

# Executive Summary

## A Comprehensive Assessment of Regional Business Climate

The Subnational B-READY in the European Union (EU) series is a project led by the World Bank in partnership with the European Commission's Directorate-General for Regional and Urban Policy (DG REGIO) aimed at assessing and enhancing the business environment across different regions within the EU. This year, the Subnational B-READY series cover 40 cities in six EU Member States—Bulgaria, Croatia, Hungary, Portugal, Romania, and the Slovak Republic—covering 36 European regions. This phase builds upon the World Bank's previous Subnational studies conducted in these countries between 2017 and 2022. More broadly, the former Subnational in the EU reports assessed business environments in Bulgaria, Hungary, and Romania (2017); Croatia, the Czech Republic, Portugal, and the Slovak Republic (2018); Greece, Ireland, and Italy (2020); Austria, Belgium, and the Netherlands (2021); and Denmark, Finland, and Sweden (2022), covering 115 locations across 16 EU Member States. These studies have laid the groundwork for identifying regulatory gaps and sharing best practices to strengthen the EU's regional economic cohesion. As part of an ongoing effort, the team is launching the second round of measurements, which will cover over 60 cities from the Czech Republic, Greece, Ireland, Italy, Poland, and Spain. A third round is set to begin in 2025, expanding the assessment to more EU Member States.

### Objective

The primary objective of the Subnational B-READY studies is to identify and address regional disparities in regulatory environments and to promote reforms that foster private sector growth, job creation, and sustainability. The Subnational B-READY series delivers a rigorous, data-driven analysis of business climates at the local level, offering actionable insights for policy makers. By examining key areas of the life cycle of the firm—Business Entry, Business Location (including Building Permitting, Environmental Permitting, and Property Transfer), Utility Services (Electricity, Water, and Internet), Dispute Resolution, and Business Insolvency—this report offers a road map for improving administrative processes and

regulatory frameworks that directly affect businesses at the local level in seven Hungarian cities: Budapest, Debrecen, Győr, Miskolc, Pécs, Szeged, and Székesfehérvár.

### Intended Audience

This Subnational B-READY report series targets a wide audience, from national to local government officials, and from private sector stakeholders to development agencies, policy makers, and researchers. The findings are meant to help these groups identify best practices, reduce regulatory bottlenecks, and foster a more unified and efficient business environment across regions. Additionally, the collected data serve as an effective tool for local governments, enabling them to benchmark and track performance over time vis-à-vis not only national standards but also international benchmarks. The comprehensive underlying country-specific datasets provide ample opportunities for further research in the area of private sector development and growth.

### The Importance of Regional Data

An insight into regional dynamics allows an economy to be more inclusive and sustainable in its economic growth. The Subnational B-READY reports offer governments the evidence needed to design targeted reforms, allowing regions to enhance their business climates and bridge performance gaps. It is hoped that the key findings will encourage peer learning across regions by disseminating good practices observed in high-performing cities. It is expected that such a sharing of best practices would lead to cross-regional improvements and eventually spur competitiveness across the EU.

By highlighting both achievements and areas for improvement, these assessments aim to support national and regional policy makers in driving meaningful reforms. In this way, the project exemplifies the shared commitment of the World Bank and DG REGIO to enhancing economic cohesion and resilience within the EU through rigorous analysis and evidence-based policy recommendations.

