

EUROPEAN ACCESS AND CHANGING HUNGARIAN REGIONAL POLICY

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REGIONAL POLICY TRIALS IN THE EARLY '90S

The introduction of a market economy in Hungary, and the transformation of the social administration, has fundamentally altered the aims and the institutional and regulatory system of regional policy. The majority of reform programmes introduced as part of the political and economic transformation have had, and continue to have, an influence on regional developments in the Hungarian economy. (*Enyedi 1994, 1995*) The programmes themselves have also prompted new developments, both favourable and unfavourable.

There are a large number of independent programmes, concepts, organisations, budgetary resources and foundations which all attempt to guide regional economic development. Some development programmes and business plans were formulated for certain areas by the regional units of the Hungarian Economic Chamber and/or by the regional offices of the Foundation for Business Development. Local governments, ministries and regional development associations are being established with neither a knowledge of the strategies of other organisations nor any attempt to co-ordinate or link with them. (*Downes-Horváth 1996, Hajdú 1993, P. Kovács 1997*)

More so than in other East-Central European countries, Hungary has pre-reform experience of operating a type of regional development policy, and a distinct regional development strategy can be identified from 1971 onwards. The government decrees of the time led to regional development planning and the inclusion of regional priorities in the redistribution of financial sources. This cannot, however, be construed as "regional policy". The central control of regional development was divided among sectoral lines, and sectoral objectives were superior to regional concerns in government policies. (*Horváth 1995b, 1998*)

With the implementation of political and economic reforms, the environment for regional policy changed markedly. Under the new constitution, Parliament was given new powers, and the 1990 Government created a separate Ministry of Environment and Regional Policy. A Regional Development Fund was established in 1991 and the financing of regional development was re-organised. Nevertheless, a clearly specified concept or strategy for regional policy was not formulated during this period.

The legislation regarding regional policy was passed in 1993, providing a new definition of the main tasks and means of regional policy. The principal tasks as laid out in the decree included regional crisis management and the economic transformation of

depressed and underdeveloped regions; the implementation of selective infrastructure projects, focusing on underdeveloped areas; and the establishment of the basis for internal and international co-ordination. Although no specific guidance was given on an appropriate institutional system, the decree stipulated that institutions should be promoted that are in harmony with the EU system and internal conditions.

BEGINNING A NEW ERA OF REGIONAL POLICY

The Regional Development and Physical Planning Act

In order to assist the balanced regional development of the country and the socio-economic development of its regions, to implement a comprehensive regional development policy, in accordance with the content of the European Regional and Spatial Planning Charter and taking into account the regional policy principles of the European Union, Hungarian Parliament passed the ***Regional Development and Physical Planning Act*** on March 19, 1996.

The objectives of the Act are:

- to assist the development of a market economy in every region of the country, to create the necessary conditions for sustained growth, to improve economic conditions and the quality of life through co-ordination between social, environmental and economic interests;
- to create the conditions for self-sustaining development;
- to reduce adverse differences – in terms of living conditions, economic, cultural and infrastructural conditions – between the capital city and the rest of the country;
- to encourage initiatives by regional and local communities and to co-ordinate them with the national objectives.

