

8: HUNGARY

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Overviewⁱ

Hungary's transition had a strong focus on developing the necessary arrangements for constraining the executive within a democratic system of governance, with the creation of the Ombudsman, the Constitutional Court, and the State Audit Office. Hungary also put much emphasis on decentralization. In 1990, local authorities in municipal governments were granted more power and autonomy to take decisions on local matters. Such an emphasis allowed municipal governments to strengthen the process of service delivery to its citizenry.

Although decentralization and administrative streamlining had been fairly successful, the OECD noted in 1998 that Hungary's debt burden was quite substantial: "A fundamental burden on the Hungarian economy is the fact that, besides the inherited external debt, a substantial volume of internal state debt has accumulated over the past years. Measures are being taken to improve the balance of public finances and to eliminate the causes of its decline. The planned reduction of the central budget deficit necessitates a fundamental rethink of the roles and responsibilities of the state, and development of a public sector in line with the capacities of the Hungarian economy." In addition, the OECD noted that "the reduction of the role and responsibilities of the state necessitates rationalization of the activities, responsibilities and institutions that were formerly financed by the state, and the transfer of certain tasks currently performed by the state to non-governmental organizations and/or the private sector." (PUMA 1998b)

Subsequent attention paid to the role and cost of public sector activities have reduced the debt burden significantly and it now plays a less dominant part in determining reform priorities.

Reformers' concerns

Hungary has placed large emphasis on preparing for **accession to the European Union**, and public administration reform and development of administrative capacity across government to be able fully to apply the *acquis communautaire* plays a prominent role in this effort. Harmonization with EU laws and creating a favorable environment for the private sector by means of public sector administrative streamlining are accordingly areas of particular concern within Hungary.

Institutional starting points

Constitution/political system

The present Constitution of the Republic of Hungary was adopted in October 1989. The new Constitution is an amended version of the fundamental law introduced in 1949. The Constitution lays out the fundamental organization structure of the state, protections for human rights, and citizens' rights and obligations. Since the constitutional change,

Hungary has been an independent, democratic country governed by the rule of law as a parliamentary republic. The unicameral Parliament is elected through direct secret ballot and is the primary holder of state power. In practice though it appears recently to have been the Cabinet and particularly the Prime Minister which plays the decisive role. Hungary is a unitary state.

The Hungarian Parliament adopts the Constitution, with any amendment requiring the votes of two thirds of all Members of Parliament. The Constitution has been amended 15 times between 1989 and the end of 1999.

Structure of Governmentⁱⁱ

The president is elected by a majority of the Parliament. The Parliament (*Országgyűlés*) is the central institution of the legislative branch. There are 386 members of the Parliament; 176 elected by majority vote from single-seat constituencies, 152 elected by party list vote (5% barrier) from 20 multi-seat constituencies, and 58 awarded to achieve proportional representation. The Parliament makes its decisions in the form of Acts or Parliament Resolutions. A Resolution can refer solely to the Parliament and its organs but not to citizens.

The Constitutional Court consists of 11 judges who are elected by two-thirds vote of the National Assembly. Members of the Supreme Court are nominated by the President of the Supreme Court, who is nominated and appointed by the President of the Republic, and elected by a two-thirds vote of the National Assembly.

The government of Hungary is comprised of the Council of Ministers, which directs the executive and makes its decisions on its regular weekly meetings. The Prime Minister heads the Council of Ministers. The Prime Minister is nominated by the President, and is elected by majority vote of the National Assembly. The Council of Ministers is recommended by the Prime Minister, and appointed by the President.

The constitution dictates that the executive branch is headed by the Cabinet and as such is the main policy decision-making body. The cabinet consists of the Prime Minister and Ministers (composed of two or more coalition parties represented in Parliament). However, Ministers do not have to be members of parliament themselves, and have equal weighted votes in cabinet decisions.

Decisions of the cabinet may appear in four forms: draft bills; cabinet decrees; ministerial decrees; and cabinet resolutions.

Box 1 Forms of cabinet decisions in Hungary

Draft bills	If subsequently passed by Parliament, draft bills become legal Acts.
Cabinet decrees	These are legally binding decisions and policies of the government. Many cabinet decrees provide the detailed regulations supporting Acts.

Ministerial decrees	Particular ministers issue decrees within the scope of their authority.
Cabinet resolutions	Such resolutions are legally binding only for central government institutions, and determine the objectives and activities to be undertaken by the responsible minister.

