

# AZ OECD ORSZÁGJELENTÉSE MAGYARORSZÁGRÓL

## részlet

Az OECD 2015 májusában jelentette meg országjelentését Magyarországról *Government at a Glance: How Hungary Compares* címmel. A dokumentum teljes terjedelemben elérhető a <http://www.oecd.org/governance/government-at-a-glance-how-hungary-compares-9789264233720-en.htm> weboldalon. A jelentés bevezető fejezeteit közreadjuk.

### FOREWORD

In the aftermath of the global financial crisis, the Hungarian government has started an ambitious public sector reform programme with the aim of modernising its public administration and improving service delivery to its citizens and businesses. Tight budget constraints, combined with low trust in government and in public institutions more generally, have made these reforms all the more urgent and necessary, but at the same time very challenging. While the Hungarian government succeeded in reducing its budgetary deficit, leading to its removal from the excessive deficit procedure of the European Union in 2013, the public administration in Hungary, like in many other OECD countries, is striving to meet the legitimate expectations of its citizenry for greater access, responsiveness and quality of public services and to ensure that public money is well spent.

The OECD-Hungary Strategic Partnership for Public Administration Reform, which started in 2012, aims to provide the Hungarian government with adequate support in the design and implementation of public sector reforms through cross-country learning and by looking at emerging good practices. As part of this Partnership, this first country-focused edition of *Government at a Glance: How Hungary Compares* presents recent comparable data on key indicators of government activities and performance in Hungary, compared with its neighbouring countries (Austria, Czech Republic, Germany, Poland, Slovak Republic and Slovenia) as well as the OECD average.

The main goal of this publication is to identify progress and persisting challenges in public sector reform in Hungary and to highlight areas where public sector efficiency might be further improved in future years. It provides indicators on a wide range of government activities, including public finance management, public employment and pay, administrative burden for businesses, and the delivery of services in two key areas (health care and education).

The different chapters in this publication reflect discussions with the Hungarian government on the main priority areas for reform where Hungary might be able to learn good practices from neighbouring and other OECD countries, as well as areas where Hungary may be leading the way.

This publication is a companion to *OECD Public Governance Reviews: Hungary* (forthcoming) which, at the request of the Hungarian government, will go deeper into providing a set of more tailored and specific recommendations on how to best implement and monitor progress of public sector reforms in Hungary.

## EXECUTIVE SUMMARY

This edition of *Government at a Glance: How Hungary Compares* presents recent trends in the Hungarian public administration, at a time when important public sector reforms are taking place. It is a companion to the 2015 *OECD Public Governance Reviews: Hungary*, which will further analyse the consequences of recent public sector and territorial reforms and provide a set of specific recommendations to achieve further progress.

In 2011, the first Program for Public Sector Reform in Hungary was released, followed by an updated version in 2012. Two years later, a Public Administration and Public Services Development Strategy 2014-2020 was launched, which identifies a series of objectives and ways to measure progress to improve public service delivery over the medium term. This *Government at a Glance: How Hungary Compares* focuses on some of the main priority areas for reform, including the reduction of administrative burdens for businesses, higher uptake of e-government services and improved efficiency of health care and education services.

Hungary was hit hard by the economic crisis, with a “double dip” recession in 2009 and 2012. Major efforts to reduce the budgetary deficits that intensified with the arrival of the new administration in 2010 led to the removal of Hungary from the excessive deficit procedure of the European Union in 2013. However, these reforms involved significant cuts to social protection and benefits. Public satisfaction with government services has generally increased in Hungary in recent years, but it remains lower than in many other Central and Eastern European Countries (CEECs) in important areas like health care and education. As in many other OECD countries, an ongoing challenge for the Hungarian government will be to implement a mix of policies to promote economic growth and job creation, while at the same time reducing income inequalities and geographic disparities in access to key public services. The indicators presented in *Government at a Glance: How Hungary Compares* shed light on the progress achieved by Hungary in recent years, as well as priority areas for further improvement in the years ahead.

### THE HUNGARIAN GOVERNMENT REMAINS LARGE AND IS INCREASINGLY CENTRALISED

Despite recent cuts in spending, Hungary continues to have a large government sector, with general government revenues and expenditures accounting for nearly 50% of the economy. This share remains significantly higher than in most other CEEC and OECD countries. General government employment represents 18.8% of the total labour force in Hungary, which is higher than in any of its neighbouring countries and the OECD average (15.5%).