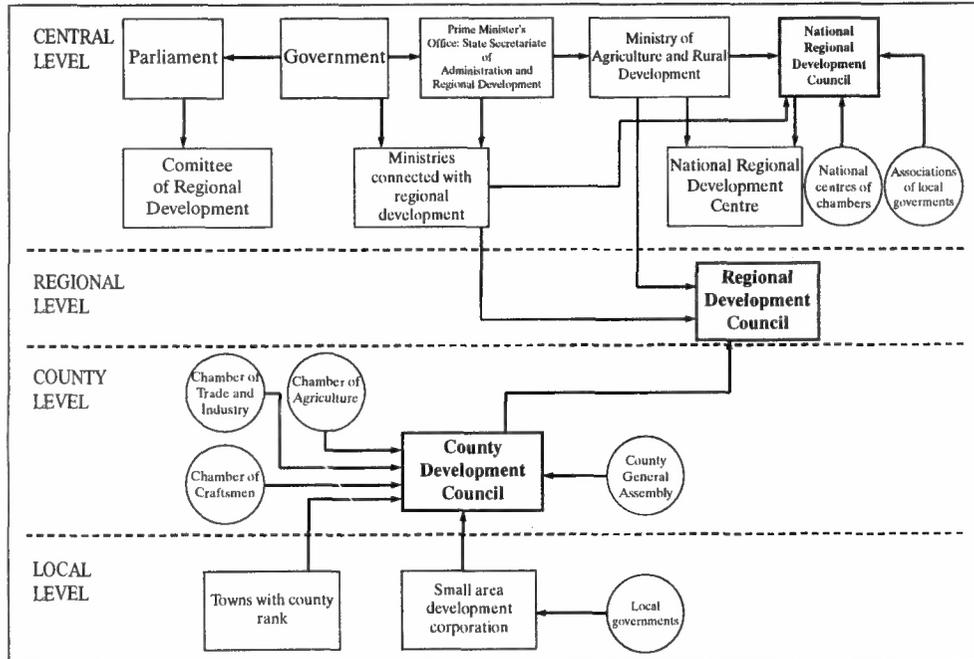
The Act determines the tasks and competence of central state organs, regional and local organisations. (*Figure 1*)

The Act orders the establishment of a new body to assist the Government in carrying out regional development. The ***National Regional Development Council*** has the authority to make proposals, comments and co-ordinate.

Regional development tasks within the country are co-ordinated by the ***County Development Council*** which consists of representatives of county general assemblies, local government associations, economic chambers, organisations representing employee interests and the Ministry of Environment and Regional Policy.

After the 1998 general election the new right-centrist Hungarian government re-organised the management centre of regional policy. The Ministry of Environment and Regional Policy was abolished and regional tasks were given to the newly-created Ministry of Agriculture and Rural Development. This political solution, which was a result of negotiations between coalition parties, and the main demand of the Smallholders' Party, involves the risk of limiting regional actions on rural and agricultural development. Meanwhile, a new secretariat of state is being organised in the

Figure 1
Institutional system of regional policy in Hungary



Designed by the author

Prime Minister's Office, the activity of which will focus on regional policy and administration affairs. So, in the future the regional policy in Hungary will most probably be exposed to power struggles.

The consequences drawn from analysis of the recent developments and the evaluation of the European development led directly to the Regional Development Act. It is clear that, despite the political compromises, we possess legislation in line with European standards. The legislation:

- is compatible in its objectives with the principle of social justice and fairness (irrespective of the spatial location of the place of residence, all citizens have a right to their share from the growing wealth of the country), the political principle of equality (it serves the strengthening of the cohesion among the spatial constituents of the country), and is basically oriented towards economic development;
- is decentralising by the character of its organisational system, building on the principle of partnership, and the natural division of labour among autonomous institutions;
- operates with market-sensitive tools, creating the opportunity of using regional economic regulators, which can measure the efficiency of these tools and thus make the institutions concerned publicly responsible.

The 1996 Act thus in principle created a Euro-compatible system of regional development in Hungary. If we look at its basic features, it is considerably different from the regional development practices of the socialist planned economy and of the transition following the 1989 change in political system. (*Table 1*)

Table 1
Transitions of the Hungarian regional policy at the end of the 20th century

The policy's	Bureaucratic (1985–1990)	Transitory (1991–1995)	“Decentralised” (1996–)
Aim	Equalisation	Equalisation	Restructuring
Object	Underdevelopment	Underdevelopment	Moderation of the negative effects of the market
Target group	Underdeveloped region	Underdeveloped settlement	Problem region
Tools	Regional Development and Organisation Fund, planning	Regional Development Fund, projects	Earmarked provision for regional development, additional resources, programming
Way of financing	Centralised	Centralised	Decentralised
Form of incentive	Automatic	Discretionary	Discretionary
Dominant element of the implementation	County council	Local government of the settlement	Regional Development Council
Effect on developments	Isolated	Isolated	Integrative
Dominant favoured sectors	Industry	Infrastructure (gas, telephone)	Manufacturing, business services, innovations
Population of eligible areas	4%	17%	34%
Scales of direct financing	0.05% of GDP	0.2% of GDP	0.3–0.5% of GDP

Designed by the author

The National Regional Development Concept

The future of the Hungarian spatial structure was drawn up by the National Regional Development Concept which was adopted by Parliament in March 1998. (*Parliamentary Resolution 35/1998*)

The *aims* of the Concept are as follows:

- to determine regional development principles, guidelines and aims – in the long term suited to the international situation – which are followed by the Government during its own regional development activity and with which the Government wants to orient the other bodies of regional development;
- to detail regional targets for the sectoral development policies of the Government;
- to promote implementation of the Regional Development legislation within the new institutional system to co-ordinate between regional and county levels.

