

Water Governance after Remunicipalisation: Centralisation and Public Control in Hungary

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ABSTRACT *This article examines the transformation of Hungary's water governance from the early 1990s to the present, tracing a rare trajectory from remunicipalisation to centralisation. While many European countries have re-established local public ownership after failed privatisation, Hungary's case demonstrates how municipal control functioned only as an intermediate step toward full state ownership. The analysis situates Hungary within the broader European debate on public services, revealing how shifting political regimes and economic ideologies have shaped legal and institutional frameworks. The study explores how the Water Utility Act of 2011 initiated a process of consolidation under state authority, culminating in the establishment of the National Water Works in 2021. This development represents not merely administrative reform but a structural reconfiguration of public ownership and accountability. Hungary's experience shows how the state regained control over a sector that had been decentralised and partially privatised, shifting the focus from ownership toward the governance mechanisms through which efficiency, equity, and democratic oversight are negotiated in essential services.*

KEYWORDS *Hungary; water governance, remunicipalisation, centralisation, public ownership, state control.*

1. Introduction

The governance of water services in Europe has undergone significant transformation over the past three decades, reflecting shifting ideas about ownership, efficiency, and public responsibility. While many European cities¹ have experienced waves of remunicipalisation,² a return to local public

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¹ Emanuele Lobina, Satoko Kishimoto, and Olivier Petitjean, *Here to Stay: Water Remunicipalisation as a Global Trend* (London: Transnational Institute / Public Services International Research Unit, November 2014), 4, <https://www.tni.org/files/download/heretostay-en.pdf>.

² Vanessa Mascia Turri, "Remunicipalisation of Water Services in Europe: Comparative Study of the Neapolitan and Parisian Cases," *Water Policy* 24, no. 12 (2022): 1842, <https://doi.org/10.2166/wp.2022.090>.

management after failed privatisation, Hungary represents an exceptional case. Rather than stabilising as a model of local public ownership, Hungary's trajectory demonstrates a movement from remunicipalisation to centralisation, where municipal control functioned as an intermediate stage on the path toward full state ownership.

This evolution reflects both the legacy of the socialist past and the pressures of post-transition reform. After the fall of Soviet-type regimes, Hungary pursued rapid market liberalisation and privatisation, driven by the political and financial imperatives of the early 1990s. The resulting fragmentation and uneven performance of local water utilities revealed the limits of decentralised governance. In response, the early 2010s brought renewed efforts to reintegrate and professionalise the sector. Yet, the Water Utility Act of 2011 (Act CCIX), intended to strengthen coordination and sustainability, soon transformed into a framework for state-led consolidation.

By 2021 the process reached its culmination: ownership, regulation, and strategic control of Hungary's water utilities became fully centralised under the state. What began as a corrective to market-driven inefficiencies evolved into a unitary public model, where central authorities replaced municipalities as the main custodians of the right to water.

This raises critical questions about the changing nature of public ownership and the role of the state in essential service provision: how and why did remunicipalisation in Hungary evolve into centralisation rather than consolidating as a local model? What legal and institutional mechanisms enabled this shift, and what does it reveal about the interplay between subsidiarity, efficiency, and human rights in European water governance?

By addressing these questions, this article situates Hungary's case within the broader European debate on water governance, where questions of ownership intersect with principles of subsidiarity, efficiency, and democratic accountability. By tracing the historical and legal evolution of the Hungarian water sector, from decentralisation to full state control, it explores how remunicipalisation, rather than restoring local autonomy, became a transitional phase in the reassertion of central authority.

1. 1 Conceptual Clarifications and Key Terms

To ensure a clear understanding of the processes discussed in this article, this section defines the key terms used throughout the text.

Centralisation refers to the consolidation of many small, locally managed water service providers into a few larger entities under state oversight. The goal is to create uniform practices, improve management, and provide consistent service across regions. Nevertheless, recentralisation describes a later stage when responsibility for water services, once transferred to local or private operators, is brought back under national or regional control. This usually happens when earlier arrangements fail to provide effective service, investment, or oversight.

"Privatisation is an instrument referring broadly to the transfer (or outsourcing) of some or all of the traditional water service functions (e.g. water distribution and treatment, wastewater collection and treatment, customers services) and, in some cases, ownership of infrastructure assets and water resources, from

government to a private party for a certain period of time under conditions set in contractual agreements. Privatisation can be in part, often referred as public-private partnerships (PPP) or in full, in the form of vertically integrated water companies owned and managed by private entities.”³ Shortly, it means that privatization is transferring the management of water services from public or municipal authorities to private operators.⁴ Although introduced to increase efficiency and attract investment, as noted by scholars, this approach has often reduced transparency, raised tariffs, and limited reinvestment in infrastructure due to the focus on profit.

Fragmentation describes the period after the fall of centralised control when water service provision became divided among many small operators. This often caused differences in service quality and made it harder to coordinate investments and regulatory control.