The stated objective of the 2010 State Territorial and Administration Reform (STAR) was to achieve efficiency gains in public spending and move towards greater harmonisation in public service delivery across the country through a centralisation of public resources.

This ambitious reform led to a significant transfer of jobs from local governments to the central government, notably in the area of health and social services.

**FOLLOWING THE ECONOMIC CRISIS, A GREATER SHARE OF PUBLIC SPENDING IN HUNGARY WAS ALLOCATED TO PROMOTE ECONOMIC DEVELOPMENT AND JOB CREATION WHILE SPENDING ON SOCIAL PROTECTION AND EDUCATION HAVE DECREASED AS PART OF BROADER AUSTERITY MEASURES**

In 2012, public expenditure to promote economic development and job creation represented a higher share of government spending in Hungary than in most other CEEC and OECD countries. On the other hand, between 2009 and 2012, social protection expenditures in Hungary decreased, although it remained higher in 2012 than in most other CEEC countries. Public spending on education is relatively low in Hungary and has decreased in the years following the economic crisis. This may have a negative effect on long-term growth prospects.

**USE OF DIGITAL GOVERNMENT SERVICES HAS INCREASED, BUT THERE IS ROOM FOR FURTHER GROWTH**

The Hungarian government has put remarkable efforts into promoting e-government as part of its public administration modernisation strategy, but the use of digital government services by citizens and businesses remains limited.

In 2013, only about half of the population interacted with the Hungarian government via online services. This is comparable to the CEEC average, but below the OECD average. As in other countries, the use of e-government services in Hungary still varies significantly by education level (for citizens) and firm size (for businesses).

The Hungarian government has also taken important steps to develop electronic procurement systems in recent years as a means to increase transparency and efficiency in the public procurement process, but the use of these electronic procurement services by businesses still remains limited and below the average in CEEC and other OECD countries.

**THE HUNGARIAN HEALTH SYSTEM REMAINS TOO "HOSPITAL CENTRIC" AND THERE ARE PERSISTENT ISSUES OF ACCESS TO HEALTH CARE FOR CERTAIN POPULATION GROUPS**

As in many other OECD countries, the health care system in Hungary remains too "hospital centric"; efficiency gains might be achieved by strengthening access to health care outside hospitals.

The Hungarian government has made serious investments since 2010 to improve access to care for the population in the regions, notably through the creation of outpatient units in 20 rural areas.

Still, a relatively high proportion of the population in Hungary in 2013 reported having some unmet needs for medical examination, due to financial reasons, geographic distance to services or for other reasons.

Expenditure on pharmaceuticals are significantly higher than the OECD average with less than half paid publicly, reflecting high out-of pocket medical spending by households compared to most neighbouring and OECD countries.

Further actions may be needed to ensure that all citizens have access to needed care in Hungary, regardless of their ability to pay or where they live.

#### HUNGARIAN STUDENTS PERFORM BELOW THEIR PEERS IN NEIGHBOURING COUNTRIES AND RELATIVELY FEW OBTAIN A UNIVERSITY DEGREE

Hungary spends less than its neighbouring countries on primary and secondary education and the performance of its students on international tests such as the Programme for International Student Assessment (PISA) are also lower.

School location and the socio-economic background of students continue to play a significant role in students' performance in Hungary, more so than in many other OECD countries. The salaries of teachers are also much lower than in most other CEEC and OECD countries, but the recent pay raises they obtained from the government should improve their situation and help attract and retain a greater number of good teachers.

Despite relatively high graduation rates from secondary education, the percentage of young people obtaining a post-secondary (tertiary) degree remains low in Hungary. This might limit the capacity of Hungary to compete and prosper in an increasingly knowledge-based economy.

