Comparative analysis of the process for compliance with the European Charter of Local Self-Government in The Czech Republic, Hungary and Slovakia - with special emphasis on economic conditions and Hungarian atypical features

Abstract. The aim of this paper is to analyse legal and financial dynamics of the self-governance in three countries of the Visegrad Group: The Czech Republic, Hungary and Slovakia. The paper explores compliance with the European Charter of Local Self-Government, financial independence and operational features of self-governance. The paper provides an overview of the regulatory environment that was set up for the local government in the Visegrad countries, examines the powers by local government, and the degree of its financial independence. The financial aspects of self-government are compared, and compliance with major fiscal rules is examined.

Keywords: European Charter of Local Self-Government; Fiscal Decentralisation; Local Self-Government; Public Finance; Local Debt; Public Service; Visegrad Countries; Slovakia; The Czech Republic; Hungary

JEL Classification: H70; H71; H72; H73; H74

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1. Introduction

The aim of this paper is to present the system of financing and performing duties of the self-governance in three countries of the Visegrad Cooperation (V4), which have similar level of development, area size, and close historical past, in order to define whether their practices are compatible with the European Charter of Local Self-Government of the Council of Europe1 (hereinafter referred to as the «Charter»). The paper gives a detailed analysis of local self-government administrative measures, taken along the regime change after 1990, and in the course of integration to the European Union2. Our aim is to analyse the dynamics of national legislation while implementing legal arrengements of the Charter, and to reveal the dominant themes in the administrative reform of the Central European countries. Amid the broader picture of the EU impact on transformation of regulatory systems in three countries under review, the evolution of self-government remains an important part. It deals to the fairness of public duties performance by the local governments, their ability to manage public finances, and to address build interaction with citizens as an immediate consumers of local public services. The European Charter of Local Self-Government plays an important role in development and maintenance of self-government systems in European countries, which ensures universal nature of the same fundamental values across the continent, with only slight peculiarities in different nations. These peculiarities are explained by certain geographical features and different tradition of public governance; as their systems of local authorities took different paths in past, they still carry some degree of heterogeneity. The paper also gives an account of the financial aspects of the self-governance in three Visegrad countries.

In the negotiations about the administrative reform launched in the late 20th century, the European Charter of Local Self-Government must be considered with due emphasis, as its adoption in Slovakia on 23rd February, 1999, and in the Czech Republic on 1st September, 1999 has great significance for the implementation of self-government compatible with European norms. The Charter still plays a prominent role in the assessment of Czech and Slovak acts on self-government and other pieces of legislation related to the self-governance. Twenty provisions of the European Charter of Local Self-Government took effect on 1st June, 2000, upon the amendments to the Constitution of the Slovak Republic and to Act No. 369 of 1990 on Municipal Establishment3. Later, Slovakia committed itself to adhering to such provisions of the Charter which had been treated with reservations earlier, and signed its commitment to all provisions of the Charter on 14th April, 20074.

The reform in public administration in the spirit of the Charter began when the Act on Municipalities5 (Act 128 of 2000), entered into force on 1st January, 2001. Although The Czech Republic approved several provisions of the Charter, it also took few reservations, with special regard to the financing principles set out in paragraph three («Part at least of the financial resources of local authorities shall derive from local taxes and charges...»), five (the protection of financially weaker local authorities) and six (Local authorities shall be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them») of Article 9.

In Hungary, during the regime change, the principles of the Charter and the prevailing public administrative trends were considered when the regulation on self-government was designed6, and a modern system of its kind was introduced. The principles of the Charter were legally recognised by introduction of Act XV in 1997.

2. Brief Literature Review

The review of relevant literature provides a theoretical background to the study. The golden rule for budgets was introduced into the scholarly works on public finances by Musgrave (1959), therefore this rule is dubbed as the Musgrave rule. The rule does not allow to finance investments through current operational resources as it conflicts with financing logic.