Remunicipalisation is the process of returning the management of water services from private operators to public or municipal authorities. Its purpose is to restore democratic control, improve transparency, and ensure that investment and tariff decisions serve the public interest.

Public Accountability and Democratic Oversight refer to the ways in which citizens and local governments can monitor and influence how water services are managed. Systems based on these principles promote transparency, responsibility, and service to the public good.

1. 2 From Remunicipalisation to Centralisation

Period	Characterisation	Main Actor	Key Legal Basis	Description
1990–2008	Privatisation / Local Self-Government	Municipalities (often with private partners)	Act LXV of 1990 on Local Self-Governments	Decentralised ownership model; municipalities as service providers; emergence of mixed companies and private concessions due to market-oriented reforms.
2009–2012	Amalgamation and Transition	Municipalities (with growing state influence)	Local decisions; contract terminations	Period of consolidation and municipal mergers of service providers; partial re-municipalisation at local level, but not yet centralisation.
2012–2019	Centralisation / Recentralisation	State (Central Government)	Act CCIX of 2011 on Water Utility Services; introduction of Public Utility Network Tax (2012); tariff cuts (2013)	Strong state intervention: integration of utilities, central tax burdening municipal owners, reduction of public utility charges limiting local revenues; transfer of assets to state-controlled entities; erosion of local ownership rights.
2019–2021	Consolidated State Oversight	State through MEKH and regional companies	Amendments to Act CCIX/2011; sectoral regulations	Increasing central coordination; service providers placed under unified regulatory and operational supervision; limited municipal role.
2021–today	Full State Control / National Water Works	Central Government (National Water Works)	Establishment of National Water Works (2021); related decrees	Establishment of National Water Works aimed at full integration of assets into central ownership; municipal autonomy effectively eliminated; state-owned providers dominate water services.

Table 1.⁵

³ F. A. Memon, *The Role of Privatisation in the Water Sector* (The Hague: IRC International Water and Sanitation Centre, 2003), 28–29.

⁴ Tamás M. Horváth, *Közzolgáltatási reformok* (Budapest: Dialóg Campus Kiadó, 2016), 42. The author defines privatisation in the field of public services as “a process through which (a) public goods become private goods, or (b) the private sector, on behalf of public administration, performs public tasks or activities of community interest.”

⁵ Table made by the author.

The evolution of Hungarian water services demonstrates a shifting balance between decentralised self-governance and centralised state control. Following the regime change, the period between 1990 and 2008 was defined by decentralisation and partial privatisation, grounded in the principle of local self-government established by Act LXV of 1990 on Local Self-Governments.⁶ Municipalities became the principal providers of water and sanitation services, often through mixed ownership structures and concession agreements with private partners. These market-oriented reforms aimed to increase efficiency but, in practice, the absence of an effective regulatory framework and the lack of a competition culture frequently led to local monopolies rather than genuine market pluralism.

The years 2009–2012 constituted a phase of amalgamation and transition, rather than a coherent process of remunicipalisation. Several municipalities terminated private concession contracts and merged local utilities to regain operational control. However, these measures were predominantly administrative and lacked the political and legal intentionality that characterises the remunicipalisation movements observed in Western Europe.⁷

A fundamental shift occurred with the adoption of Act CCIX of 2011 on Water Utility Services⁸, which marked the beginning of centralisation and recentralisation (2012–2019). The central government introduced sectoral policies that gradually eroded local autonomy and restructured ownership relations. Notably, the Public Utility Network Tax (Act CLXXXV of 2012) imposed a financial burden on municipal infrastructure owners,⁹ while the central reduction of public utility tariffs (Government Decree No. 259/2013) reallocated revenues within the sector, effectively transforming income distribution against municipal providers.¹⁰ These measures reflected a growing tendency toward central regulatory intervention and fiscal control over previously local assets.

From 2019 onward, central oversight intensified through the Hungarian Energy and Public Utility Regulatory Authority (MEKH), which became the dominant supervisory and licensing body.¹¹ This process culminated in the establishment

⁶ *Act LXV of 1990 on Local Self-Governments*, establishing the principle of municipal autonomy and competence in managing local public services, including water supply and sanitation.

⁷ Martin Pigeon, David A. McDonald, Olivier Hoedeman, and Satoko Kishimoto, eds., *Remunicipalisation: Putting Water Back into Public Hands* (Amsterdam: Transnational Institute, 2012), 8-24, 106-112.

⁸ *Act CCIX of 2011 on Water Utility Services*, establishing a uniform national framework for licensing, regulation, and supervision of water service providers.

⁹ *Act CLXXXV of 2012 on the Public Utility Network Tax*, introducing a central tax on infrastructural assets such as water pipes, adversely affecting municipal service providers.

¹⁰ *Government Decree No. 259/2013 (VII. 5.) on the Reduction of Public Utility Charges*, implementing the policy of “*rezsicsökkentés*” (utility cost cuts) by fixing tariffs at state-determined levels.