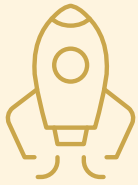
# Key Findings

- ▶ The seven Hungarian cities benchmarked by this study have strengths in different areas. Miskolc leads in two areas: Dispute Resolution and Business Insolvency. Obtaining building permits and environmental clearances for construction and transferring property (Business Location) is easiest in Budapest, while Debrecen leads on Utility Services (electricity, water, and internet). Győr, despite not performing at the top of any area, is the runner-up on three topics: Business Location, Utility Services, and Business Insolvency.
- ▶ City performance varies notably across areas. For example, Budapest has room for improvement on Business Insolvency, Utility Services, and Dispute Resolution. Similarly, Debrecen has the second to lowest score on Business Location. Pécs and Szeged register a good performance on Business Location and Dispute Resolution, respectively, but Pécs lags behind on Dispute Resolution while Szeged trails on both Business Location and Utility Services. The differences in strength mean all seven cities have something to share with and learn from each other.
- ▶ Hungarian cities have the highest average scores in the areas of Business Entry and Business Location, 89.9 and 83.2 out of 100, respectively. These are also the areas registering the smallest performance gaps across cities, indicating that company incorporation as well as property transfer and building and environmental permitting, subcomponents of the Business Location topic, are implemented with equal effectiveness across the measured regions.
- ▶ The Utility Services topic, which comprises electricity, water, and internet, has the weakest country average score, 64.8. The country also has room to improve on the Dispute Resolution and Business Insolvency topics, where the average city scores are 75.6 and 79.4 points, respectively.
- ▶ Dispute Resolution is the area registering the largest gap across all measured areas: the difference between the worst (Pécs) and best (Miskolc) performers on this topic is eight points.
- ▶ Hungarian cities also have substantial room to learn from each other on the Utility Services topic, where the difference between the best (Debrecen) and worst performers (Szeged) is 5.3 points.
- ▶ Hungarian cities tend to perform better on the strength of the Regulatory Framework (Pillar I) and on Operational Efficiency (Pillar III), with the significant exception of the Utility Services area, where the Operational Efficiency pillar is the worst among the measured areas.
- ▶ Gaps in the delivery of Public Services (Pillar II) exist, especially in the Business Location and Dispute Resolution areas. In other words, while regulations are in place and on par with international good practices, the country could improve the services needed to implement such regulations.
- ▶ Although Hungarian cities adhere to a uniform regulatory framework and their public services largely have the same level of quality, how regulations are implemented in practice, as well as the efficiency of public agencies, varies within the country: most of the cross-city variation identified by this study is driven by differences in the Operational Efficiency of business regulatory processes, with subnational variance on Pillar III existing on all topics except Business Entry.
- ▶ Building permitting takes 76 days in the fastest of the seven measured cities (Győr) but 122 days in the slowest (Szeged). Similarly, on registering property, where the main procedural steps are identical across cities, the time required to complete the process varies from 16 days (as in Székesfehérvár) to 55 days (as in Szeged), over three times longer, depending mainly on how long it takes to register the sale deed at the land registry.

- ▶ **Time, cost, and number and frequency of service interruptions vary considerably on the three Utility Services measured (electricity, water, and internet). As an example, obtaining electricity takes 295 days in Miskolc, while clients in Budapest and Győr wait more than two additional months (360 days) for the same type of electricity connection.**
- ▶ **Subnational differences also exist on the two topics where local courts play a crucial role: Dispute Resolution and Business Insolvency. Specifically, of the seven cities, only Budapest and Debrecen have specialized commercial divisions within existing regional courts, and the time required to resolve a commercial dispute varies from 420 days (as in Szeged) to 605 days (as in Győr). On Business Insolvency, subnational differences are due mainly to liquidation proceedings, as local courts face different workloads and internal organizational issues.**

## Areas of Improvement

### Business Entry



Areas of improvement for business entry in Hungary include eliminating the start-up capital requirement for limited liability companies, making third-party involvement optional, and reviewing the requirement to register and pay fees for the chamber of commerce. The removal of the minimum capital requirement aligns with trends in other EU countries and around the globe. Research also suggests that the requirement has limited value for protecting creditors. Optional third-party involvement would help to reduce costs associated with registration, particularly benefiting smaller businesses. Lastly, Hungary could consider reviewing the mandatory registration with the chamber of commerce and instead adopt a voluntary approach.