In several European countries, the application of the golden rule means a certain degree - strict or more relaxed -

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1 The Treaty on the European Charter of Local Self-Government signed in Strasbourg on 15th October, 1985 - European Charter of Local Self-Government.
2 For further details on the issues of integration, see Torma (2011).
3 According to Article 12 of the European Charter of Local Self-Government, each party shall undertake to consider itself bound by at least twenty paragraphs of Part I of the Charter, at least ten of which shall be selected among the paragraphs of the article. Upon the ratification in 1999, Slovakia considered twelve of the fourteen paragraphs binding on Slovakian local governments. See Statement No. 336/2000 of the Ministry of Foreign Affairs of the Slovak Republic on signing the European Charter of Local Self-Government.
4 Statement No. 587/2007 of the Ministry of Foreign Affairs of the Slovak Republic on the Adoption of Additional Provisions of the European Charter of Local Self-Government.
5 The new act on municipalities has repealed Act No 369/1990 Coll. on Municipalities adopted by the Federal Republic.
6 Based on the principles of New Public Management. See Rosta (2013).
of control over excessive indebtedness of local governments at the state level, referred to as the golden rule of finances. As a result of the decentralisation process of the millennium, municipalities and higher territorial units have been granted the audacity to perform various governmental unit's responsibilities. The Act 416 of 2001 on the Transfer of some Responsibilities from State Administration to Municipalities and Higher Territorial Units has created a division of labour between various governmental unit levels, as well as social, economic, and development-driven cooperation between local and national government levels. For long-term sustainability, however, the legal frameworks of resource allocation required for effective cost management and financing of public goods and services, and the delegation of competences proved to be slow and troublesome in practice. To date, the execution of modern institutional governance supporting the effective organisation of new functions delegated by the state is still lacking in many senses. Habánik, Kordoš & Košták (2016) also draw attention to the limitations of performing duties by municipalities and higher territorial units, which they explained with the different growth pace of public expenditures and subnational government spending. Public expenditures increased from 2006 till 2015 by 62.4% compared to only 40.8% growth in expenditures of higher territorial units and municipalities.

The adoption of Article 9 of the Charter and its incorporation into the Slovak legal system had a prominent part in the process of fiscal decentralisation. In accordance with the golden rule of finances, the legal frameworks of resource allocation required for the performance of state administrative tasks delegated to municipalities and higher territorial units shall be provided by the State—(Section 2 of Article 71), and the act on municipalities further clarifies: «financial resources and other financial assets required for the performance of state administration tasks delegated to municipalities shall be provided by the State» (Section 1 of Paragraph 5). In this Act, the principle of commensuration is applied not only to delegated responsibilities but also ex post needs for resources necessary to perform their duties. The principle of financial independence and the principle of diversified and buoyant financial resources, formulated in Sections 3 and 4 of Article 9 of the Charter, were recognised as binding by the Slovak state with the amendment to the Act on municipalities in 1999. According to the Act, municipalities shall cover their own needs from their own resources, state aid and other resources. By other resources, the Act on municipalities means reimbursable sources of financing, such as loans, and extra-budgetary resources deriving from funds established by the municipality.

In Slovakia, Act 416 of 2001 transferred a complex system of governance functions to the municipalities and eight higher territorial units, and state assets indispensable for undertaking almost four-hundred new duties were also transferred to municipalities' handling. The law distinguishes between two kinds of obligations to perform duties, which merged into the acts on the municipalities' and higher territorial units' responsibilities and competences. The first group of public duties are attributed exclusively to the municipalities and higher territorial units, which perform them in behalf of themselves and under their own responsibilities, and finance them mainly from the municipality's or the higher territorial unit's own revenues. Obligations to perform duties, transferred by the state, constitute another group of public duties, which are undertaken by municipalities and higher territorial units in the name and under the responsibility of the central government. The funds required covering expenses by municipalities and higher territorial units in delivering public duties were granted by the central budget until the introduction of a fiscal decentralisation. As a result of the decentralisation taking place at the turn of the millennium, municipalities and higher territorial units took over some duties of the central government. The execution of delegated public administrative activities are managed and controlled by the Slovakian government. The Act 416 of 2001 on the Transfer of some Responsibilities from State Administration to Municipalities and Higher Territorial Units has created the division of labour between various government levels, as well as social, economic, and development-driven cooperation between local and national government levels. For long-term sustainability, however, the legal frameworks of resource allocation required for effective cost management and financing of public goods and services, and the delegation of competences proved to be slow and troublesome in practice. To date, the execution of modern institutional governance supporting the effective organisation of new functions delegated by the state is still lacking in many senses. Habánik, Kordoš & Košták (2016) also draw attention to the limitations of performing duties by municipalities and higher territorial units, which they explained with the different growth pace of public expenditures and subnational government spending. Public expenditures increased from 2006 till 2015 by 62.4% compared to only 40.8% growth in expenditures of higher territorial units and municipalities. The adoption of Article 9 of the Charter and its incorporation into the Slovak legal system had a prominent part in the process of fiscal decentralisation launched at the end of the 20th century. As Section 2 of Article 9 stated, «Local authorities’ financial resources shall be commensurate with the responsibilities provided for by the constitution and the law». The principle of commensuration between financial resources and responsibilities is also guaranteed by the Slovak constitution: «The costs of the performance of delegated state administration tasks shall be covered by the State» (Section 2 of Article 71), and the act on municipalities further clarifies: «financial resources and other financial assets required for the performance of state administration tasks delegated to municipalities shall be provided by the State» (Section 1 of Paragraph 5). In this Act, the principle of commensuration is applied not only to delegated responsibilities but also ex post needs for resources necessary to perform their duties. The principle of financial independence and the principle of diversified and buoyant financial resources, formulated in Sections 3 and 4 of Article 9 of the Charter, were recognised as binding by the Slovak state with the amendment to the Act on municipalities in 1999. According to the Act, municipalities shall cover their own needs from their own resources, state aid and other resources. By other resources, the Act on municipalities means reimbursable sources of financing, such as loans, and extra-budgetary resources deriving from funds established by the municipality.
interest rate expenditure included, does not exceed 25% of the revenues of the previous fiscal year.