¹¹ *Act XXII of 2013 on the Hungarian Energy and Public Utility Regulatory Authority (MEKH)*, assigning the Authority with extended supervisory and licensing powers over water utilities.

of the National Water Works (Országos Vízművek Zrt.) in 2021,¹² an institution designed to integrate regional utilities under direct state ownership and coordination. This final stage represents full state control, in which the remaining local competences have been largely formalised, and the decision-making authority has been transferred to centrally delegated entities.

Overall, the Hungarian trajectory illustrates not a straightforward process of remunicipalisation but rather a reconfiguration of ownership from municipal to state control, showing us almost a full circle of ownership changes. The legal developments demonstrate a structural realignment of the water services sector within the framework of public service law, where the state increasingly asserts its role as both regulator and operator.

2. The Historical Evolution of Water Services in Hungary

After the fall of Soviet-type regimes, Central and Eastern Europe entered a rapid political and economic transition. Unlike Western Europe's gradual and institutionalised privatisation, the CEE (Central and Eastern Europe) approach aimed for quick convergence with the West, often without first building the foundations of a functioning market economy. This haste shaped the results of privatisation and destabilised an already fragile system. A system that could not withstand the transitions and shocks required to ensure resilience as a water utility system.

Our research examines Hungary's trajectory from privatisation¹³ to remunicipalisation and later to centralisation, with a specific focus on water services. This raises an important question: why is this case relevant among Central and Eastern European countries?

Hungary was one of the first ones to implement large-scale privatisation following the fall of Soviet-type regimes. This early initiative provides valuable insight into the transition period, particularly in the water sector, where ownership shifted to private operators. The study analyses the motivations behind privatisation, the challenges it faced, and its impact on efficiency and democratic control under private management.

It also highlights the turning point around 2011, when attitudes towards privatisation changed, resulting in a shift in policy direction. Hungary's experience serves as an early precedent for other countries in the region undergoing similar transitions. It is a particularly notable case, as the country's water governance evolved almost in a full circle, moving from public to private, then to municipal, and finally back to central control within a relatively short period.

¹² *Government Decision No. 1485/2021 (VII. 30.) on the Establishment of the National Water Works (Országos Vízművek Zrt.)*, aimed at integrating regional water service providers into central state ownership.

¹³ Zsolt Boda and Gábor Scheiring, "Water Privatisation in the Context of Transition," in *Beyond the Market: Public Services Yearbook*, ed. Daniel Chávez (Amsterdam: Transnational Institute, 2006), 95–101.

By looking at the overall picture, we can conclude that over the past three decades, water supply and sewerage services in the EU have undergone significant transformation.¹⁴ Beyond national reforms, EU influence has played a key role in shaping these changes. This dual dynamic, between EU harmonisation and national sovereignty, also raises questions about subsidiarity and the state's duty to ensure access to essential services. Some countries, like Hungary, went through a trial-and-error phase marked by shifts in ownership and regulatory approach.¹⁵ Unlike sectors such as energy or telecommunications, which are under stronger EU economic regulation, water services remain largely shaped by national frameworks due to their inherently centralised and public nature.

The power to decide how water services are provided, who bears responsibility, and to what extent the private sector is involved remains within national competence.¹⁶ Across the EU, approaches to water service provision vary widely. For instance, in Germany, water services are still mainly publicly owned and managed locally.¹⁷ Although this was not always the case, dissatisfaction with private operators around 2010 led to a renewed preference for public control. In France, local authorities remain responsible for water services but often delegate their operation to private companies through concession or mixed-ownership models. In contrast, England, though outside the EU, represents the only fully privatised water sector in Europe, where recent concerns over water quality have reignited debates about the model's sustainability.¹⁸ These aspects underline the importance of the topic and the need to understand the ownership models of water utility services, as well as how these models can shape, though not alone, the trajectory of resilience in the water sector.

Our study focuses on Hungary's regulatory path over the past three decades: how successive reforms consolidated smaller utilities into larger entities and whether this centralisation achieved its intended goals. To answer this, we combine historical analysis with an assessment of the socio-economic impacts of these regulatory decisions.

¹⁴ Thomas Bolognesi, "The Paradox of the Modernisation of Urban Water Systems in Europe: Intrinsic Institutional Limits for Sustainability," *Natural Resources Forum* 38, no. 4 (2014): 270–281, <https://doi.org/10.1111/1477-8947.12052>. ; Thomas Bolognesi, "The Results of Modernizing Network Industries: The Case of Urban Water Services in Europe," *Competition and Regulation in Network Industries* 15, no. 4 (2014): 371–391, <https://doi.org/10.1177/178359171401500401>.

¹⁵ István Szabó and María G. Quesada, "Historical Waves in Hungarian Water Sector Reform and Implications for Integration," *Utilities Policy* 46 (2017): 15, <https://doi.org/10.1016/j.jup.2017.02.005>.

