

Multi-level governance of public investment 2017

Table 1. Facts and figures related to direct public investment

2014	General Government	Subnational Governments
USD billion	12.8	4.9
USD per capita	1297	498
% of GDP	5.2%	2.0%
% of public expenditure	10.4%	25.3%
% of total public direct investment	100%	38.4%

Source: OECD (2016), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

Figure 1. Trends in direct public investment in Hungary (2004–14)

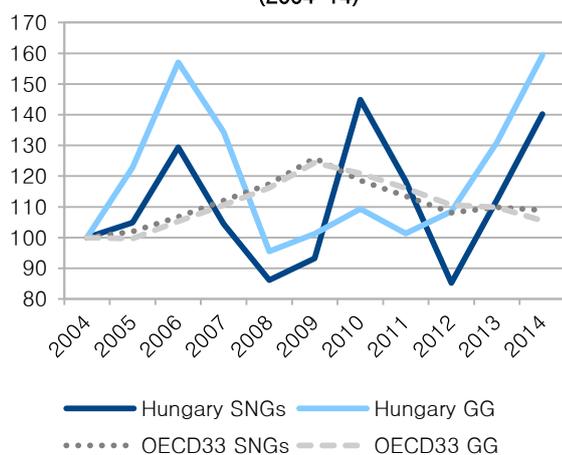
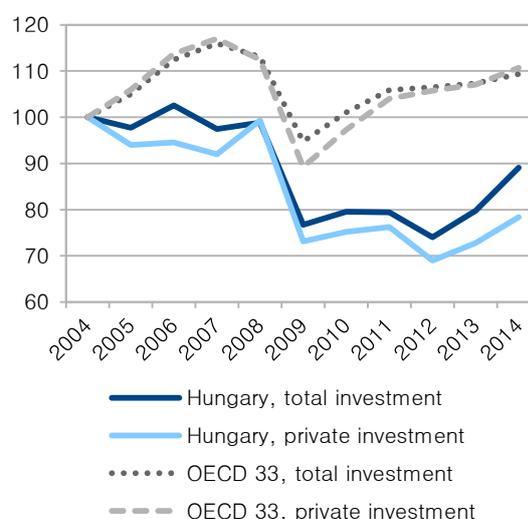


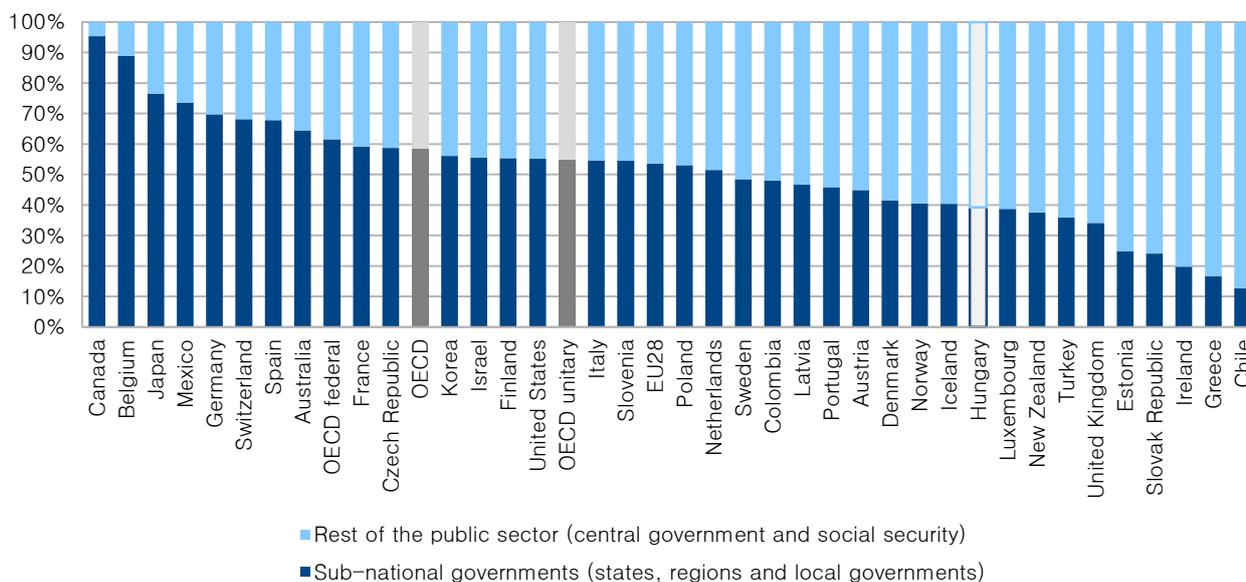
Figure 2. Trends in total and private direct investment in Hungary (2004–14)



Source: OECD National Accounts. In real terms, base 100 in 2004.

