The Crucial Role Of Regular Public Road Financing

The Case Of Hungary

Ágnes Orsolya Kiss
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The negative effects of **low** and **unstable** road financing

- economic development,
- state’s fiscal revenues.
Analysing the Public Road Expenditures

• A road fund was established in 1989 collecting roughly **10% of the retail fuel price as an earmarked tax.**

• The Government abolished this road fund in 1999, with the goal of restoring budgetary unity and control of public spending by Ministries having responsibilities for monetary and fiscal policy.

• Therefore financing public roads became highly dependent upon short term priorities and **annual budgetary reallocation of public resources.**
Analysing the Public Road Expenditures

Financing public roads operation (winter operation, road markings, signal lights), maintenance (clearing, scraping or treating) and construction costs

![Graph showing the costs of operation, construction, and maintenance from 1998 to 2007.](image)

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Comparing realized and necessary expenditure on the operation, maintenance and construction costs
Domestic Market Environment

The number of companies by the number of their employees

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unknown</td>
<td>87</td>
<td>107</td>
<td>118</td>
<td>130</td>
<td>180</td>
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<tr>
<td>Small- and medium-size companies</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Under 10 person</td>
<td>671</td>
<td>707</td>
<td>786</td>
<td>874</td>
<td>887</td>
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<tr>
<td>10 - 49 person</td>
<td>140</td>
<td>141</td>
<td>159</td>
<td>169</td>
<td>154</td>
</tr>
<tr>
<td>50 - 99 person</td>
<td>16</td>
<td>20</td>
<td>17</td>
<td>20</td>
<td>29</td>
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<tr>
<td>100 - 249 person</td>
<td>11</td>
<td>12</td>
<td>11</td>
<td>8</td>
<td>7</td>
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<tr>
<td>Total</td>
<td>925</td>
<td>987</td>
<td>1088</td>
<td>1201</td>
<td>1257</td>
</tr>
</tbody>
</table>

| Large companies      |      |      |      |      |      |
| 250 - 499 person     | 4    | 5    | 5    | 3    | 4    |
| 500 - 999 person     | 1    | 1    | 1    | 3    | 3    |
| Total                | 5    | 6    | 6    | 6    | 7    |
| Total                | 930  | 993  | 1094 | 1207 | 1264 |

➢ The number of small and medium-size companies is constantly increasing.
Adapting Strategies to the Hectically Changing Market

• Hectic government orders induces the need for **rapid changes of the capacities** (the personal and instrumental).

• The labour force is employed in a smaller-than-necessary number.

• Working with **temporary hired workers**, or sub-contractors.

Danger: **employment without registration increase.**

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The factors **regurgitated** into the national budget:

- After every **EUR 3.3 Mio** of net expenditure on road financing approximately **EUR 0.2 Mio** is paid into the budget **instead of** **EUR 0.66 Mio** (due to the illegal labour, carousel fraud, legal reduction factors).

Positive effect on **employment**:

- **EUR 3.3 Mio extra** spending would create jobs for minimum **34** persons or maximum **108** persons (varying by road categories and the type of work).
Relationship Between Public Roads Expenditures and External Costs

Variation in **external cost** depending on expenditure at road maintenance

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Non-regular and insufficient road financing cause losses for the society by:
- lack of positive influence on economic growth,
- less fiscal revenues,
- extra external costs.

**Long-term** and **stable** financial conditions are crucial!
THANK YOU FOR YOUR KIND ATTENTION!
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