Slovakia has fully adopted the Charter’s article on financial resources12, including the sections treated with reservations in The Czech Republic. The Act on Municipalities provides for the protection of financially weaker local authorities, keeping the principle of commensuration between responsibilities and resources, as «state aid may be granted to municipalities which have insufficient revenue sources for performing their duties» (Section 4 of Paragraph 7).

The revenue independence of municipalities was created only on the threshold of the 21st century, with the second wave of state administration reforms13, although real estate tax, providing a small source of revenues, and local fees, also amounting to small part of revenues, formed an independent source of revenues for the municipalities’ budgets already in the 1990s.

Although fiscal decentralisation had formed an integral part of the state administration reform, it was implemented in Slovak Republic only in 2005, after the division of competences and responsibilities between different levels of self-government was completed from the time of transfer of competences until the EU accession. Slovak municipalities and higher territorial units mostly depended on the subventions from the central budget. Before the implementation of fiscal decentralisation, the financial resources required for covering expenditures incurred by municipalities and higher territorial units while falling within their competence and delegated by the state, were provided by the central government by sharing personal income tax, corporate tax and tax on motor vehicles, as well as from combined state aid. The extent of sharing taxes, and the amount of state aid for operational and development purposes were modified on an annual basis based on the Act on Public Finance. Aid - provided from the resources of the central budget - financing the obligation to perform duties delegated by the state were divided into three different groups. Aid financing the performance of municipal competences assisted municipalities with a population of less than three thousand people in execution of responsibilities delegated by the state. Five cities, Bratislava, Košice, Banská Bystrica, Žilina and Prešov, received aid to promote local public transport of municipalities. Public education aid was mainly granted to municipalities financing and operating educational institutions.

Three acts played a key role in launching the reform processes of financing: Act 583 of 2004 on the Budget Rules of the Regional Self-Administration, Act 582 of 2004 on Local Taxes and the Fees for Municipal Waste, and Minor Construction Waste and Act 564 of 2004 on the Budget Determination of Income Tax Yields to Regional Self-Administration.

The Act on of Budgetary Rules of the Regional Self-Administration regulates the procedure of planning budgets, and the budgetary management of municipalities and higher regional units. It also enumerates, with the reference to Act 564 of 2004, transfers between the state budget and the budgets of municipalities and higher regional units, shares on income taxes and tied and untied state financial aid for financing the performance of delegated state administration tasks.

After fiscal decentralisation processes ended, financial resources, required for financing general commitments to conduct responsibilities, are provided by the central budget through distribution of the entire amount of personal income tax to municipalities and higher territorial units and state financial aid. According to the Act 564 of 2004, currently in force, 40% of personal income tax is transferred to municipalities, and 30% is transferred to higher territorial units. The distribution of personal income tax to specific local and regional budgets is regulated by a government regulation of 2004, amended 9 times since14. According to the government regulation, income tax is distributed to municipalities based on four criteria: altitude of the municipality above sea level15, residential population of the municipality16, number of pupils and students of educational institutions operated by the municipality, and the number of the municipality’s residents above the age of 62.