The *tasks* of the Concept are:

- to change the spatial structure in order to provide a basis and framework for effective, innovative and competitive economic activities and thereby contribute to the dynamic development of the economy and increase its income-generating capacity;
- to reduce differences in social and economic opportunities, to plan social and infrastructural conditions at the level of larger regional units and settlements and to tackle the social problems of seriously underdeveloped regions and settlements;
- to develop programming (planning) methods, instruments and institutions which – if concentrated on regions or areas of an appropriate size – are capable of identifying and managing structural crisis at an early stage and can, therefore, contribute to their solution;
- to assist the mobilisation and utilisation of the regional (human, natural and other) resources of economic development;
- to ensure that the role of regional policy in co-ordination between the various sectors and ministries is of equal importance to that at the national level. This stems from the need to address certain conflicts which mainly occur at the regional level, such as those concerning environmental issues and land use, which cannot automatically be regulated by market forces, and conflicts arising from the sharing of resources;
- to encourage cross-border co-operation and relations and thereby contribute to the better use of the potential of regions and settlements that have become peripheries of the country due to the creation of political borders.

INSTRUMENTS OF REGIONAL POLICY

Among special regional development instruments, the regional development support specified in the budget line allocated to the Ministry of Agriculture and Rural Development from the central budget (tasks taken over from the *Regional Development Fund*) is of great importance: it provides grants, loans and interest subsidies to assist the implementation of development efforts in beneficiary regions.

The other significant financial instrument is the *Regional Equalisation Framework* supporting the infrastructure development efforts of local governments, which is fully decentralised on the basis of the indicators of development. County development councils will invite applications for these funds. During the allocation of the funds, certain issues should be taken into consideration: special features and development needs of the country, the lack of resources for development actions carried out by local governments; important development objectives that are not included in other support systems (e.g. infrastructure related to tourism).

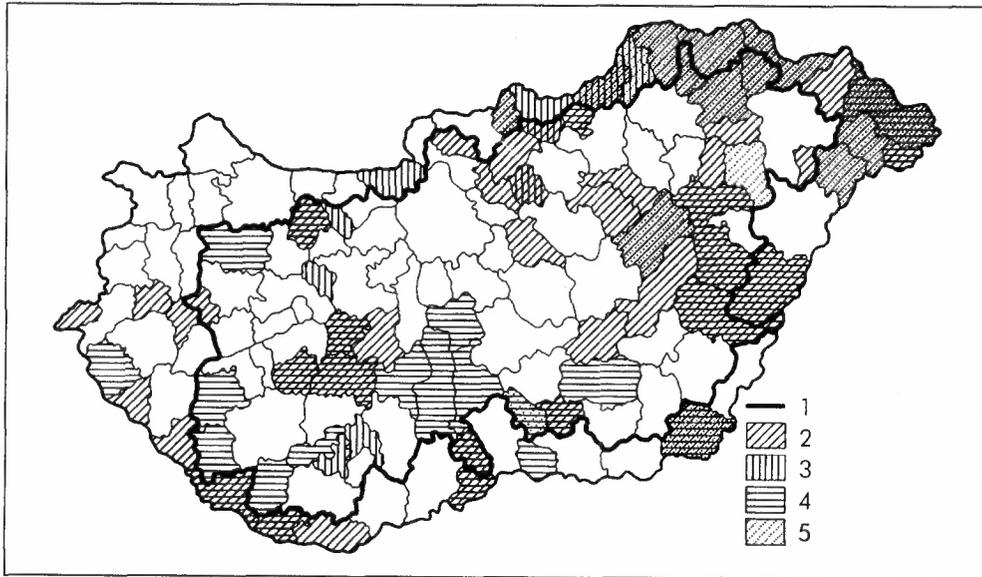
The objectives of the Targeted Budgetary Allocation for Regional Development (*Government Decree 31/1998*) are:

- to reduce significant social and economic differences between regions in terms of living conditions, economic, cultural conditions and infrastructure;
- to assist the co-ordinated use of various sectoral grants and the implementation of the integrated restructuring programmes;
- to assist the involvement of international financial resources in regional development programmes;
- to assist cross-border co-operation between border regions, common planning and co-ordinated development on the basis of bilateral and multilateral agreements.