## INTRODUCTION

*This introductory chapter provides background material to help the reader better understand the context of current public sector reforms in Hungary. It starts by presenting a series of indicators on the main macroeconomic aggregates (economic growth rate, unemployment rate, debt and deficit levels). It then discusses trust in government levels before and after the crisis, and public satisfaction levels with government services and institutions, as reported in international perception surveys.*

#### THE CONTEXT FOR PUBLIC SECTOR REFORMS TO IMPROVE ACCESS TO, AND THE EFFICIENCY OF, PUBLIC SERVICES IN HUNGARY

The context for public sector reforms in Hungary is challenging:

- On the economic side, the country has just emerged from a double dip recession in 2009 and 2012.
- Real GDP grew somewhat moderately, by 1.2% in 2013 (above the CEEC average growth rate).
- The unemployment rate remains above 8%.

- Central government debt is among the highest across the OECD (85.2% of GDP in 2012, using the System of National Accounts [SNA] definition).
- Fiscal consolidation programmes introduced by the government in 2010 led to a reduction of public deficits, which was achieved partly through significant one-off items (primarily asset transfers from private pension funds to the state pension fund), expenditure cuts in social protection and family benefits and tougher control of local governments' borrowing transactions.
- Citizen confidence in the national government has increased in recent years, but remains below the OECD average.
- Public satisfaction with government services is generally higher than in neighbouring countries but is lower than the OECD average, especially in the sectors of health and education.
- And finally, the general level of well-being measured by the OECD Better Life Index is lower in Hungary than in all CEEC countries and OECD countries. This is associated with rising inequalities and poverty rates, and persistent geographic gaps in citizen ability to access public services across regions.

#### ECONOMIC GROWTH AND UNEMPLOYMENT

Hungary was hit relatively hard by the crisis, with a double recession in 2009 and 2012 (*Figure 0.1*). In 2013, the economy grew by 1.2% in real terms, which is higher than the average among CEEC countries and comparable to the average across the OECD (1.3%). Increases in the levels of investment (+5.9% compared to 2012), government consumption (+1.6% compared to 2012) and domestic demand (+1.6% compared to 2012) were the main drivers of economic growth in Hungary in 2013 (Annex D). According to the *OECD Economic Outlook*, economic growth in Hungary should reach about 2% in 2014 and 2015, close to the OECD average.

The unemployment rate in Hungary grew rapidly during the Great Recession of 2009, from around 8% in 2008 to 11% of total labour force in 2010 (*Figure 0.2*). The unemployment rate then stabilised at around 11% between 2010 and 2012 before descending to about 10% in 2013. The decline in the unemployment rate is expected to continue in 2014 and 2015 in Hungary although it should remain above the OECD average.

#### FISCAL DEFICIT AND DEBT

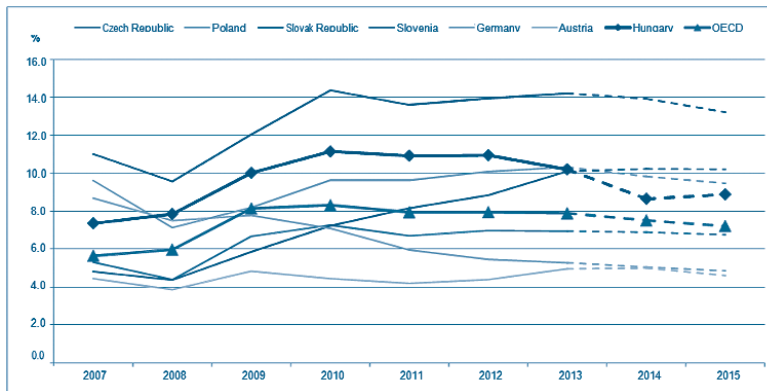
The economic crisis has undermined the fiscal position of most OECD countries, increasing further accumulated public debts (*Figure 0.3*). As a share of the economy, the central government debt<sup>1</sup> in Hungary in 2012 (85.2%) was above all CEEC countries (55.4% on average) and higher than the OECD average (71.6%). Between 2007 and 2012, the central government debt has increased by 15.84 percentage points in Hungary. The new Hungarian government took over most of the debt of municipalities in recent years, which explains the high increase in central government debt and the relative stability of local governments' debt over the period.

Figure 0.1. Economic growth in real terms in Hungary has exceeded the regional average growth in 2013, but is expected to remain somewhat modest over the medium term



Source: OECD (2014a), "OECD Economic Outlook No. 95", OECD Economic Outlook: Statistics and Projections (database), <http://dx.doi.org/10.1787/data-00688-en> (accessed on 21 March 2015).