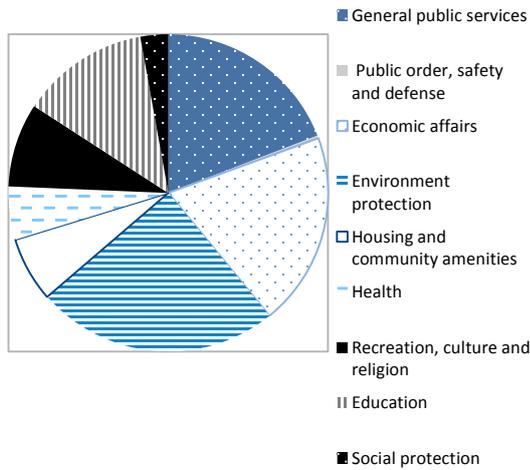
Source: OECD National Accounts. In real terms, base 100 in 2004.

Figure 3. Subnational public direct investment in OECD countries, 2014 (as a share of public direct investment)



Source: OECD National Accounts.

Figure 4. Breakout of subnational direct investment in Hungary by economic function (% of total direct investment, average 2008–2014)

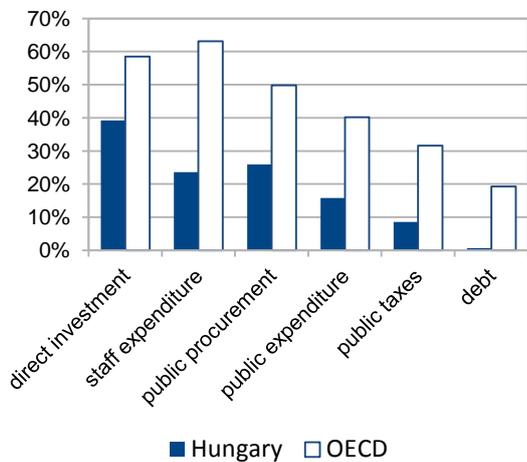


Source: OECD National Accounts

Note: 2013 figures for Mexico, 2012 figures for Chile, 2014 figures for Turkey..

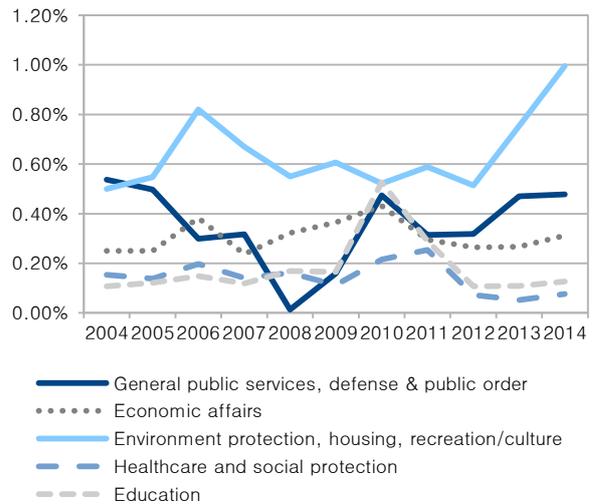
The major categories of investment spending in Hungary are economic affairs¹, general public services, and environment protection. Local governments are responsible in particular for the maintenance of local roads and the organisation of public transport. Other large categories of investment spending include education and recreation, culture, religion. In contrast, SNGs invest very little in social protection (Figure 4 and 5).

Figure 6. The role of subnational governments in public finance in Hungary, 2014



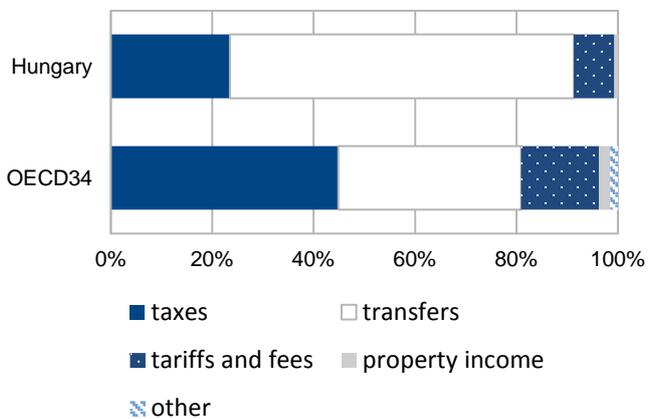
Source: OECD National Accounts.

Figure 5. Trends in subnational direct investment by economic function (as a % of GDP)



Source: OECD National Accounts.

Figure 7. Indicators of subnational fiscal revenues in Hungary, 2014



Source: OECD National Accounts.