After fiscal decentralisation, financial aid for the performance of municipal competences and public transport subsidies of municipalities have been discontinued. Together with the tax reform in 2004, the Slovak state created the municipalities’ independence in revenues, and own revenues have become key elements of enabling local resources. The new financing characteristics of municipalities were summarised in three points by Nižňanský, Cibáková & Hamalová (2014, p. 148):

- a) municipalities are entitled to levying local taxes and fees,
- b) receive a share of personal income tax,
- c) are granted financial aids from the central budget to perform tasks delegated by the state.

Act 583 of 2004 on the Budget Rules of the Regional Self-Administration identifies the following sources of municipal revenues:

- revenues from local taxes and fees17, in particular, real estate tax, dog tax, tourist tax, tax on the use of public areas, tax on vending machines, tax on operating gaming machines, tax on the entry and staying of motor vehicles in historical parts of towns, nuclear facility tax and local fees;
- revenues from asset management, and from possession and transferring of assets, and from activities of municipalities, and their budgetary organizations;
- revenues from interests on municipal investments;
- fines imposed by municipalities;
- donations;
- share of personal income tax;
- state financial aids and contributions to financing costs incurred when performing public administration tasks delegated by the state;
- further tied and untied state financial aid;
- tied financial aid transferred from the budget of a higher territorial unit;
- financial resources from the European Union and other foreign countries;
- other revenues according to particular regulations;
- shares of profit paid by enterprises established by the municipality;
- reimbursable credit resources.

Today, Slovak municipalities and higher territorial units finance their governance functions mainly from their own resources. Tax revenues constitute half (51%) of the sources of revenues of municipalities. Personal income tax amounts to18 more than three-fourths of tax revenues19, and local taxes and fees amount to slightly less than a quarter of them. The share of financial resources (aid and contributions), transferred from the central budget, for the performance of competences delegated by the state, stay at 27.5% of the total revenues of municipalities. Revenues from entrepreneurial and other activities account for 10–11% of revenues.

13 The first wave means political decentralisation processes taking place directly after the regime change.
14 Government Regulation No. 668/ 2004 of the Slovak Republic on the Distribution of Tax Revenues.
15 Based on the 2017 data of the Ministry of Finance of the Slovak Republic, more than 76.7% of the tax revenues of municipalities.
16 Based on the 2017 data of the Ministry of Finance of the Slovak Republic, less than 23.3% of the tax revenues of municipalities. While real estate tax amounts to 14–85% of the tax revenues of local budgets, other local taxes and fees account for only 8.4% of tax revenues.
Due to the implementing Act on Budgetary Rules and Budget Responsibility, municipalities have decreased the use of state administration responsibilities and powers were transferred to the municipalities. The reform of the Czech public administration mechanism started when several points of the Charter were adopted, although even today The Czech Republic still makes reservations to some of the provisions of the Article 9 of the Charter regarding the financing of municipalities (which is responsible for the difference in structure of financing of Czech and Slovak municipalities).

According to the Czech Constitution, municipalities and higher self-governing regions with own budgets shall manage municipal property in view and for the creation of public good. Budget management of municipalities and districts is an independent competency, which in practice means that municipalities decide themselves on the budget matters.

Czech municipal and regional revenues - similar to its Eastern neighbour - are divided into four main groups: tax revenues, non-tax revenues (for example, resources from entrepreneurial activities of the municipality or region, the lease or sale of property), non-operational and capital revenues, and other aid and contributions. Taxes are predominant sources of revenues for the municipal budget, as they account for almost 70% of revenues. The share of state aid is only 18% of total resources, and the share of non-tax revenues is around 11%. Marginalised capital revenues do not even reach 3%. Czech central government provides financial resources required for financing municipal commitments to fulfill responsibilities from the central budget, by sharing value added tax, corporate tax, personal income tax and winnings tax, as well as by the state aid and contributions.