Parliament defines the list of ministries. The Government issues decrees regulating the scope of responsibilities and competencies of the ministers and coordinating their activities, and determining the structure of the ministries.

Cabinet committees prepare decisions and are the coordinating and supervisory bodies of the Government. The Government can create standing committees and ad hoc committees.

Box 2 Composition of government in Hungary

Prime Minister	Minister of Justice
Minister of Agriculture and Regional Development	Minister for National Cultural Heritage
Minister of Defense	Minister of Social and Family Affairs
Minister of Economics	Minister of Transport and Water Management
Minister of Education	Minister Without Portfolio for PHARE Program
Minister of Environmental Protection	Minister Without Portfolio in Charge of Civilian National Security Services
Minister of Finance	Minister Without Portfolio in Charge of Prime Minister's Office
Minister of Foreign Affairs	Minister of Youth and Sports
Minister of Health	
Minister of Interior	

The civil service system in Hungary was established by the Act on Civil Service No.: 23 in 1992. Civil servants are those who work in the offices (bureaus) of central and local government. Public servants are employed by other budget organizations. Thus, for instance, teachers, doctors, and nurses in publicly owned schools and health care facilities are public rather than civil servants. The Act on the Legal Status of Public Servants No 32 of 1992 regulates this. The armed forces constitute a third main category of public employees.

An amendment to the Civil Service Act was approved by Parliament in 2001. This amendment introduced a number of significant changes:

- Provision for a significant increase in salaries which will gradually decrease the gap between salaries in the public and private sectors;
- Setting up a small senior civil service consisting of around 300 persons with greatly increased salaries and protection from removal from their positions for a period of five years after appointment;

- Reducing the number of civil servants by around 10% through ceasing to classify support employees such as secretaries, typists, drivers and janitors as civil servants.

State secretaries and deputy state secretaries assist a minister in the performance of his duties. A political state secretary deputizes for the minister and can represent the minister in Parliament at the plenary and committee meetings. A political state secretary holds office until the expiry of the term of the government. A political state secretary may attend the meetings of the Government if required to do so to deputize for the minister, but without any right to vote.

An administrative state secretary, who is mandated for an indefinite period, is the head of the Minister's office. An administrative state secretary may substitute for the minister in the absence of the political state secretary, with the exception of the plenary sessions of the Parliament. An administrative state secretary has three to five deputies, appointed by the minister. A deputy state secretary is responsible for the direct management of one or more departments of the Ministry.

Not all central government personnel work within ministries. There are two other forms of central public administration organizations: "organs with nation-wide competency", and ministerial offices; together with regional and local and deconcentrated organs of central government bodies.

"Organizations with nation-wide competency" have responsibility for carrying out specific tasks in a given field of activity. They may be established by Parliament or by the government. In most cases, they are immediately responsible to the Cabinet rather than to an individual member of the government (although some are immediately accountable to Parliament). The most important such entities are:

Central Statistical Office;
 National Technical Development Committee;
 Office of Reparation;
 Office for National and Ethnic Minorities;
 National Office for Standards;
 National Patents Office;
 National Office of Nuclear Energy;
 National Office of Physical Education and Sport;
 Governmental Control Bureau.

Ministerial offices have no separate legal powers from those of the ministry. They are units held at arms length from the mainstream organizations of ministries in order to implement specific policies efficiently.

Hungarian settlements are classified by law into villages, towns, cities of county status, and the capital and its districts. A total of 3,158 local governments are operating in Hungary in 19 counties.

Box 3 Local government in Hungary

type	number	percentage of the population
villages	2,899	36.5 %
towns	214	26 %
county towns	22	19.9 %
Budapest, comprised of 23 districts and having a special legal status	1	17.6 %

There is no hierarchical relationship between county and local municipalities. The difference is in their scope of activities. County level municipalities provide public services that are not provided by the local municipalities.

The municipal system is fragmented. About 55% of the municipalities represent settlements with less than a thousand citizens. Many consider that small local governments are ineffective and likely to be less professional than their larger counterparts. However, the local communities of small settlements seem to be more satisfied with the activity of their municipality than those of larger settlements ("Governance and Public Administration in Hungary" 2000).