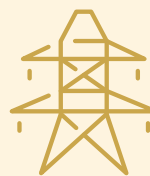
### Business Location



It is essential to introduce out-of-court resolution mechanisms to enhance the environmental permitting process, which could streamline dispute resolution and improve efficiency in handling environmental disagreements. Additionally, Hungary could benefit from better integrating and facilitating public access to the environmental permitting process. In terms of property transfer, it is essential to integrate Land Registry databases with those of

other agencies, such as the Trade Registry, Tax Authority, and Beneficial Ownership Agency. Additionally, Hungary should publish yearly statistics on completed transactions and land disputes, along with sex-disaggregated data on property ownership, to enhance transparency. Moreover, the country should implement efficient mechanisms for resolving land disputes. In terms of building permits, it is essential to consolidate requirements and regulations for building permits and streamline final inspections and approvals of completed construction.

### Utility Services



A major area for improvement in the electricity space in Hungary is implementing and strengthening online platforms for applying for electricity connections. While some cities have implemented e-platforms for submitting applications for new connections, other cities have yet to follow suit. Additionally, to be effective, the implementation of online platforms should be accompanied by customer assistance, online guidelines on how to operate the platforms, and an awareness campaign. Furthermore, there is a need to enhance transparency and accountability through the collection and publication of statistics. Data-driven reporting can help entrepreneurs and utilities set clear and realistic expectations. Data reporting could also serve as an indirect accountability measure to incentivize utilities and public administrations to improve their

performance. Lastly, Hungary can boost the efficiency of the process of getting an electricity connection by implementing a legislative framework that introduces joint planning, imposing stricter time limits for permit decisions, and adopting a risk-based approval approach.

Regarding water, standardizing the process for applying for new water connections nationwide is one area for improvement. Szeged offers a streamlined approach, where the utility sends connection proposals directly to applicants within a regulated 15-day time frame via the e-platform. Implementing this approach nationally would enhance efficiency, standardization, and predictability across Hungary. Accessing water tariffs and understanding how they are determined can be challenging for customers. Currently, tariffs are not readily accessible by the public, and oversight by the national regulator is lacking. The regulatory authority should mandate water suppliers to publish consumption tariffs online to enhance transparency and improve the country's regulatory framework and standards for public services. Lastly, customers wishing to get a water connection in Hungary should be able to hire their own contractors, instead of waiting for utilities to arrange it for them. This would not only speed up the process but also free up resources for utilities, enabling them to work on other priority tasks.

## Dispute Resolution



One significant area for improvement in Hungary is the establishment of small-claims courts or procedures. Commercial disputes can be burdensome for small businesses in terms of time and cost. Small-claims courts or procedures, which Hungary currently lacks, typically involve shorter deadlines and simpler rules, reducing costs for involved parties. Furthermore, there is no legal framework setting a maximum number of adjournments in commercial litigation. Implementing such limits, as recommended by the Committee of Ministers of the Council of Europe, would enforce stricter timelines and enhance efficiency in commercial litigation. Additionally, making court judgments accessible in a searchable database at no cost would enhance judicial transparency. Ensuring that all commercial judgments from first-instance courts are available for entrepreneurs and legal practitioners would increase visibility of case outcomes and bolster public trust, thereby enhancing investor confidence in the application of regulation.

## Business Insolvency



Although Hungarian insolvency procedures comply with the majority of internationally recognized good practices, there is room for improvement in some key areas. Firstly, transparency in the selection of insolvency administrators requires an up-to-date list to ensure the fairness of the process. Additionally, improving technological infrastructure in local courts is crucial to ensure that all proceedings run effectively, particularly for conducting virtual hearings. The timely publication of judgments, along with the availability of disaggregated statistics, are important for expediting insolvency proceedings and increasing transparency. Further adoption of training programs, involving both Budapest and local courts, is also necessary to enhance competency across regions. Lastly, steps should be taken to enhance the transparency of asset transfers, by considering the implementation of more rigorous oversight for debtors in the process of selling or donating assets. Experts reported that, on several occasions, reorganization proceedings might be used in order to delay the liquidation of the company. Issues in terms of transparency (debtors trying to sell/donate assets artificially to a selected pool of creditors before declaring insolvency, not complying with the *par condicio creditorum* principle), have been reported anecdotally. This could involve the introduction of more robust monitoring and reporting systems.