¹⁶ Ibid.

¹⁷ Ibid, 17.

¹⁸ Bolognesi, "Paradox of the Modernisation," 270–281; Bolognesi, "Results of Modernizing Network Industries," 371–391.

3. Understanding Water Privatisation

When neoliberalism took hold in the United States, Margaret Thatcher steered the United Kingdom, and soon the rest of Western Europe, in the same direction.¹⁹ What becomes dominant in the West tends to spread, by persuasion or by force.²⁰ Privatisation was no exception.²¹

Through loan conditionalities, the International Monetary Fund and the World Bank imposed neoliberal reforms on developing nations. During the 1970s and 1980s, these institutions, together with international development agencies and governments, financed most water infrastructure in the Global South.²² Until 1990, international funding largely supported public entities, and privatised systems remained rare.²³ The turning point came in 1989, when the Thatcher government sold the British water utilities.²⁴

Few countries followed the British model outright. Most turned to public–private partnerships. The French model, based on long-term concession contracts, granted private companies operational control over water systems. A third approach emerged through mixed public corporations, combining private efficiency with public goals of equity and affordability.²⁵

Although “privatisation” has many meanings, it generally refers to the transfer of public duties or obligations to the private sector, while a transfer of ownership is more precisely termed *divestiture* or *asset sale*.²⁶ With the rise of neoliberalism, privatisation became not only an economic policy but a political strategy.²⁷

In the water sector, privatisation typically takes contractual forms aimed at fostering competition and efficiency. It may involve full privatisation, operational privatisation, or various contractual arrangements. Neoliberalism, advocating limited state intervention and faith in market efficiency, treats private

¹⁹ Violeta Petrova, “All the Frontiers of the Rush for Blue Gold: Water Privatization and the Human Right to Water,” *Brooklyn Journal of International Law* 31, no. 2 (2006): 591.

²⁰ Elena Ramos, “The Dangers of Water Privatization: An Exploration of the Discriminatory Practices of Private Water Companies,” *Environmental and Earth Law Journal* 7 (2017): 190.

²¹ Petrova, “All the Frontiers of the Rush for Blue Gold,” 577–583.

²² Thomas M. Kerr, “Supplying Water Infrastructure to Developing Countries via Private Sector Project Financing,” *Georgetown International Environmental Law Review* 8 (1995): 91.

²³ World Panel on Financing Water Infrastructure, *Financing Water for All* (Marseille: World Water Council, 2003).

²⁴ David Saal, David Parker, and Tim Weyman–Jones, “Determining the Contribution of Technical Change, Efficiency Change and Scale Change to Productivity Growth in the Privatised English and Welsh Water and Sewerage Industry: 1985–2000,” *Journal of Productivity Analysis* 28 (2007): 127–139, <https://doi.org/10.1007/s11123-007-0040-z>; “The Economist,” “Stagnant: Water Companies Mop Up Capital and Leak Profits,” *The Economist*, July 31, 2003.

²⁵ Petrova, “All the Frontiers of the Rush for Blue Gold,” 583.

²⁶ Petrova, “All the Frontiers of the Rush for Blue Gold,” 583.

²⁷ Ramos, “The Dangers of Water Privatization,” 191.

ownership as a safeguard against the “tragedy of the commons.”²⁸ Consequently, water, despite being a natural monopoly with high fixed costs and irreversible investments, became a key target of privatisation.

In the water sector, the key distinction lies between *competition for the market* and *competition within the market*.²⁹ Since parallel water networks are impractical, competition mainly occurs in bidding for licenses rather than within the market itself.³⁰

4. The Case for Public Water Service

Across the European Union, water and sanitation services have reached near-universal coverage, although countries such as Hungary, the Czech Republic, Slovakia, Slovenia, the Baltic States, and Portugal still lag slightly behind.³¹ Most EU Member States rely on municipal or public providers, yet waves of privatization, often inspired by neoliberal reform, have reshaped the sector with uneven outcomes.

Experiences in cities like Paris and Berlin revealed the limits of private control. Paris remunicipalised its services in 2008 after dissatisfaction with Suez and Veolia, whose divided contracts generated excessive profits. In Berlin, a referendum exposed profit guarantees granted to private shareholders under a concession with RWE and Veolia, leading to its reversal. These cases triggered a broader European rethinking of water governance and ownership.³²

The European Citizens’ Initiative *Right2Water* (R2W) crystallised this movement, rejecting profit-oriented models and reaffirming water as a public good and human right.³³ It gained momentum when the proposed Concession Directive threatened to liberalise water services across the EU, raising the question of whether water should remain a community good or be treated as a commodity.³⁴

²⁸ Ramos, “The Dangers of Water Privatization,” 191.

²⁹ János Ede Szilágyi, *Vízjog – Aktuális kihívások a vizek jogi szabályozásában* (Miskolc: University of Miskolc, 2013), 118.