Central agencies and reform management

Policy development is normally undertaken at the Ministry level, although there have been at various times a number of entities responsible for cross sectoral policy development, including the Commissioner for the Modernization of Public Administration in the Prime Minister's Office (now replaced by the Public Administration and Regional Policy Department in the Prime Minister's Office) and the Commissioner for Ethnic Minority Issues.

At the ministry level, policies generally take the form of decrees and are often high quality in a legal sense, but occasionally impractical. Each ministry has a strategic planning and policy research division mainly comprised of lawyers and generally called the 'Law Formulation Division'. These are supplemented by sectoral research institutes (although the number of these has been decreasing over recent years) but these are generally staffed by technical specialists who might not provide the necessary strategic overview.

Policy management arrangements are determined by the Cabinet Standing Order No 12 of 1998. This requires that both the public sector and interest groups are widely consulted on draft policies before they are submitted to Cabinet. The process of policy co-ordination itself is quite efficient and undertaken by the Prime Minister's Office. However, this process does not include validation of whether the policies are consistent with national strategies, or whether they contribute towards the mandate of the

government. Although the State Office of Control (KEI) in the Prime Minister's Office has the mandate to monitor government wide performance, this has tended to be in relation to specific areas such as corruption or statutory compliance.

Cabinet Standing Orders require that at least two options should be evaluated and submitted to Cabinet and that policies should be submitted in two stages: first to define the overall policy framework and second to submit the detailed policy (generally legislation). In reality, the initial framework is often overlooked and Cabinet presented simply with a draft decree.

The Administrative State Secretaries meeting, chaired by the Administrative Secretary in the Prime Minister's Office, screens submissions to Cabinet and decides which papers will be abandoned, reworked or submitted to the Cabinet. This meeting is considered highly efficient in ensuring that the Cabinet only reviews proposals that have the full agreement of all ministries. In reality around 75% of the proposals viewed at the Administrative Secretaries meetings are submitted directly to the Cabinet, with the remainder generally returned to the responsible ministry for rework. This is generally owing to disagreement, and the need for greater consultation, or the need for greater cost and/or impact assessment to be undertaken.

The Government Agenda is prepared on a six monthly basis and co-coordinated by the Legal Department (secretariat) in the Prime Ministers Office. Agenda items and decisions from previous meetings, including actions are circulated to Ministers, Administrative and Political State Secretaries, within twenty-four hours of the cabinet meeting. Ministers are then required to respond, normally, within 15 days, although in practice timescales can be much shorter, around 5 days. The Prime Minister's Office Legal Department has bespoke Lotus based software to record and track decisions, in order to inform and chase ministries that are late in submitting their proposals.

At the ministry level some State Secretaries, such as Education, have a secretariat department to co-ordinate the paperwork and track policy decisions. There are similar secretariats in each division, overseen by a Deputy State Secretary.

The Cabinet Standing Orders state that it is necessary for appropriate consultation with interest groups to occur in policy formulation. In practice, Hungary has a strong tradition for open consultation and some Governments have perhaps displayed a tendency to over-consult, extending the policy development period. Interest groups have recourse to the Constitutional Court for questioning the legality of a decision. There have been a number of examples recently of cases where Ministries have placed their initial proposals on their website, to aid the process of consultation, both with other ministries and with external stakeholders/interest groups.

Key central agencies include the Prime Minister's Office (PMO). The latter has responsibility for assisting the Prime Minister to develop policies, strengthening and coordinating the activities of the Government and ministries, organizing government meetings and circulating decisions, and supporting the work of the ministers without

portfolio and political state secretaries of the Prime Minister's Office. The administrative head of the PMO is a minister without portfolio. Under the PMO, the Cabinet Office which is headed by a Political State Secretary, provides day-to-day assistance to the Prime Minister.

The PMO includes eight Political State Secretaries who report directly to the Prime Minister. They oversee special activities of the PMO including the development of policy for administrative reform.

The Government Control Office (GCO) has been performing efficiency assessments (often with an anticorruption perspective) since 1995. These efficiency assessments are aimed to audit the efficiency of the implementation of major public investment projects and programs, the spending of budgetary funds and the performance of government functions. These assessments differ from traditional financial/economic and compliance assessments in that they are performed by expert groups comprised of civil servants of ministries, often in co-operation with professionals of business or non-profit oriented organizations affected by the subject of the audit. GCO requires the audited organizations to prepare action programs concerning the implementation of the proposals made in the course of the efficiency assessments.ⁱⁱⁱ

Performance and policy implementation efficiency reviews and audits are carried out by the National Audit Office (NAO).