Although the institute of local taxes is not due in The Czech Republic, in practice real estate tax and local fees could be de facto defined as local, as they constitute municipalities' own resources, in compliance with - the Charter adopted in 1999. Thus real estate tax is contributed to the local budget in full. Tax revenues of regional self-governing units also comprise a share of value added tax, corporate tax and personal income tax. The largest source of revenues of the local budget comes from the municipal (or regional, the lease or sale of property), non-operational and capital revenues, and other aid and contributions. Taxes are predominant sources of revenues for the municipal budget, as they account for almost 70% of revenues. The share of state aid is only 18% of total resources, and the share of non-tax revenues is around 11%. Marginalised capital revenues do not even reach 3%. Czech central government provides financial resources required for financing municipal commitments to fulfill responsibilities from the central budget, by sharing value added tax, corporate tax, personal income tax and winnings tax, as well as by the state aid and contributions.

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accounting value, had to be evaluated and entered into books by Hungarian local authorities on their own. As a result, the wealth of local governments tripled, and accounted for 35% of the GDP by 2007, which improved the latent creditworthiness of local governments. This situation was exacerbated by the fact that the creditworthiness assessment carried out by banks was optimistic, even though this optimism was not completely justified. Amid this surge in formal wealth of local governments the debt accumulation continued, with increasing operational deficit, as the operational-structural problems of previous system remained unresolved. Debt accumulation, however, did not start in 2007 but well before, the pace of growth was high especially from 2004, due to the opportunity to use development resources after the EU accession. The central budget assigned an increasing role to local authorities in performing duties, which resulted in decentralised deficit and debt, while local and central governments lacked own resources required for the drawdown of EU grants. Another feature of that period was that in the years of local elections debts were always higher than in previous years, which also intensified the local authorities’ demand for credit transactions.

From 2002, as it is shown in Figure 1, the debts of Hungarian local governments started to decrease significantly, as the Hungarian economic governance recognised that the debts of local governments posed a hazard not only to public finances as a whole, but also to fiscal compliance with the Maastricht protocol on convergence criteria and to the provisions on public services in settlements. Primarily, debt was accumulated in towns with county rank and county governments, which was a serious problem because the role of these local governments was prominent in providing public services. Thus entire regions would have got into harsh situation, especially because of soaring foreign exchange rates. Therefore, during four steps consolidation process in the period between 2011 and 2014 the total debts of local governments were assumed by the central budget, in cooperation with local governments, after long negotiations. This measure, which was unique of its kind, however, limited further indebtedness, as at the same time budgetary rules were tightened. This process fit in the process of re-defining of the legal frameworks of the Hungarian system of self-government, which started in 2011 (Lentner, 2014).

With the start of fiscal consolidation, the Parliament redrew the operation, the system of responsibilities and competences of local governments in 2011, acknowledging the local voters’ rights to self-government, but equally observing the principles enshrined in the European Charter of Local Self-Government. When identifying the responsibilities of local governments, the performance of settlements was considered, and the new regulation customised the previously wide-ranging obligation to provide public services.

Articles 31-35 of the Fundamental Law, entering into force in 2011, declared the constitutional rights of local governments, with regard to the Charter. These rights include the adoption of regulation instruments and bodies exercising the rights of local governments. In relation to public finances, Articles 36 and 38 provide a framework for managing the assets of local governments. One of the novelties of the Fundamental Law, comparing to the previous Constitution, was the incorporation of the major guiding principles of public financial regulation.

The act on the operation of local governments declared that voters of settlements and counties are entitled to the right of self-government. Municipal governments operate in villages, towns, township seats, towns of county rank and districts of the capital, while regional governments operate in counties. The act differentiates between the responsibilities of the capital, the districts, the towns, and the villages of county rank. It prescribes for them to perform the duties and exercise the powers mandated by legislation and those assumed voluntarily, and determines that they may have different duties and powers.

After 2011 the regulatory environment has taken a rules-based course, which manifested in the Fundamental Law, the Stability Act, and the Act on National Assets. These acts guarantee responsible budget management. The Stability Act has imposed an authorisation requirement on borrowing by local governments and local governmental companies. The National Assets Act included the assets of local governments into national assets.