Assistance may given from the budgetary allocation for the following purposes:

- job-creating investments and development projects, which are aimed at market and product change and at helping to maintain current employment levels;
- the creation of innovation centres, business incubators and industrial parks assisting enterprises, and human infrastructure development projects involving job creation;
- the preparation, method of implementation and conditions of regional development programmes, and the preparation of programmes encouraging the development of local societies;
- investment into productive infrastructure, which is related to economic development and assist enterprises, i.e. primarily development projects of regional importance in the field of energy, transport, piped water and sewerage networks, telecommunications and residential waste treatment;
- special targeted programmes promoting local economic development and development projects related to community work providing part-time employment;

Figure 2
Eligible areas in Hungary, 1996



1 – limits of border areas, 2 – underdeveloped region, 3 – declining industrial region, 4 – rural region,
5 – region with high long-lasting unemployment

Source: Government Decree 219/1996

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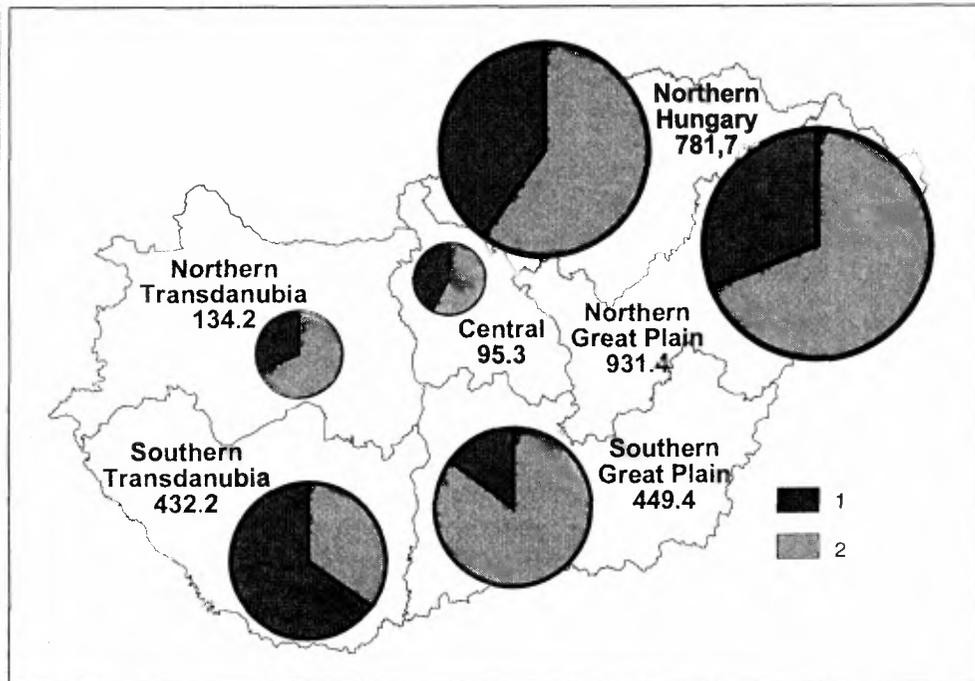
EU COMPATIBILITY OF HUNGARIAN REGIONAL POLICY

The complex and high level of legal regulation of Hungarian regional development, as well as its particular institutional system, is of a unique and pioneering character in East-Central Europe; it could even serve as an example for a number of EU Member States. This is acknowledged in the European Committee's report on the country, as is the fact that most elements of Hungarian regional policy are compatible with the structural policy of the EU. The goals of the Regional Development and Physical Planning Act are in accord with the principles of social justice, equity and solidarity as well as general cohesion. The structure of the Hungarian Regional Development Concept and its regional orientation partly meets the requirements for a national development programme document and for the EU compatibility of the long-term development goals.