As Hungary is a relatively centralised country, subnational expenditure is lower than the OECD average (Figure 5) for most large categories of spending (total expenditure, investments, staff expenditure, public procurement). Moreover, Hungary has been re-centralising many SNG functions as well as SNG debt over the last years (through the 2013 Local Government Act). Subnational governments also have a smaller share of revenues from taxes (Figure 5), which is compensated by a high reliance on transfers from the central government.

Examples of good practices or recent developments for effective public investment

Coherent planning:

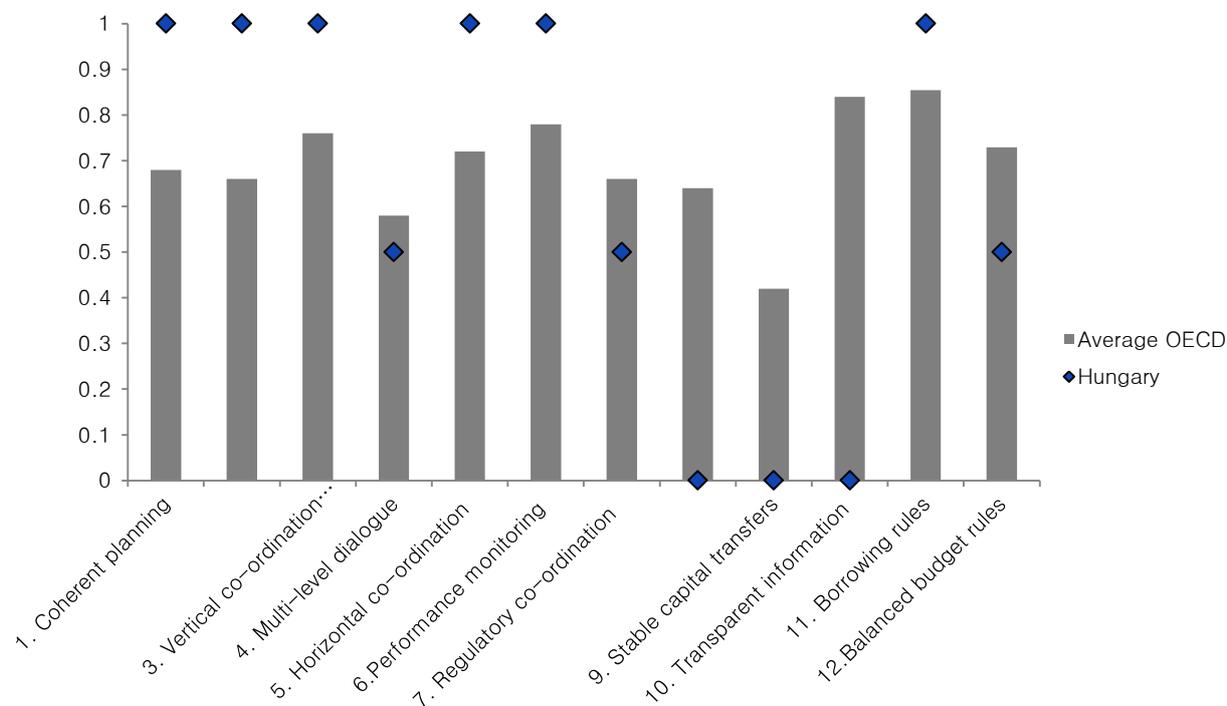
The National Development and Territorial Development Concept (NDTDC) aims at co-ordinating development objectives for development policy and territorial development. The Decree No. 1254/2012 (VII. 19.) modified the framework for regional development policy in Hungary, and specified that the National Regional Development and National Development Concepts (which were previously separate documents) must be integrated. It was adopted by the Parliament in 2014, after extensive consultation across ministries, county councils, local governments including Budapest, public consultation, Strategic Environment Assessment (SEA). An ex ante evaluation was brought to the Parliament in late December 2013, before it was adopted. The NDTDC includes several goals for subnational development. It addresses in particular the issue of polycentricity introducing different levels of urban centers, wherein Budapest and 67 other towns are considered as urban areas with (potential) international relevanceregional poles. Objectives are set for the development of the Budapest metropolitan area for example is on the medium-term..

Horizontal co-ordination:

In 2012, governmental offices were established in the capital and each county, which are operating as the Government's administration bodies with general competence. In 2013, governmental offices were set up at micro-regional (district) level as well, which means the local bodies of central public administration. Most of the former territorial administrative bodies were integrated into this renewed system. The customer service tasks of the governmental offices are provided in a "one stop shop" system: more than 100 different types of cases (applications, notifications, etc.) can be arranged on the same spot.

Preliminary indicators of MLG of public investment for regional development

Figure 8. Indicators for the co-ordination of public investment for regional development



Note: See Annex 1 for more detail on the indicators.

Source: OECD (2016b), Answers to the Regional Outlook Survey and OECD (2016c).