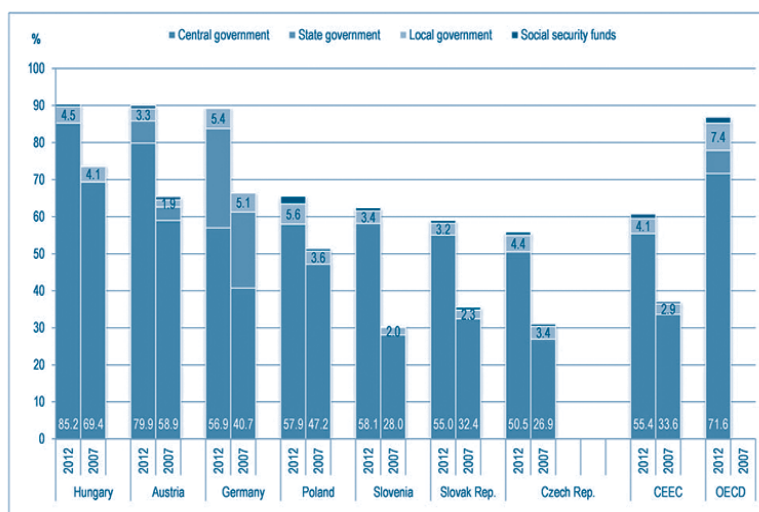
Figure 0.2. Hungary's unemployment rate is higher than before the crisis, but declining



Source: OECD (2014a), "OECD Economic Outlook No. 95", OECD Economic Outlook: Statistics and Projections (database), <http://dx.doi.org/10.1787/data-00688-en> (accessed on 21 March 2015).

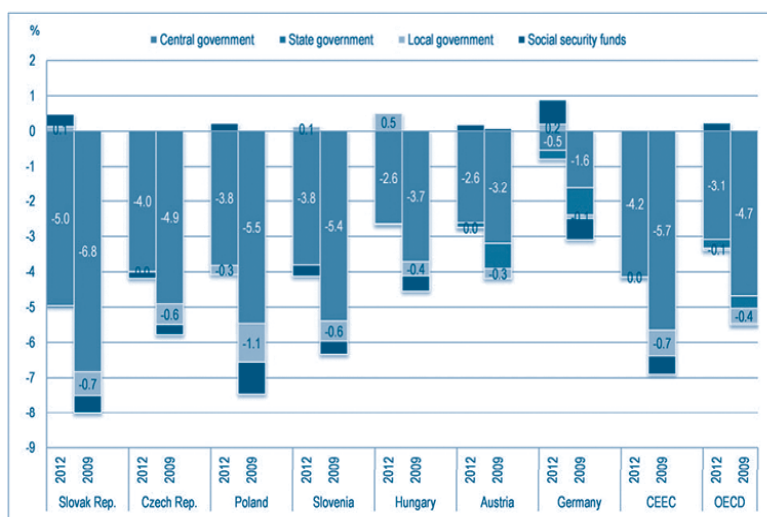
The new constitution, adopted in 2011, created a constitutional base for the limitation of local governments' borrowing. The Economic Stability Act adopted the same year contains a general rule stating that borrowing transactions from local governments (or any other transaction with equivalent effect) must be approved *ex ante* by the central government offices. In 2012, the total general government deficit in Hungary represented 2.2% of the GDP (ESA 95) which corresponds to a decrease of 2.4 percentage points compared to 2009 (Figure 0.4). Looking only at the local government fiscal balance, it rose from a 0.4% deficit in 2009 to a 0.5% surplus in 2012.

Figure 0.3. **Central government debt as a percentage of GDP in Hungary significantly increased during the crisis and is among the highest across the OECD**



Source: OECD (2014b), OECD National Accounts Statistics (database), <http://dx.doi.org/10.1787/na-data-en> (accessed on 21 March 2015).

Figure 0.4. **Hungary's government deficit as a percentage of GDP has significantly decreased in recent years, in part due to the new fiscal rules on the borrowing transactions of municipalities**



Source: OECD (2014b), OECD National Accounts Statistics (database), <http://dx.doi.org/10.1787/na-data-en> (accessed on 21 March 2015).