Commission Opinion on Hungary's Application for Membership of the European Union (Brussels, 15 July 1997) contains following statements of the current position of the regional policy in Hungary:

- “The Hungarian Government is well aware of the need for an active regional policy involving all Government levels.

Figure 3
Population of eligible areas by regions, 1996 (thousands)



Source: Government Decree 219/1996
Designed by the author

1 – underdeveloped areas
2 – other eligible areas

- Hungary is the first country among Central European countries which adopted a legal framework closely in line with EU structural policy. Many sections of the new law have been drafted in the perspective of taking over the acquits.
- Problems still exist in implementing the newly adopted regional development policy. Institutions still have to be created and existing ones need support and experience.
- Lack of co-operation between ministries which have deconcentrated settlements and the ... county development councils, which are the major actors for regional development, needs to be corrected.
- Regional co-operation between counties should be strengthened.
- Hungary's administrative capacity to manage integrated regional development programmes seems satisfactory. Thus, subject to the remaining reforms, Hungary should be ready to apply the Community rules and to channel effectively the funds from the EU structural policies".

Basic principles

Decentralisation and partnership

Territorial *decentralisation* in Hungary is realised on several levels. Yet these territorial levels do not have the same institutions or scope of authority. There is no clear division of tasks among these levels, nor is there a clear legal definition concerning in which cases and in what territorial and functional magnitude is direct central assistance justified to interfere with the activity of the so-called selected and crisis areas. The scope of the regional level has not been defined, its institutions and functions have not yet developed.

In decisions regarding distribution of regional development resources and in the decentralisation of planning and in partnership co-ordination, headway was made on the *county level* by the establishment of county-level development councils. Nationwide experience shows that, while significant problems were caused by the ambiguous status of the councils, flexibility in this matter did facilitate the establishment of these institutions, the first decisions on the distribution of funds and the speeding up of the planning processes.

Owing to the legal regulations, the weakest level of the territorial division of labour is the *region*. Its missing institution is the regional development council, whose establishment is voluntary, its territory is not aligned by law to the NUTS II level. It has no defined resources or scope of authority, and it can only perform tasks that are transferred to them by the county development councils from among their own tasks. The regional councils which have been established thus far are still in the process of being organised, their creation is primarily motivated in anticipation of future EU resources. These councils do not yet have definitive programmes, working organisations or their own resources. The greatest problem is, however, that their territories do not correspond to the pattern that will expectedly be the NUTS II level in Hungary.

Another characteristic of Hungarian decentralisation (which seems to make little difference in the accession to the EU and is also attested to in other countries) is that the targets of decentralisation are neither the local governments and nor the administrative bodies, but special partnership organisations operating on the basis of delegation. What is problematic, however, is that strategic planning is also done by these partnership organisations. Within this framework of decision-making the public nature of regional planning is less certain.

The *principle of partnership* emphasised in the EU regional policy seems more important than either the political legitimacy of regional policy decisions or subsidiarity, therefore the Hungarian institutional system is, in this respect, progressive. (Hrubi 1995)

According to the EU regulations regarding Structural Funds, on the *principle of subsidiarity* not only the Member State can be assumed as a partner in the Union-level regional policy but also the regional and local authorities and, as defined by the internal legislation of the Member States, its economic and social organisations. Their par-

ticipation is on the regional level and in the debates among the partners which continuously shape the EU level measures.

Programming

Programming, which has not yet been practised in Hungary, in the wide context includes both planning and implementation. In the narrow sense of the word it is a strict order of procedures which is compelling in both the preparation and implementation of the programmes. (Faragó 1995, 1997)

The purpose of programming is:

- a strategic approach: only those projects (operative programmes) can be supported which fit one of the strategic programmes;
- an integrated, and not centralised, distribution of resources: through integrated utilisation of the various resources, aiming at a synergic effect, the resources can be more effectively utilised;
- to achieve coherence (pyramid of goals): national level macro-goals and local development initiatives should strengthen each other. The best social and economic effects can be achieved by supporting measures which enhance each other's impact;
- to build upon the vertical and horizontal co-ordination and co-operation effected by decentralisation;
- to effect (the integrating element being territory) the development units and the areas of action becoming the various (national, regional and smaller) territorial units;
- to make it a basic requirement that the process of financing and implementation can be controlled and transparent, which requires the establishment of a monitoring system.

