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## Municipal Bond Boom in Hungary: Focusing on the Analysis of Local Financial Management

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Gábor Kovács

The drastic increase in volume of local government debt in Hungary started in 2006. My hypothesis assumes that a supposable improvement in local municipal financial management might resulted in the spread of bond issue, which in Hungary is still considered innovative. The paper is aimed at examining factors that might have been behind indebtedness, and tries to separate the effect of internal and external factors. Under the notion "internal factors" I mean whether potential issuers are adequately informed, professionally trained and motivated. Another aim of the research is to survey local governments' attitude towards bond financing as well, that is to determine factors not necessarily rational but sometimes subjective, which can result in impeding resource deployment through bond issuance. My research, which was based on a stratified sample of 308 Hungarian municipalities, came to the conclusion that expertise of local governments' financial executives related to loan financing is extremely low. The majority of local governments is unable to distinguish the economic differences between bank loans and bonds, and is unclear concerning the potential benefits, advantages, and disadvantages of bonds. No wonder that nearly all the bonds were issued privately where the buyers were solely commercial banks. In addition, 12-18% of the municipalities has prejudices and clearly has misconceptions about obtaining funds through borrowing. According to the principal component analysis local governments' knowledge level can be classified and explained by three components: theoretical knowledge of local borrowing, knowledge of legal and administrative regulation, and skill in capital market financing. By summing up the results it can be stated that the improvement in local financial management couldn't have been the primary reason for municipal bond boom, but there were external factors that determined and dominated this process of booming.

**Keywords:** [Borrowing](#), [Financial management](#), [Local governments](#), [Municipal bonds](#)

**JEL Classification:** [H72](#), [H74](#)

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