As a response to fiscal pressure, the Hungarian government introduced extensive programmes to reduce deficits and debts over the medium term. According to



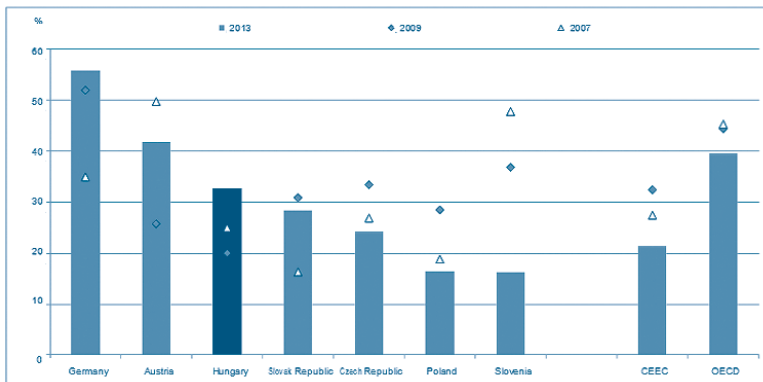
the OECD Survey on Restoring Public Finance (OECD, 2012), the fiscal consolidation plans designed by the Hungarian government between 2010 and 2015 were the most significant of all CEEC country plans, including important expenditure reduction measures (both operational and programme spending cuts) and revenue enhancement measures.

#### TRUST IN GOVERNMENT AND SATISFACTION WITH PUBLIC SERVICES

Despite important expenditure reduction measures over past years, public confidence and satisfaction with the government has increased in Hungary since 2007, although it remains low compared to the OECD average. In 2013, about 33% of the Hungarian population reported having confidence in their national government, compared with 25% in 2007 and 20% in 2009. This is higher than the CEEC average (21%), but lower than the OECD average (40%). Trust in national leadership also increased between 2007 and 2013 in Hungary, rising from 19% to 28% in positive public opinion, while it decreased in all other CEEC countries (22% on average in 2013) (Gallup World Poll, 2014). However, cross-country comparisons should be made with caution, as trust in government also depends on cultural factors and can fluctuate rapidly, depending on events.

Figure 0.5. **Public confidence in Hungary's national government has increased in recent years**

% of people who declare having confidence in their national government (2007, 2009 and 2013)



Source: Gallup World Poll, [www.gallup.com](http://www.gallup.com).

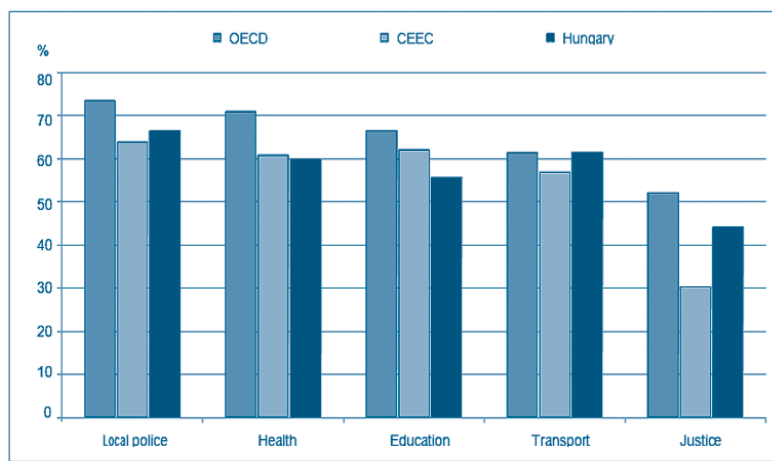
Regarding satisfaction with public services and institutions, the levels of public satisfaction have generally increased since 2007, but remain low by OECD standards (except for satisfaction with public transport, which is slightly higher than the OECD average) (Figure 0.6). Satisfaction with public services is greater in general in Hungary than in other CEEC countries, except for satisfaction with



the health care and the education systems, which are slightly lower than the CEEC average.