The practice of regional development and territorial planning is not uniform in the countries of the Union. We are therefore not expected to adhere to a non-existent unified practice but to assert the *common basic principles* and to integrate the necessary common elements and connecting points into the Hungarian practice. The EU does not define directives in regional development and territorial planning; but sources from the Structural Funds are distributed on certain conditions, which, in our own interest, should be fulfilled. The expectations of the Union in territorial planning are expected to be integrated in the regulations on the distribution of the Structural Funds after 1999. (Begg 1997, *Agenda 2000*)

The already existing conditions and strengths that facilitate the introduction of programming are as follows:

- The legal framework of regional development exists.
- The backbone of strategic programming is strategic planning, and the Hungarian practice of formulating development concepts is similar to strategic planning. Development concepts prepared or being prepared

for the various territorial units could be expanded or transformed into strategic programmes.

- Part of the resources have already been decentralised and distributed through tenders.
- The banking system (Treasury, banks) has been established and is capable of handling financial assistance.

Deficiencies and weaknesses in the introduction of programming are as follows:

- The greatest obstacle to the introduction of programming is the present practice of budget planning. The strategic and operative programmes, therefore, do not have a real budget background.
- There is no real link between strategic planning and the operative (sectoral) programmes.
- The concrete programmes are monocentered, harmonisation with other programmes is lacking. The mechanism of broad scale co-ordination is undeveloped.
- The utilisation of the various (central) resources is not co-ordinated. At lower levels, local resources, which would strengthen resolution in development, are not added to the central resources.
- The regional level is weak. It lacks its own scope of decision-making and financial resources. Its scope of authority and the content of its planning has not been clearly defined.
- Regions that are formed voluntarily and containing a number of subjective (political) elements do not facilitate long-term strategic programming.
- Regional development monitoring is lacking and so is the evaluation system of the utilisation of resources.

Concentration and additionality

Conditions for *concentration* and *additionality* are still deficient in Hungary. Apart from the geographical concentration of the regional development resources (the EU-style geographical designation of the types of assisted areas), which will in any case remain in force nationally in the future, neither activity-based concentration nor the combination of resources comply with EU principles and trends.

In all assisted areas of the European Union, investments *creating new jobs, supporting enterprises* and development relating to human infrastructure have a significantly greater share than in Hungary, while investments relating to technological infrastructure have a smaller share. Part, but definitely not the whole, of this discrepancy can be explained by the underdeveloped nature of the Hungarian infrastructure. Local governments should mature and, instead of over-emphasising their own direct responsibility and concentrating on investments that directly influence their political popularity, they should put much greater emphasis on the support of business and on the creation of a favourable environment for business. If this is not the case then local gov-

ernment behaviour itself will be the major reason why they are not sufficiently involved in regional development decisions. The increasing weight of economic development renders greater importance to the territorial centres where conditions are more favourable for the concentrated creation of jobs.

Resources influencing regional development are splintered at present: funds are shared among nine ministries. The co-ordination of resources is weak. It is inevitable that the mechanisms for the uniform handling, regional distribution and utilisation of the development resources be established. Local governments in Hungary receive various forms of assistance but the equalising mechanisms are of different orientations and operate on different principles.

The Hungarian local government system, within the communal sector, is overburdened and focused on the maintenance of institutions, which, as far as the regional development policy is concerned, makes it difficult to obtain a clear overall picture: financial inequalities (when tasks and resources are compared) cannot be clearly assessed, therefore the goal and resources system of equalisation misses its aims (e.g. finances may fail even at high indices of supply). The territorial level of local government is incapable of operating a comprehensive goal and resources system in territorial policy. Mobilisable local government means are scarce (and ever-decreasing), the credibility of the local governments is weak, and along with their poor budgets they are coping with profound problems of maintaining and operating their institutions: they practically have no free resources. This is true in the case of both larger cities, which are determining factors in regionalisation, and county-level local governments, which have hardly any revenues other than fees.