The economic independence of the Hungarian system of self-government is in place under legal conditions, the main sources of law include the articles on public finances of the Fundamental Law, and the paragraphs of the Local Government Act, which ensure the independence of managing finances, completely in the spirit of the Charter. Thus, the Act on Local Taxes embodies taxation sovereignty of local governments, which is, however, limited. Local governments may choose from property-type taxes, communal taxes and business taxes as set forth by law, but the given base of assessment may be subject to one tax burden only, which is a limitation. Beyond the ban on tax multiplication, taxes levied by local governments shall not exceed the maximum tax rate imposed by the Parliament: for example, they may levy a business tax of maximum 2%. The local governments’ right to levy taxes has been strengthened since 2015, as, with the introduction of the system of municipal taxes, local governments may levy tax on any basis of taxation which is not a basis of taxation for a central or another local tax. Local business tax revenues have significant weight in the system of financial management, since it accounts for 80-85% of the total taxes in the country. The share of local business tax differs by local governments and categories of self-government. A disadvantage of this tax is that it is sensitive to economic downturns, 31 Before the operation of local governments could also be mitigated by applying modern controlling principles. See Zéman (2017) and Zéman & Tóth (2015).

32 Act XIX of 2011, hereinafter referred to as the Local Government Act.

33 Act CXCIV of 2011.

Lentner, Cs., Nagy, L., Vasa, L., & Hegedűs, Sz. / Economic Annals-XXI (2018), 173(9-10), 10-18
and deepens regional differences as only economically de-
gloped settlements can raise considerable revenues from it. Be-
sides, it is disadvantageous for companies, in particular ser-
vice companies, due to the calculation of the tax base.

Summing it up, the Hungarian system of self-government meets the following requirement of the Charter: local govern-
ments shall enable their revenues predominantly by tax and
fee policies developed within their own competence. This, however, differs by a great extent by settlement categories and
geographical areas.

The local governments system of central budgetary sup-
port works within the framework of financing duties, the extent and amount of support is determined by the current budget-
ary act. In financing duties, duty-based support is provided by the Parliament through the system of financing duties to
cover operational expenditures of the performance of man-
datory responsibilities by local governments, and the support provided for the performance of duties is in line with the pub-
lic service level established by current legislation.

The system of financing duties is based on an imputation regime, which requires the local government:

• to have original own revenues due to the local government
  (the rate of which is stipulated by the budgetary act of the cur-
  rent year);
• to have actual own revenues due to the local government
  controlled basis.

The areas and rates of revenues to be considered are re-
gulated by the budgetary act of the current year34. The act of-
fers an opportunity for the state to provide local governments with state support to finance voluntary duties treated as pri-
orities by the state (Kecső, 2016).

4. Assessment of operability

Important justification for our comparison is the fact that all three countries operate at accrual-based system of accoun-
ting. In The Czech Republic and Slovakia the accounting re-
form of public finance took place earlier (Otrusinová, 2016). Hungary took the same step in 2014, subsequently local
authorities have been keeping books in an accrual-based, pro-
fit-oriented system of accounting, pursuant to Government De-
cree No.4/2013, which incorporated Directive No. 2011/85/EU
into Hungarian legislation.

The fiscal rules of the local governments in three countries were compared by Bryson & Corrino (2000). Study by Davey &
Petéri (1998) focused on the decentralisation process, which had been fully implemented by the countries examined before their accession to the EU. They established that Hungary was the first to implement changes, as well as improved fiscal and
regulatory environment, based on the theoretical lessons of fiscal federalism. Nonetheless, the Hungarian system of self-
government atypically turned indebted and was put at risk.

Regarding the self-governmental subsystem’s ability to ge-
genrate revenues we established that the revenues of the local
governments are the highest in The Czech Republic, accoun-
ting for 7% of the GDP in 2016, while they stay at 3% of the GDP in Hungary, and 2% of the GDP in Slovakia (Figure 2).

The rate of local tax revenues in all three Visegrad countries are lower than average in OECD countries. Among the coun-
tries examined, it was the highest in Hungary, 2-2.5% of the GDP in the last decade. In Slovakia local tax revenues account-
ed for less than 1% of the GDP, while in The Czech Republic it stood at 0.5% (Figure 3).

Thus, the Hungarian regulation of self-government pro-
vides for the highest rate of own revenues, and comply with the requirement by the Charter that a part of revenues shall deri
ve «sui generis» (from their own competence).

The share of own revenues as part of total revenues is also high in Slovakia, while in Czechia it is rather minor, meaning that the stipulations of the Charter has limited impact. The rea-
son for the situation in The Czech Republic is that fees are the major sources of local governments’ revenues (Bryson, 2016).

