 2008. The opening of this section of the ring connected all Hungarian highways entering Budapest and diverted through traffic away from the city. Costs for this section were HUF 80 billion.

(3) The northern section (9 km), including a new 591-meter-long bridge over the Danube, was also opened in 2008. At present, this section primarily serves local and regional traffic. The construction of the bridge over the Danube was originally funded from the national budget. A contribution from EU funds was approved in 2016. Costs for this section were HUF 50 billion.

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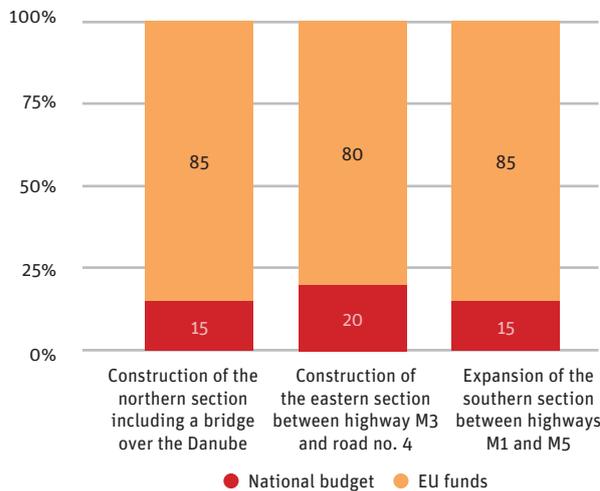
Source: Own questionnaire survey, Wikipedia