Politicization

In principle, Hungary differentiates between political appointees and professional civil servants. The minister and the political state secretary are clearly political appointees. Their functions, rights and obligations are regulated in a separate law. The Civil Service Law defines the types of political advisors that may work in a ministry. Political advisors should not represent more than one per thousand employees and are employed for only the term of the minister.

However, strong anecdotal evidence exists, supported by some statistical data, that the public managerial positions are the spoils of party politics, and that managerial positions greatly depend personally on the minister. Only one out of ten administrative state secretaries has spent more than 4 years (a government term) in office. In fact, 61% of the administrative state secretaries have spent less than two years in office. The Civil Service Act makes such practices possible given that it allows managerial positions to be terminated any time without reason.

The recent amendments in 2001 to the Civil Service Law and the provision to establish a 'Senior Civil Service' of a few hundred senior civil servants who would hold this status for several years, would have a significantly greater salary, and could not be removed by the next government may turn out to have been a key development in securing depoliticization

Reform activities

Summary

About every second year the government adopts a resolution on the modernization strategy and on the necessary next steps. The resolution is published in the Hungarian Gazette. Some of its elements are more actively "advertised" by the public relations division of the Prime Minister office or that of the ministries. In practice, however, the media and the public have taken little interest in public administration reform, regarding it as a technical issue with minimal and indirect impact on everyday life.

There are some nascent attempts to introduce public service standards into central government institutions. This will entail setting monitorable standards for key services. A customer service and information center has been established in one county. Local governments are also experimenting with this approach in four areas (public education, health, social/welfare and communal services), drawing from experience with the Citizens' Charter in the United Kingdom (PUMA 1998b). Further development of this approach will require enhanced managerial flexibility coupled with increased accountability. This is somewhat at odds with the highly legalistic tradition.

There are also some initial moves towards increasing transparency and towards requiring declarations of assets for officials in senior or sensitive positions.^{iv}

Reforms to the organizational structure of government

Hungary has placed considerable reform weight on the decentralization process. In 1990, local authorities and municipal governments were granted more autonomy and this has led to improvements in service delivery. However, the share of local governments in the total budget has decreased since the establishment of local governments.

The roles of the central agencies increased after the election in 1998. The Prime Minister's office became a more powerful player in policy management and progress chasing.

Cutting back the programs undertaken by government

Many large service-providing entities have been privatized since the beginning of the transition process, including the energy sector. However, there are few private providers in health care or education, although some church groups and other non-profit organizations are playing an increasing role. Local governments vary widely regarding their use of market solutions for public service delivery, although private contractors usually provide such services as garbage collection.

Civil service and personnel reforms

Until the amendments to the Civil Service Law approved in 2001, the system differentiated between four categories of civil servants. Officials with at least a bachelor

level degree were placed in Class I, officials with secondary school education in Class II, clerical workers, such as typists in Class III, and manual workers in Class IV. Each class contained several grades. A civil servant was (and is) typically promoted to the next grade after each three years of working experience in public administration. The 2001 amendments stipulated that now only officials in Class I and Class II would be classified as civil servants and covered by the Civil Service Law.

Hungary has attempted to make a number of significant reductions to its civil service, with a three percent reduction from 1996 to 1997, for example. In 1995, the government ordered 15 % reductions in ministry employment, to be achieved in two tranches, but in practice this level of reductions was not really attained, nor sustained if actually attained. Employment reductions could not be demanded of the local governments, but budget transfers were reduced from 8.8% of GDP in 1994 to 4.6 % in 1997.

Presently the number of civil servants is approximately 112,000 (although this will reduce by around 14,000 once the reclassification of Class III and Class IV civil servants as provided for in the amendments to the Civil Service Law approved in 2001 have been fully implemented. There have not been dramatic changes in the number of civil servants in the past decade, except in 1995, when the attempt (largely unsuccessful) was made to decrease the number of civil servants at the central government level 15%. Since then the number of civil servants has been modestly but gradually increasing, partly to meet the transitional and ongoing requirements for EU accession.

Pay budgets are devolved to over 3000 employer institutions, which are able to use savings from vacancies to raise wages up to a limit of 20 percent of a given civil servant's salary. Thus, there is a strong incentive for managers to reduce staff numbers and retain vacancies. There is a concern with the low level of public sector pay compared to the private sector, however. Civil service pay in 1997 was 10% less than the private sector average, and public sector pay was 39% less. The pay at the local government is 40% lower than the national average, compared to 17 percent less in the central government.