³⁰ Johann Wackerbauer, “Regulation and Privatisation of the Public Water Supply in England, France and Germany,” *Competition and Regulation in Network Industries* 8 (2007): 103, <https://doi.org/10.1177/178359170700800201>.

³¹ Jerry van den Berge, Rutgerd Boelens, and Jeroen Vos, “How the European Citizens’ Initiative ‘Water and Sanitation Is a Human Right!’ Changed EU Discourse on Water Services Provision,” *Utrecht Law Review* 16 (2020): 50-51, <https://doi.org/10.36633/ulr.568>.

³² Pierre Bauby, Claire Hecht, and Sylvain Warm, “Water Remunicipalisation in Berlin and Paris: Specific Processes and Common Challenges,” *CIRIEC Working Papers* 18/07 (2018): 6.

³³ Jerry van den Berge, Boelens, and Vos, “How the European Citizens’ Initiative ‘Water and Sanitation Is a Human Right!’,” 55.

³⁴ Jerry van den Berge, Boelens, and Vos, “How the European Citizens’ Initiative ‘Water and Sanitation Is a Human Right!’,” 55.

Hungary's trajectory reflects this broader European dynamic but with distinct characteristics. Following initial market liberalisation, the government pursued a process of partial remunicipalisation, consolidating public ownership under state control, after recentralisation took place. This shift was justified as a response to market failures and the need for equitable access, yet it also marked a move from local autonomy toward central governance.

Water pricing and market mechanisms rarely capture the social or ecological value of water.³⁵ Without robust regulation, privatisation risks excluding vulnerable groups, undermining environmental sustainability, and weakening public accountability. The Hungarian case thus exemplifies a renewed emphasis on state-led management, not only as a corrective to privatisation but as a reassertion of water's status as a public good under central authority.

5. Historical Development of Water Services in Hungary

Hungary's water sector has followed a swerving, non-linear path, marked by alternating phases of integration, fragmentation, and, more recently, centralisation.³⁶ These shifts mirror changing political and economic regimes, as well as evolving conceptions of ownership, control, and public responsibility.

This article traces that trajectory from the fall of Soviet-type dictatorships to the present, with brief reference to earlier developments. The stages of this evolution are not always clear-cut or easily identifiable, as the transitions often overlapped and unfolded gradually. Nevertheless, several distinct tendencies can be observed.

The first phase, from 1948 to 1989, was the wave of integration, when the number of providers fell from 430 to 34.³⁷ The second phase, from 1989 to 2010, was the period of fragmentation, during which the number of providers increased to nearly 450. The third phase, from 2009 to 2012, represented a period of amalgamation and transition, as municipalities began to merge utilities and terminate private contracts. Although sometimes referred to as remunicipalisation, this process remained limited and lacked coherent national direction. The fourth phase, from 2012 to 2019, marked a decisive turn toward centralisation, initiated by *Act CCIX of 2011 on Water Utility Services*. State intervention deepened through the *Public Utility Network Tax (2012)* and the *central reduction of public utility charges (2013)*, both of which significantly constrained municipal ownership and financial autonomy. The fifth and current phase, from 2019 to the present, signifies the stage of full state control, consolidated first through the *Hungarian Energy and Public Utility Regulatory Authority (MEKH)* and later through the establishment of the *National Water Works (Országos Vízművek Zrt., 2021)*, placing water services firmly under central government ownership and direction.

³⁵ John S. Wade, "Privatization and the Future of Water Services," *Florida Journal of International Law* 20, no. 4 (2008): 191.

³⁶ Szabó and Quesada, "Historical Waves in Hungarian Water Sector Reform," 15.

³⁷ Szabó and Quesada, "Historical Waves in Hungarian Water Sector Reform," 15.

Integration and fragmentation can be assessed by the number and size of providers,³⁸ as exemplified by the case when the number of operators fell back again to 36.³⁹ A more integrated system reflects consolidation, capacity, and oversight; a fragmented one indicates decentralisation and weaker regulatory cohesion. These structural shifts carry implications for service efficiency, equity, and long-term sustainability.

State ownership brings an inherent tension between financial viability and public duty, between market rationality and the constitutional obligation to ensure equitable access and environmental protection. Each structural transformation in the sector coincides with broader regime changes, revealing how water governance has been used as a tool of political and administrative control.