While examining compliance with fiscal rules, we estab-
lished that starting from 2000 until 2012 (with the exception of year 2007) deficit was a fact. From the rate of the GDP did not reach even 1% in The Czech Republic. Since 2013, the Czech sub-
national governments showed financial management without deficit (same situation already took place in late 1990s). From 1997 (with the exception of years 1999 and 2001), Hungarian local governments were accumulating deficits, but the ba-
sis of the total expenses and own revenues of subnational governments is positive against GDP since 2011. In the case of Slovakia, the picture is mixed. In the late 1990s, Slovak municipalities accumulated massive deficits, which exceeded 1% until 1998, reaching the highest level among the coun-
tries examined. From the year 2000, a positive balance was achieved, but after the EU accession the balance of financial management turned negative again. Since 2012, except for a small deficit in 2014, the balance has been shifting to the po-
itive range again (Figure 4).

In Slovakia, a debt rule was adopted in 2011, setting the debt limit at 60% of revenues. On the basis of the data by the Ministry of Finance, debts of municipalities and higher territo-
rial units accounted for almost 3% of government debt in 2015, which shrank in the last two years, dropping to 2.5% of go-

34 On responsible corporate governance, see Kecső (2016).
35 In the budget year of 2018, the imputation and supplementation regime is 0.05% of the business tax base year of 2016.
Fig. 2: **Revenues of local governments as percentage of the GDP, 1995-2016**  
Source: Elaborated by the authors based on the data of the OECD fiscal decentralisation database

Fig. 3: **Local tax revenues as percentage of the GDP, 1995-2016**  
Source: Elaborated by the authors based on the data of the OECD fiscal decentralisation database

Fig. 4: **Compliance with debt rules, 1995-2016**  
Source: Elaborated by the authors based on the data of the OECD fiscal decentralisation database

Fig. 5: **Debt developments, 1995-2016**  
Source: Elaborated by the authors based on the data of the OECD fiscal decentralisation database
of view, however, the stability of financial management and the methods of financing are very different in all three countries. In The Czech Republic, public tokens are not available for ma
noeuvre provided by local tax revenues is smaller compared to other nations. Thus, it is not local authorities’ room for ma
noeuvre that is limited, but, in relation to revenues, the ex
penditure side and the debts that can be run up.

As for the debt rules adopted, in The Czech Republic re
quired a limiting factor to the indebtedness of the local governments since early 2000s, while in Hungary the appropriate regulation was installed since 2011.

The way local governments are managing their debts is not the only important issue for the local government. It is also what important limits to what their independence are in place against their sustainability, aimed to prevent local governments from running deficits and accumulating debts, ensu
ving the prevalence of the most important basic principle of accounting, i.e. the going concern principle, and thereby bud
getary sustainability.

The final conclusion of our study is that in the development of their system of self-government, three Visegrad countries under review have endorsed the recommendations of the Char
ter, which is regarded as a compass for the development of lo
cal governance in Europe, and a modern, rules-based prac
tice of budget management has been continuously introduced with regard to the financial sustainability. It is a key finding of our research that in the relatively homogeneous Visegrad coun
tries, in Hungary the regulatory environment, which existed be
fore 2011, and weak control of public finances led to increase
in debts, and since their state consolidation, when regulatory limits preventing re-indebtedness entered into force, Hungarian system of local authorities moved to sustainable operation and continuous provision of public services.

Thus, all the three countries now demonstrate the major achievements of the theory of fiscal federalism, and estab
lished a decentralised system of responsibilities and competen
tes, but at the same time they opted to avoid unfettered decentralisation, and to ensure an adequate operation of lo
cal authorities with the means of budgetary rules and active participation in the economic policy. It can be interpreted as an atypical phenomenon that the Hungarian sector of self
government, following and implementing the regulatory prin
ciples of the Charter like the Czech and Slovak practice did, became severely indebted, the provision of public services in settlements was compromised, and negative messages were send on public finance as a whole. In order to counterbalance this challenge, debt consolidation has been implemented in the Hungary. At the same time, decentralisation of duties also took place, and duties related to healthcare, facility manage
tment, and education - with the exception of providing kinder
garten care - have been assumed by the state. Furthermore, stringent budgetary regulations has been introduced to pre
vent another indebtedness cycle, and the prerogatives of the State Audit Office’s control were expanded.

To sum it up, a similar regulatory environment does not necessarily mean an operation regulated in the same way, but economic governance must take an active part in it, and re
view the effectiveness of the regulation.

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