

SUBNATIONAL DOING BUSINESS

Doing Business in the European Union 2017: Hungary



Doing Business in the European Union 2017: Bulgaria, Hungary and Romania report is the latest in a series to expand the benchmarking exercise to secondary cities in one or more EU member states—following reports in Italy, Poland and Spain—so as to give a more complete representation of the business and regulatory environment. It compares business regulations affecting domestic firms in a total of 22 cities, including 7 cities in Hungary. Regulations relevant to five stages in the life of a small to medium-size firm are measured: starting a business, dealing with construction permits, getting electricity, registering property, and enforcing contracts. In each of

these areas, the report highlights good practices that can be leveraged to empower local entrepreneurs and firms.

DOING BUSINESS IN HUNGARY

Doing Business in the European Union 2017: Bulgaria, Hungary and Romania goes beyond the largest business cities—Sofia, Budapest and Bucharest—to identify good regulatory practices, uncover administrative bottlenecks, and recommend reforms based on examples from the country and the other 187 economies measured by the *Doing Business* project.



The report covers 7 Hungarian cities: Budapest, Debrecen, Győr, Miskolc, Pécs, Szeged, and Székesfehérvár. The subnational study was

requested and funded by the European Commission, Directorate General for Regional and Urban Policy. It was implemented with the support of the Ministry for National Economy of Hungary.

MAIN FINDINGS

- **Hungarian entrepreneurs face different regulatory hurdles depending on where they establish their businesses.** Implementation of business regulations as well as efficiency of public agencies vary within the country. Largest differences can be seen in contract enforcement, and dealing with construction permits.
- **Hungarian cities outperform the European Union average in property registration and contract enforcement, and Pécs and Szeged also do so in dealing with construction permits.** However, there is still room to improve in starting a business and getting electricity. Business startup is relatively fast but expensive, entrepreneurs pay nearly twice as much as in the EU average of 3.7% income per capita. Meanwhile getting electricity takes 5 months longer on average.
- **No single city excels in all five areas measured.**

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It is easier for Hungarian entrepreneurs to start a business in Debrecen, Miskolc and Pécs, where lawyers charge lower legal fees for completing incorporation documents. Dealing with construction permits is most efficient in Pécs and Szeged leads in getting electricity. Registering property and enforcing contracts are both easier in Debrecen. It takes four procedures and only 8.5 days —2 to 10 days faster than other cities—, thanks to the speed of the local offices of the Land Administration Department (Földhivatal). In Debrecen court efficiency is boosted by a series of court management techniques which include strict enforcement of deadlines and additional weekly hearings.

- **There are opportunities to make tangible improvements by replicating good practices found in the cities measured.** To improve the efficiency in commercial dispute resolution, courts can look to Debrecen, Miskolc and Székesfehérvár, which outperform Lithuania —the European Union’s best performer— thanks to low costs and speedy trials of 14 months or less. Pécs can share their experience in the issuing of building permits and occupancy permits that each take 30 and 35 days respectively—more than 20% faster than in the other cities, on average. Improve the efficiency of connecting a warehouse to the electrical grid can be achieved by learning from Székesfehérvár, where clearances for the connection process are fastest and achieving Szeged’s reliability of supply. Meanwhile in Budapest —the largest business city of the country—, an efficient Land Registry processes more property sale transactions than all six other Hungarian cities combined. It does so at a faster rate than Pécs, where volumes are low.

- **Hungary leads the way in e-government services.** All new companies have been registered electronically since 2008, when electronic registration was made mandatory. Information technology systems have been put in place in the courts, where electronic filing is mandatory for commercial lawsuits and there is a well-functioning electronic case management system. In addition, electronic platforms are in place for construction permitting and property registration. But the use of the systems for business incorporation and property transfers is restricted to

legal professionals or institutions such as banks, driving up the costs of these transactions.

- **Compared with Bulgarian and Romanian cities, the Hungarian cities have a stronger performance in four of the five areas measured.** Hungarian cities take the first and second spot in 4 indicators: Dealing with construction permits, getting electricity, registering property, and enforcing contracts. But they lag behind in starting a business—because of high costs (almost twice the EU average) and the highest paid-in minimum capital requirement in the EU.

- **Despite strong performance, Hungarian cities still have room for improvement.** To make business start-up easier, Hungary could reduce or eliminate the paid-in minimal capital. It could also follow Portugal’s example and make the use of legal professionals optional for companies using standard incorporation documents. In dealing with construction permits, a relatively high number of procedures that take place after construction, seven on average (excluding the utility connection)—from three different agencies. Combining these inspections into one joint event would simplify the postconstruction phase. The electricity connection process could be made faster and more efficient by tightening the time limits for each agency to issue its clearance and by introducing a silence-is-consent rule, so that when the approving authority fails to respond within the given time frame, approval is automatically granted. To make registering property easier, the electronic platform for property transfers (TakarNet) could be opened to the general public. Today the platform is accessible only to authorized users (bailiffs, notaries, lawyers, financial institutions), for a fee. Eventually authorities could make the use of lawyers optional in property transfers and put the entire process online. Introducing pretrial conferences can increase trial efficiency. Held after a case is filed, these informal meetings are aimed at clarifying and narrowing the issues in dispute and advancing the negotiations of the parties toward a settlement.

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