**Figure 0.6. Hungarian citizens' satisfaction with public services is generally higher than in other Central and Eastern European countries, except in the sectors of health and education**

% of people who declare being satisfied with the availability and quality of public services and institutions (2013)



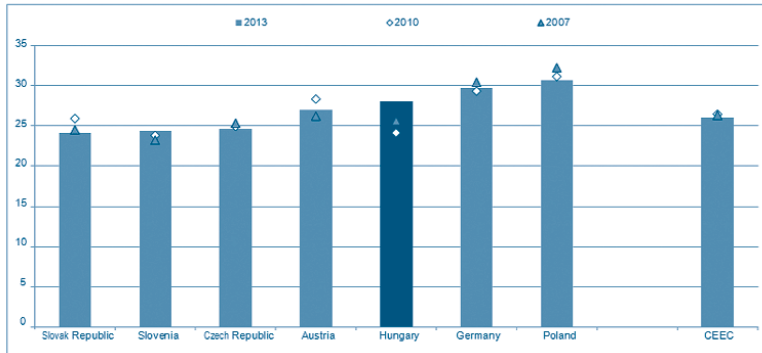
Source: Gallup World Poll, [www.gallup.com](http://www.gallup.com).

## WELL-BEING AND INEQUALITY

The overall quality of life in Hungary, as measured by the OECD Better life Index, is among the lowest across the OECD and there are increasing issues regarding income inequalities and poverty. In 2013, Hungary ranked low compared to neighbouring countries and OECD countries on most of the components of the OECD Better Life Index (OECD, 2014c).

In recent years, income per capita in Hungary has only moderately increased, and has remained lower than its neighbouring countries and OECD countries. Income inequalities and material deprivation have increased sharply in Hungary, compared to the period before the crisis. After a slight decrease between 2007 and 2010 from 25.6 to 24.1, the GINI coefficient has markedly increased since 2010 in Hungary (28.0 in 2013), and is above the CEEC average (26.0), though still below the EU28 average (30.5 in 2013) (Figure 0.7). The poverty rate after taxes and transfers (percentage of people who live with less than 50% of the median national income) has risen from 6% in 2007 to more than 10% in 2013, which is higher than the CEEC average (9%) (OECD, 2014d). The number of people who report not having enough money to buy food has also increased in Hungary, rising from 17% before the crisis to 31% in 2012, which is more than twice the share in OECD countries (14%) (OECD, 2014d).

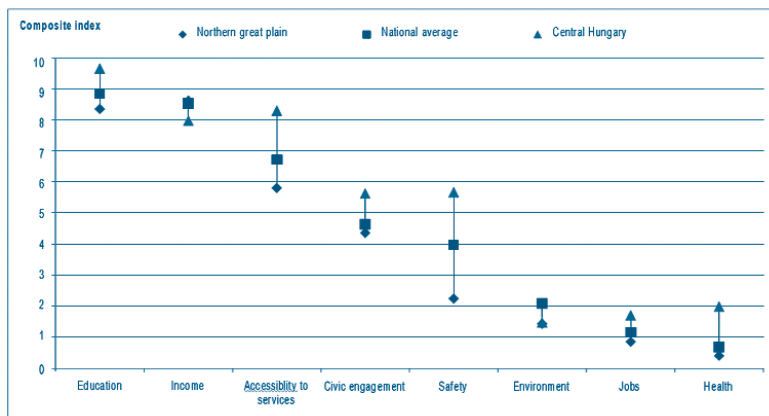
Figure 0.7. **The GINI coefficient after taxes and transfers has markedly increased since 2010 in Hungary and was above the CEEC average in 2013**



Source: Eurostat (2014), *Survey of Income and Living Conditions (SILC)* (database), [http://ec.europa.eu/eurostat/web/microdata/european\\_union\\_statistics\\_on\\_income\\_and\\_living\\_conditions](http://ec.europa.eu/eurostat/web/microdata/european_union_statistics_on_income_and_living_conditions).

There are also persistent gaps in the access to quality public services between the capital region and other regions in Hungary (*Figure 0.8*). In the northern great plain region in Hungary, the share of households with broadband access is for instance significantly lower than the national average (measured in the access to public services dimension) while the homicide rate is much higher (measured by the safety dimension). In addition, the average life expectancy is well below the level reached in the capital region and the share of labour force with at least secondary education is also much lower.

Figure 0.8. **There are persistent geographic inequalities in the access to certain public services in Hungary**



Source: OECD (2014e), OECD Regional Well-Being Index, [www.oecdregionalwellbeing.org/](http://www.oecdregionalwellbeing.org/).