Table 1. Summary of Potential Opportunities for Regulatory Improvement in Hungary

Topic	Areas for Improvement	Relevant Stakeholders
Business Entry	Eliminate the start-up capital requirement for limited liability companies	<ul style="list-style-type: none"> <li>Ministry of Justice</li> </ul>
	Make third-party involvement optional	<ul style="list-style-type: none"> <li>Ministry of Justice</li> <li>Courts of Registration</li> </ul>
	Consider making the requirement to register with the Chamber of Commerce voluntary	<ul style="list-style-type: none"> <li>Hungarian Chamber of Commerce</li> </ul>
Business Location	Building Permitting	
	Consolidate requirements and regulations	<ul style="list-style-type: none"> <li>Prime Minister's Office</li> <li>Ministry of Construction and Transport</li> </ul>
	Consolidate final inspections and approvals upon completion of construction	<ul style="list-style-type: none"> <li>Prime Minister's Office</li> <li>Ministry of Construction and Transport</li> <li>County-level government offices</li> <li>Utility companies</li> </ul>
	Environmental Permitting	
	Consider incorporating out-of-court mechanisms	<ul style="list-style-type: none"> <li>Prime Minister's Office</li> <li>Ministry of Energy</li> <li>National Waste Management</li> <li>Government Office of Pest County</li> <li>Department for Environment and Nature</li> </ul>
	Further integrate and facilitate public access to the environmental permitting process	
	Property Transfer	
	Integrate Land Registry databases with the databases of other agencies	<ul style="list-style-type: none"> <li>Department of Land Administration (<i>Földhivatal</i>)</li> <li>National Tax and Customs Administration (NAV)</li> </ul>
	Publish annual statistics on completed transactions and land disputes, as well as sex-disaggregated data on ownership	<ul style="list-style-type: none"> <li>Department of Land Administration (<i>Földhivatal</i>)</li> </ul>
	Introduce mechanisms for dealing efficiently with land disputes	
Utility Services	Electricity	
	Strengthen and implement online application platforms	<ul style="list-style-type: none"> <li>Distribution utilities</li> </ul>
	Increase transparency and accountability by collecting and publishing statistics	<ul style="list-style-type: none"> <li>Hungarian Energy and Public Utility Regulatory Authority (MEKH)</li> <li>Distribution utilities</li> <li>Municipalities</li> <li>Suppliers</li> <li>Government offices</li> </ul>
	Streamline the requirements for getting electricity	
	Water	
	Expedite the process to obtain a new water connection by reducing the number of approval steps	<ul style="list-style-type: none"> <li>Ministry of Construction and Transport</li> <li>Water utilities</li> </ul>
	Provide clients with the option to delegate the entire connection process to the utility	<ul style="list-style-type: none"> <li>Hungarian Energy and Public Utility Regulatory Authority (MEKH)</li> <li>Water utilities</li> </ul>
	Increase transparency and regulation of water tariffs	
Dispute Resolution	Introduce small-claims courts or small-claims procedures	<ul style="list-style-type: none"> <li>Ministry of Justice</li> <li>National Court Authority</li> </ul>
	Introduce legal limits for adjournments	
	Publish court judgments	

**Table 1. Summary of Potential Opportunities for Regulatory Improvement in Hungary**

Topic	Areas for Improvement	Relevant Stakeholders
<b>Business Insolvency</b>	Increase transparency regarding active insolvency administrators	<ul style="list-style-type: none"> <li>• Ministry of Justice</li> <li>• National Office for the Judiciary (OBH)</li> <li>• National Judicial Council</li> <li>• National Association of Liquidators and Assets' Supervisors (RFE)</li> </ul>
	Improve technological infrastructure in local courts	
	Ensure up-to-date publication of judgments	
	Ensure transparency of statistics at all levels	
	Implement insolvency training programs at a local level	
	Ensure a fair and equal treatment of all creditors	

Source: Subnational Business Ready