ANNEX 1

Indicators for the co-ordination of public investment for regional development

1. Coherent planning across levels of government

The country has regional development policies/strategies to support regional development and local investments.

- a No explicit national policies to support regional development
- b Explicit national policies to support regional development in all or parts of the country
- c Explicit national regional development policies completed by regional investment strategies aligned with it X

2. Co-ordination across sectors in the national planning process

The country has mechanisms to co-ordinate across sectors national policies and investment priorities for regional development

- a No mechanism
- b At least inter-ministerial committee and/or cross-ministerial plan
- c Inter-ministerial committee and/or plan + other mechanisms X

3. Vertical co-ordination instruments

The country has mechanisms to ensure co-ordination across levels of governments (regional development agencies, national representatives in subnational governments, and contracts or agreements)

- a None of these
- b At least one of these mechanisms
- c At least one of these mechanisms involving many sectors X

4. Multi-level dialogue to define investment priorities for regional development

The country conducts regular dialogue(s) between national and subnational levels on regional development policy including investment priorities

- a No regular dialogue
- b Formal or ad hoc dialogue X
- c The platform has decision-making authority

5. Horizontal co-ordination across jurisdictions

The country has formal horizontal mechanisms/incentives between subnational governments to co-ordinate public investment

- a No mechanisms
- b Formal horizontal co-ordination mechanisms at the municipal level
- c Formal horizontal co-ordination mechanisms at the municipal level and other subnational levels (state, regions) X

6. Performance monitoring and learning

The country has mechanisms in place to monitor and evaluate regional development policy

- a No mechanisms
- b The country has indicators to monitor the effectiveness of regional development policy
- c The country has conducted evaluations of regional development policy X

7. Regulatory co-ordination across levels of government

The country has mechanisms to co-ordinate regulations across levels of government

- a No intergovernmental co-ordination mechanisms
- b Formal co-ordination mechanisms between national/federal and state/regional governments X
- c Requirement of national government to consult subnational governments prior to issuance of new regulations that concern them

8. Co-financing arrangements across national and subnational levels

There are co-financing arrangements for public investment

- a No co-financing arrangements X
- b Co-financing arrangements exist but funds are not tracked
- c Co-financing arrangements exist and funds are tracked

9. Subnational governments benefit from predictable capital transfers over time

Variations in total capital transfer from one year to the next

- a Large variation: more than 20% X
- b Medium variation: between 10% and 20%
- c Little variation: less than 10%

10. Transparent information across levels of government

Subnational fiscal situation is publicly available

- a Not available for any type of subnational government X
- b Available for regions/states/some level of subnational government only (on an individual basis)
- c Available for each subnational government individually

11. Fiscal stability: rules for subnational governments

There are limits on subnational borrowing

- a No limits on subnational government borrowing
- b Non-binding borrowing constraints
- c Binding borrowing constraints X

12. Safeguarding capital spending at subnational level

Balanced budget rules protect subnational capital spending

- a No balanced budget rule
 - b Balanced budget rule with no exception for capital spending X
 - c Balanced budget rule protecting capital spending (type golden-rule)
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ANNEX 2

Definitions and sources

Definitions:

- **General government (S.13):** includes four sub-sectors: central/federal government and related public entities (S.1311) federated government ("states") and related public entities (S.1312) local government i.e. regional and local governments and related public entities (S.1313) and social security funds (S.1314). Data are consolidated within S.13 as well as within each subsector (neutralisation of financial cross-flows).
- **Subnational government:** defined here as the sum (non-consolidated) of subsectors S.1312 (federated government) and S.1313 (local government).
- **Direct investment:** includes gross capital formation and acquisitions, less disposals of non-financial non-produced assets. Gross fixed capital formation (or fixed investment) is the main component of investments.

Sources:

OECD (2016a), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

OECD (2016b), *Regional Outlook Survey*.

OECD (2016c), *Overview and Preliminary Proposal on Indicators of Co-ordination of Public Investment for Regional Development*, Room document discussed in the April 2016 RDPC meeting, unpublished material.

OECD (2015a), *OECD National Accounts Statistics* (database), <http://dx.doi.org/10.1787/na-data-en..>

OECD (2015b) *Implementation Toolkit, Effective Public Investment Across Levels of Government* <http://www.oecd.org/effective-public-investment-toolkit/>

OECD (2014), *OECD Regional Outlook 2014*, OECD Publishing, Paris.

OECD (2011), *OECD Network on Fiscal Relations across Levels of Government Survey on Sub-national Fiscal Rules and Macroeconomic Management*, OECD, September 2011, updated in March 2015.

<http://www.eukn.eu/e-library/project/bericht/eventDetail/national-urban-policy-of-hungary/>.

<https://www.nth.gov.hu/en/activities/territorial-development>.