While the public–private ownership debate has been well explored, this study shifts focus to the state’s evolving role as owner, regulator, and central actor. Building on the works of Szabó and Quesada, and integrating additional legislative instruments, this study examines how Hungary’s water governance has moved from local autonomy to centralised public control, highlighting the legal and institutional consequences of this transformation.⁴⁰

5. 1 Hungary through the phases of change

In Hungary, as in many European countries, local authorities initially bore responsibility for water services. Until the 1940s, around 340 council-established companies operated independently, providing water where pipelines existed. This highly fragmented system functioned locally but lacked national coordination.⁴¹

Following the Second World War, a first wave of integration brought the sector under direct state control and ownership⁴², reflecting the state-led planning typical of the socialist era. In 1948, the National Water Management Office (Országos Vízgazdálkodási Hivatal) was created to consolidate local providers into regional entities under government direction.⁴³

The *Civil Code (Act IV of 1959)* formalised the legal personality of state-owned companies and defined their competences, establishing the basis for a unified national framework. The *Water Act IV of 1964* further strengthened centralisation, setting rules for service provision, licensing, and the financing of public water infrastructure.⁴⁴

By the late 1960s, the previous 430 local utilities had been merged into 34 regional and county water and sewage companies, alongside five major regional

³⁸ Szabó and Quesada, “Historical Waves in Hungarian Water Sector Reform,” 16.

³⁹ Hungarian Energy and Public Utility Regulatory Authority (MEKH), “A víziközmű működési engedélyes szolgáltatók listája,” May 15, 2018.

⁴⁰ Szabó and Quesada, “Historical Waves in Hungarian Water Sector Reform,” 16.

⁴¹ On the creation of the Act XXIII of 1885 on the basis of which the municipal water service was established and the foundations of regulation, see István K. Koncz, “The Development of Water Rights Administration in Hungary,” *Journal of Agricultural and Environmental Law* 27 (2019): 103–111, <https://doi.org/10.21029/JAEL.2019.27.103>.

⁴² Article 6, Act XX of 1949 (Constitution of the Hungarian People’s Republic).

⁴³ Decree 207.760/1948 on the establishment of local waterworks.

⁴⁴ Chapter VI of the Civil Code (Act IV of 1959).

waterworks (DRV, EDV, DMRV, ERV, TRV Zrt.).⁴⁵ These reforms aimed to extend access and reduce disparities between urban and rural areas. Yet, despite their integrative intent, technical and financial shortcomings soon undermined the system. The highly centralised model, though ambitious, struggled with inefficiency and underinvestment, signs of the structural fragility that would later define the sector's decline.

With the end of the Soviet-type dictatorship in 1989, Hungary's water utility system entered a period of profound transformation. Under the banner of market liberalisation and decentralisation, the number of providers expanded rapidly: from 34 regional companies to nearly 450 by the year 2000. The previously centralised model was dismantled, giving way to a fragmented structure dominated by smaller municipal enterprises and mixed-ownership companies.⁴⁶ This transformation was closely tied to the broader economic reforms that accompanied the country's transition to a market economy. The *Transformation Act (Act XIII of 1989)*⁴⁷ required state-owned enterprises to convert into limited liability or joint-stock companies, introducing private law forms into previously public sectors. Meanwhile, *Act XXXI of 1989* amended the 1949 Constitution, replacing the socialist planned economy with a system based on private property and free enterprise.⁴⁸ These constitutional and economic changes opened public utilities, including water services, to private capital and competition.

Responsibility for water provision shifted to the local level. The *Act LXV of 1990 on Local Governments* (Art. 8, point 4) made the supply of healthy drinking water an obligatory municipal duty.⁴⁹ This was followed by *Act XX of 1991* and the *Assets Act (Act XXXIII of 1991)*,⁵⁰ which transferred ownership of local infrastructure from the state to municipalities. The Assets Act created Asset Transfer Committees to oversee this process, allocating former state-owned systems individually, jointly, or by technical separation. Where ownership could not be clearly established, assets remained under state control.

However, the decentralisation process also revealed serious legal and institutional ambiguities. The legislation did not clearly define the notion of "water utility assets," nor did it specify how such assets should be managed or transferred. These gaps enabled privatisation beyond the legislature's original intent. In liquidation cases, water infrastructure was often excluded from the category of municipal property, allowing unrestricted sales to private operators.

By the late 1990s, the combined effect of privatisation, decentralisation, and local autonomy produced a highly fragmented landscape of water service providers. Many municipalities established their own small-scale companies, often without the financial or technical capacity for long-term operation. By the early 2000s,

⁴⁵ Szabó and Quesada, "Historical Waves in Hungarian Water Sector Reform," 16–17.

⁴⁶ Szabó and Quesada, "Historical Waves in Hungarian Water Sector Reform," 16–17.

⁴⁷ Szabó and Quesada, "Historical Waves in Hungarian Water Sector Reform," 18.

⁴⁸ Act XXXI of 1989, § 2, replacing Chapter I of the Constitution with new Articles 1, 2(1), 9(1), and 12(1).

⁴⁹ Quote: "The settlement government must ensure a healthy drinking water supply."

⁵⁰ Szabó and Quesada, "Historical Waves in Hungarian Water Sector Reform," 16–17.