The magnitude of *financial resources assigned directly for regional development goals* is insignificant in comparison with other funds. The processes of the various funds in defining their goals, methods of distribution and selection criteria are not harmonised. The need for harmonisation and co-ordination to comply with territorial aspects still emerges as a Government concern rather than as practice, while sectoral aspects and assertion of interests are still dominant.

Joint financing raises not only quantitative but also administrative requirements. One prerequisite for the approval of EU assistance is that a statement of recognition of financial obligations on the part of the central and local governments and the private investors throughout the duration of the project be enclosed in the application. In Hungary, where budget planning several years ahead exists scarcely or not at all, this requirement poses considerable problems. Regulations change every year, which makes financial obligations for several years ahead disproportionately risky. Here EU financing is linked to the further development of the whole regulation system to result in more stable regulation. Without this it is impossible to receive considerable assistance.

Regionalisation

The actual geographical designation of the NUTS system, and within it the NUTS II level, is an internal affair from the EU's point of view, which means that, apart from some general criteria, there are no absolute EU requirements about the geographical designation, so the Hungarian parties involved have to reach their own consensus.

This consensus is all the more important, since the main aspects to be considered in the geographical designation of the development regions are the following:

- previous history of regional co-operation, opportunities for territorial cohesion;
- proportionality in the country's spatial structure;
- relative territorial homogeneity considering the basic goals of regional policy;
- internal structures of the regions that allow proper operation (centre, sub-centres, willingness and ability for co-operation etc.), compliance with administrative borders;
- the “geopolitical” similarity of the units to be integrated into the region, the proximity of the international orientations which are decisive in the long term;
- costs of the establishment and operation (the institutions for decision making and for the preparation of decisions, the professional and administrative background institutions, the organisations for information management, planning, management and controlling-monitoring activities, the institution system for decentralised financing), economy of scale with regard to the functions.

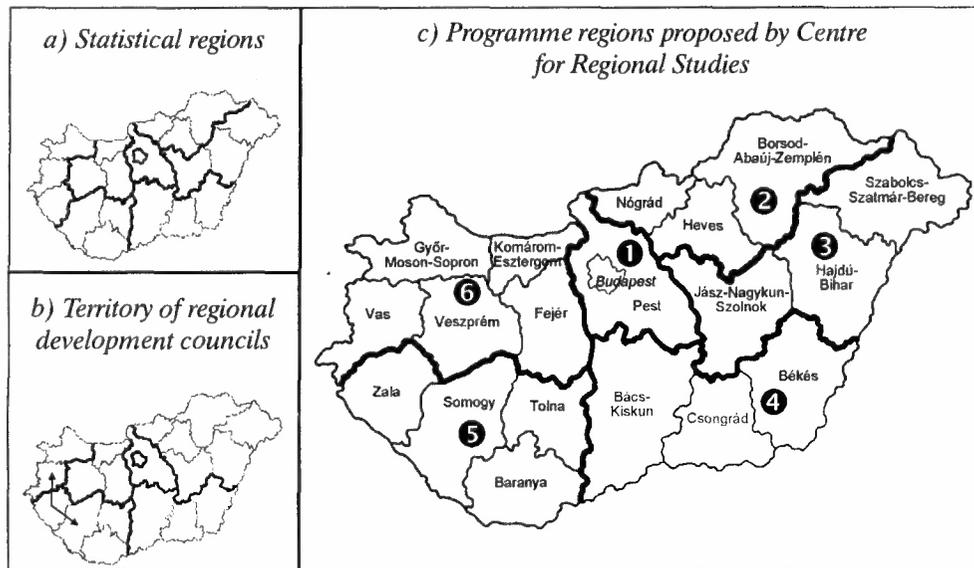
On the basis of the above aspects there are more reasons that support the six-part division. The most important of these reasons are:

- the two-part, as opposed to the three-part, division of Transdanubia is historically grounded;
- the internal cohesion of the territorial units realised by the two-part division of Transdanubia is stronger, the courses of development predictable on the basis of internal resources also suggest unity along these lines of division;
- further partitioning would lead to such dualities of development which are spatially unnecessary with regard to the whole country;
- the two units, although different in nature and development, have territorially-accepted regional centres, the emergence of a third regional centre has little ground and is hardly probable.