The 1992 Civil Service Law provide the legislative underpinning for a merit based civil service system. This was the first such comprehensive law in the region. The Act introduces all the relevant elements of a merit based civil service system including political neutrality and protection from political interference, a strictly defined career and remuneration system, personnel appraisal system, and training. Since 1992, the Act has been amended several times.

The Government in 2001 moved to amend the law in order to make the civil service career system more closed. This would restrict the possibilities for lateral entry and place a strong emphasis on career development. This is referred to as a 'civil service life career' system.^v The intention would be to offer stability and predictability of expectations for each civil servant, with each key phases from entry into the service through to retirement guaranteed and financed by the state. Expectations and arrangements for remuneration, benefits, and continued training would be clarified. It would be accompanied by some

reduction in the scope of the legal civil service, limiting it to managers and the personnel carrying out the core activities of the public administration in exercising the state power.

The changes, if introduced, would be accompanied by some reduction in the discretion used in recruiting senior categories of personnel and a greater reliance on competitive procedures. Training would emphasize those areas of administration that are related to Hungary's accession to the European Union. Currently responsibility for training and staff development policies is scattered. For example, both the Public Administration and Regional Policy Department in the Prime Minister's Office and the Ministry of Interior are responsible for aspects of training policy.

Budget process changes

The 'Law on the Public Finance System', enacted in 1992 and subsequently modified and supplemented, regulates the budget preparation process in Hungary. The organic budget law fixes strict deadlines for certain steps in the planning stage.

Budget preparation can be divided in two stages: the development of budgetary guidelines and the preparation of a detailed budget draft for parliamentary approval. The first stage ends with the formal approval of the guidelines by the parliament in June, and the second one when the draft is submitted to parliament by the end of September. The first stage begins in January when the Ministry of Finance starts to elaborate a proposal for the budgetary guidelines and the spending ministries at the same time commences to prepare their budget requests. An amendment to the organic budget law in 1999 now obliges the parliament to pass a resolution on the budgetary guidelines by 15 June. The budgetary guidelines contain the economic program of the government, information on the underlying macroeconomic assumptions and the main trends of the budget policy. This covers the next three years and sets out non-binding fiscal targets for the total expenditures and the overall deficit of the government, as ratios to GDP.

Hungary has moved to double-entry book-keeping which is generally followed by all public organizations.

E-government

The government established the position of the "Government Commissioner for Information Technology" within the PM's Office in 2000. The Commissioner is responsible for the projects aimed at establishing an e-government and e-local government system.

Reform outcomes

Hungary has carried out a series of centrally designed and coordinated programs to streamline administrative laws even as it has continued to maintain a large and active government involvement in the economy.^{vi} The aim of this modernization of Hungary's administrative system was to establish an executive branch that serves the democratic

political system and the rule of law, and to provide an **appropriate administrative environment for a market-based economic system**. Government effectiveness in Hungary is deemed to be quite high, and was ranked first out of 20 transition countries in the EBRD Governance Index (World Bank 2000, p.50).

Three main stages of the modernization process can be identified. The "great adjustment" took place roughly in 1989-1990. The adjustment created a democratic political system and a market economy. Great changes were necessary and perhaps made possible partly due to political euphoria and strong initial consensus among the political actors. The subsequent period was one of accumulating experience. Now, the agenda includes a focus on addressing the consequences of the earlier reforms. The overly decentralized administrative system is regarded by many as ineffective, and early zeal in deregulation and entrepreneurial encouragement has given way to a more measured concern to distinguish between entrepreneurial and criminal activities.

i See also: (PUMA 1998b)

ii Source: <http://www.polisci.com/world/nation/HU.htm>

iii See "Examples of Recent Public Management Initiatives in Hungary" at:

<http://www.oecd.org/puma/focus/compend/hu.htmEthics>

iv See: www.kancellaria.gov.hu/hivatal.index_e.html.

v See: <http://www.oecd.org/puma/focus/compend/hu.htm#Ethics>

vi As determined by the recent EBRD Business Environment and Enterprise Performance Survey, Hungary has one of the most active governments, ranking 3rd (out of 20 countries) in the State Intervention Index (World Bank 2000, p.57)