Hungary's water sector was characterised by uneven service quality, financial instability, and limited regulatory cohesion. The disintegration of the system underscored the fragility of uncoordinated decentralisation, laying the groundwork for the later policy shift toward reintegration and state-led control. Hungary's water sector was largely privatised through concession agreements with foreign companies such as SUEZ, Veolia, RWE, and E.ON, while local governments, lacking regulatory and financial expertise, struggled to oversee these contracts.⁵¹ Lease arrangements were widely used in the water sector, allowing private capital participation without formal concession procedures. Although private ownership in operating companies was initially capped at 49%, investors often exceeded this through syndicated contracts.⁵² A 2007 amendment later prohibited new private equity participation in water utilities, though existing agreements remained in force.⁵³ Privatisation served mainly fiscal aims, exemplified by Budapest's sale of a 25% stake in its Waterworks to a French–German consortium, yet major investments still depended on public funding.⁵⁴ By the 2000s, rising prices, weak oversight, and limited EU funding exposed the shortcomings of the model. These structural and financial weaknesses, coupled with growing public dissatisfaction and the limited capacity of local governments to manage fragmented services, gradually revived the idea of public control and coordinated management. By the late 2000s, the perceived failure of privatisation to ensure affordability, efficiency, or long-term investment created political momentum for reform. This environment set the stage for the 2009–2012 period of amalgamation, during which municipalities began reclaiming ownership and consolidating local utilities, marking the first steps toward a renewed phase of remunicipalisation.

The adoption of Act CCIX of 2011 on Water Utility Services marked a new wave of transformation in Hungary's water sector, beginning around 2010 and continuing to the present day. This phase followed earlier municipal efforts to regain control over local utilities from private operators, representing an attempted remunicipalisation that was only partly successful. These local initiatives, often involving the merger of smaller utilities, lacked coherent national coordination and sufficient financial capacity. As a result, they created the conditions for a more comprehensive but state-led integration process.

The Water Utility Act of 2011 aimed to consolidate the sector and address the financial and structural weaknesses of the decentralised model.⁵⁵ It reintroduced the principle of regionalisation, promoting larger, more sustainable operators and greater coordination. While the Act did not fix the size of providers, it established minimum user thresholds (the number of residential and non-residential users), 50,000 by 2013, 100,000 by 2014, and 150,000 by 2016, which gradually forced

⁵¹ Boda and Scheiring, "Water Privatisation in the Context of Transition," 95–101.

⁵² Szabó and Quesada, "Historical Waves in Hungarian Water Sector Reform," 19.

⁵³ Act CXXI of 2006, § 10(1), replacing § 9(1) of Act LVII of 1995 (Water Act).

⁵⁴ Boda and Scheiring, "Water Privatisation in the Context of Transition," 95–101.

⁵⁵ Szabó and Quesada, "Historical Waves in Hungarian Water Sector Reform," 18–19.

smaller companies either to merge or to give up their licences.⁵⁶ This process reduced the number of providers from around 450 in 2010 to 42 by 2015 and 36 by 2024, forming the basis of a centralised, state-dominated system.⁵⁷

Three key measures under the Act illustrate this transition:

1. The law defined “water utility assets” as public infrastructure directly linked to municipal tasks, distinguishing them from “operating assets” held by enterprises. This clarification aimed to prevent the ambiguities that had facilitated privatisation in earlier decades.
2. The Act outlined the three main models, concession, lease, and asset management, establishing clearer divisions of responsibility between municipalities and operators.
3. The Hungarian Energy and Public Utility Regulatory Authority (MEKH), originally founded in 1994, was expanded to oversee the water sector, issue licences, and supervise compliance.

The 2012–2019 period thus represents a phase of centralisation and recentralisation, where the state intervened heavily in ownership and management. Measures such as the Public Utility Network Tax (2012) and the central reduction of tariffs (2013) placed additional burdens on municipal providers and transferred effective control to state institutions.

By 2019–2021, the system had evolved into a model of consolidated state oversight, with MEKH exercising comprehensive supervision and local governments retaining only formal ownership rights. The establishment of the National Water Works (Országos Vízművek Zrt.) in 2021 completed the process, transferring assets and operational control to the central government.

Although the Water Utility Act was designed to stabilise the sector and enhance consumer protection, its long-term effect was a shift from local self-government to full state control. What began as a municipal remunicipalisation attempt, a response to the failures of privatisation, ultimately led to state-led centralisation, where ownership, regulation, and service provision are now concentrated in the hands of the national government.

5. 2 Lessons Learned: Ownership, Governance, and Public Accountability

Following the 1989 regime change, Hungary, like other Central and Eastern European states, embraced market liberalisation and privatisation, influenced by the *Washington Consensus*.⁵⁸ In the water sector, these reforms often relied on foreign capital and long-term concession contracts, which limited competition and occasionally fostered corruption.

⁵⁶ Ákos Kis and Gergely Ungvári, “Are We Still Falling? Sustainability and Equity in the Hungarian Water Utility Services Sector,” *Budapest Management Review* 50, (2019): 81. <https://doi.org/10.14267/VEZTUD.2019.KSZ.07>.