The regions to be established are shown in *Figure 4*.

In this situation the Government and the Parliament are responsible for the final decisions. When defining the regional units it is not the particular and short-term territorial financial interests that must be considered, but rather the regions' improved alignment within the EU structure and, in the “Transdanubia debate”, the long-term structural interests of the country and of the area.

Figure 4
Various designation of regions in Hungary



1 – Central Region, 2 – Northern Hungary, 3 – Northern Great Plain, 4 – Southern Great Plain,
 5 – Southern Transdanubia, 6 – Northern Transdanubia

CONCLUDING REMARKS

The above discussion illustrates that regional policy in Hungary is in a state of flux, with dynamic processes of change at regional and national levels. There is a widespread, but not universal pressure for structural adaptation within regions and localities. New forms of regional development are being introduced or revived. Different institutional structures and organisational systems are emerging, and the relationships between levels of government and between bodies within regions are changing.

These developments give rise to several questions or issues. The *first* question is whether the resources available for regional development are adequate for the challenges of economic and social restructuring.

In comparison with the redistributive effects of public finance as a whole, the impact of regional aid is small. The Regional Development Fund accounts for less than 0.2% of GDP. Under present Hungarian practice governmental regional policy is jointly assisted by the various sub-systems of the budget, especially the central budget, separate state funds, and the budgets of local governments.

The volume of financial resources in the Regional Development Fund can only be increased at the expense of other state and sectoral funds, and priority should be given

in the state budget reform and the revision of the state funds to the resources for regional development.

The Hungarian Government undertakes that by the time of Hungary's accession to the EU it will establish a financial system corresponding to the Structural Funds of the EU, which will:

- create an agricultural support system in accordance with EAGGF to strengthen and transform the structure of agriculture, to counterbalance the impact of unfavourable geographical features on agriculture, and to foster the development of rural society, environmental protection and nature conservation;
- set up a Regional Development Fund corresponding to ERDF, increase endogeneous potential of the regions, foster local developments, small and medium-sized enterprises, cross-border co-operation and innovation;
- further differentiate in the target system of the Labour Market Fund, which already almost corresponds to the target system of the EU in accordance with the ESF.

The *second* question is whether there is a danger, despite the many positive virtues of the trend towards regions becoming more self-reliant, of regionalisation being seen as a substitute for central Government action. There is a potentially destructive dimension to the increasing competition among regional authorities.

In Hungary, as a unitary country, the large administrative regions are absent, nor is their formation urged by either the governmental agents interested in centralisation or the regional organs that wish to expand their own competencies. Nor does the reform programme of the public administration of Hungary take the organisation of the administrative regions into consideration. From the perspective of regional development, however, the programme regions should be organised in Hungary as soon as possible.

The weaknesses in the regional structure of Hungarian economy and society (the dominance of the capital city in advanced activities, the extreme regional differences in income generation, the lack of regional cohesion within the semi-peripheral regions and the peripheries) can only be abolished if a strong decentralisation process takes place, at the same time accompanied by some concentration. That is why the management of the organisational process of the regions can be considered an important task.

The formation of the development-programme regions is a designation task to a lesser degree, to a larger extent it depends upon the creation of mechanisms and organisational solutions enabling the co-operation among the bodies interested in regional development (regional development councils, county governments chambers, companies-businesses etc.)

Finally, within Western Europe the relationship between the EU and nation states in the field of regional policy is in need of review. Depending on the outcome of discussions over EU enlargement, such a review has always been anticipated since the EU appears unlikely to be able to extend its current regional policy to potential new Member States in East-Central Europe. Addressing these concerns are the key princi-

ples of EU regional policy, and the commitment to EU economic and social cohesion are not to be endangered.

The financial cost of Hungary's accession to the EU regional development budget is difficult to calculate at this stage. In our estimation regional development support for Hungary would cost 1.5-2 billion ECU.

In addition to financial restructuring a key constraint for regional development in East-Central Europe, however, is that regional policy is still in infancy. In Hungary, however, regional policy measures have progressed far beyond the conceptual stage, the institutional infrastructure has been in action, and there has been a recent trend to achieve greater compatibility between EU and Hungarian regional policies.

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