⁵⁷ Szabó and Quesada, “Historical Waves in Hungarian Water Sector Reform,” 19.

⁵⁸ The “Washington Consensus” is a term used to describe a set of economic policy recommendations and principles that emerged in the 1980s and 1990s. International financial institutions, such as the International Monetary Fund and the World Bank, broadly promoted these recommendations.

Hungary's Fundamental Law places strong emphasis on environmental and health rights, linking access to clean drinking water to the right to physical and mental health (Article XX) and declaring water resources part of the nation's common heritage (Article P).⁵⁹

In response to the shortcomings of fragmented privatisation, the Water Utility Act of 2011 introduced comprehensive regulation aimed at sustainable operation and state oversight.⁶⁰ Its objectives included ensuring national or municipal ownership, introducing operational permits, enforcing uniform pricing, and promoting planned maintenance.⁶¹

Since 2021, the National Water Works (Nemzeti Vízművek), under the Ministry of Energy, has exercised ownership rights over state-held utilities, consolidating management and extending national control. Through these reforms, Hungary has reframed water governance as a public duty rooted in the human right to water, prioritising continuity, affordability, and state responsibility over market competition.⁶²

The creation of the National Water Works (Országos Vízművek Zrt.) has marked the beginning of a new stage, which results in full state control. Under the strategic supervision of the Ministry of Energy, this institution assumed ownership rights and obligations over all state-owned water utility companies and networks, completing the transfer of operational authority from municipalities to the central government. The reform aimed to ensure uniform service quality, efficient asset management, and financial stability across the country.

The National Water Works coordinates investment, maintenance, and development activities on a national scale, representing a decisive step in the integration of regional water systems. Municipalities, though formally retaining some ownership, now play only a limited role in decision-making. Through this structure, the state guarantees continuous service provision and price stability, interpreting access to drinking water as a constitutional and human right under the Fundamental Law (Articles P and XX).

In practice, this period has consolidated Hungary's water governance into a unitary, centrally managed model, where public utilities are integrated under state ownership and supervision. While the framework enhances financial predictability and national coordination, it also reduces local autonomy and accountability. The ongoing challenge lies in balancing central efficiency and

⁵⁹ János Ede Szilágyi, "Current Challenges Concerning the Law of Water Services in Hungary," *Lex et Scientia* 23, no. 1 (2016): 73.

⁶⁰ Anikó Raisz, "A Constitution's Environment, Environment in the Constitution," *Est Europa*, Special Edition 1 (2012): 47–51; László Fodor, "A víz az alaptörvény környezeti értékrendjében," *Publicationes Universitatis Miskolciensis, Sectio Juridica et Politica* 31 (2013): 334–345.

⁶¹ Gyula Bándi, "A fenntartható fejlődés jogáról," *Pro Futuro* 3, no. 1 (2013): 11–30; Orsolya Bányai, *Energiajog az ökológiai fenntarthatóság szolgálatában* (Debrecen: DELA Könyvkiadó és Kereskedelmi Kft., 2014), 16–55.

⁶² Magyarország Kormánya (Government of Hungary), "Lehetővé vált a Nemzeti Vízművek integrációs folyamatához való csatlakozás," July 16, 2021.

local responsiveness, ensuring that state-led governance continues to uphold the social and environmental values embedded in the right to water.

6. Conclusion

Hungary's reform of the water services sector shows the tension between different forms of public ownership. The period of amalgamation (2009–2012) reflected an effort to correct the fragmentation and uneven outcomes of privatisation. By merging local utilities and restoring public responsibility, municipalities sought to stabilise the sector and regain control over essential services. Yet, these efforts lacked national coordination and adequate financial capacity, which limited their success and revealed the structural weaknesses of local self-government.

The Water Utility Act of 2011 transformed this process into state-led consolidation. The policy of integration, combined with uniform licensing and tariff regulation, created a system of central oversight. The establishment of the National Water Works (Országos Vízművek Zrt.) in 2021 completed this process, transferring ownership and operational control to the state. While the new model improved regulatory coherence and financial stability, it reduced municipal autonomy and limited opportunities for local decision-making.

Both decentralised and centralised systems have shown their limitations. Municipal control can encourage participation and responsiveness but often lacks the capacity to manage large-scale infrastructure effectively. Centralised control ensures continuity and economic supervision but distances service provision from local needs. Hungary's experience demonstrates that changes in ownership alone do not guarantee more equitable or efficient outcomes.

The evolution of Hungary's water services, shaped by successive waves of integration, fragmentation, amalgamation, and centralisation, shows that ownership structures alone cannot determine public value. The effectiveness of each phase has depended less on who owned the assets and more on how governance was exercised, through regulation, accountability, and institutional balance. Future reforms should therefore focus not only on restoring or retaining public ownership, but on building durable governance frameworks capable of adapting to social, environmental, and economic challenges.