

DEVELOPMENT LEVEL AND COMPETITIVENESS OF HUNGARY AND ITS REGIONS IN CONTEXT OF EUROPEAN UNION

STUPANJ RAZVOJA I KONKURENTNOST MAĐARSKE I NJENIH REGIJA U KONTEKSTU EUROPSKE UNIJE

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Abstract: *In this paper Hungary and its regions are analysed in respect of economic development and competitiveness in the European (EU) context. The objective is to explore how their positions have changed since joining the European Union. The results show that the position of these areas was getting worse in the examined period, only the capital region developed, like in the other new Member States, and it produced a widening gap between the Hungarian rural areas and the capital region.*

Key words: *EU, Hungary, regional differences, development level, competitiveness*

Sažetak: *U ovom radu analiziran je ekonomski razvoj i konkurentnost Mađarske u kontekstu Europske unije. Cilj je istražiti kako su se oni mijenjali od pridruživanja Europskoj uniji. Rezultati pokazuju da se situacija pogoršala u promatranom razdoblju, samo se glavna regija razvijala slično kao i kod drugih zemalja članica EU. To je stvorilo još veću razliku između ruralnih i glavne regije.*

Ključne riječi: *Europska Unija, Mađarska, regionalne razlike, konkurentnost*



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1. Introduction

Europe is a heterogeneous continent in natural, social and economic respects. The different historical background, geographical environment, etc. cause different economic conditions in the regions providing different opportunities for work and income for the society. This appears in the inequalities of the state of development between countries and regions [1].

The post-socialist countries after the political-social-economic transformation were in a bad state [2, 3]. After this period and after these countries joined the EU, they were expected to improve their positions. The GDP of the three Baltic States has almost doubled over the decade from 1995 to 2005; Poland, Hungary and Slovakia have also performed well with growth rates more than double the EU average. However, due to very low starting points for GDP per capita, and assuming the current growth rates, it seems likely that it will take more than 15 years before Poland and, most especially, Bulgaria and Romania will reach a GDP per head of 75% of the EU-27 average [4][10].

On the one hand this paper focuses on the economic development of Hungary, one of the post-socialist countries, and – because there are large inequalities within the country – its regions. Our objective is to explore how their positions have changed since joining the European Union.

On the other hand we try to explore two components of economic development in the case of Hungary: labour productivity and the level of employment. Past studies of economic development and regional inequalities in Hungary focused on the domestic relations [5][6], so this paper examines the data in the European (EU) context after the EU-enlargement.

2. The Economic Development Level

Gross Domestic Product (GDP) is the best known measure of macro-economic activity, and GDP has become a standard benchmark used by policy-makers throughout the world and is widely used in public debates.

The EU bases several policy decisions and instruments on GDP, at present (2007-2013) the level of development is measured by GDP per head, although there is an aspiration to correct it (see Brussels, 20.8.2009, COM(2009) 433 final), because the need to improve data and indicators to complement GDP has been increasingly recognised and is the focus of a number of international initiatives.

If we analyse the countries of the EU we can recognize that the difference between the Member States is large, the value of GDP per capita (pps, EU27=100%, 2008) – except for Luxembourg (277%) and Romania (42%), Bulgaria (41%) – is twice higher in the developed countries than in the underdeveloped ones (Figure 1.). However in the past years (2003-2008) this gap continuously narrowed because the new member states were slowly catching up (Table 1.).

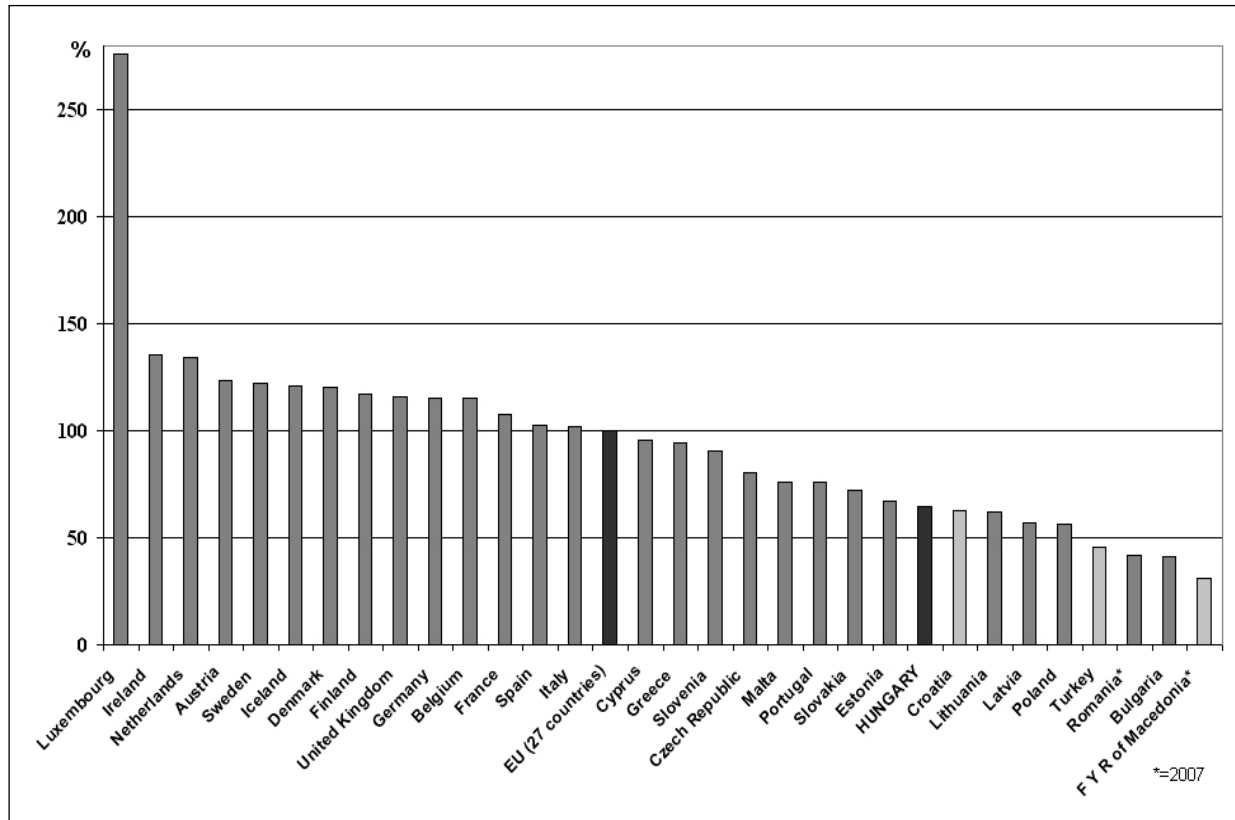


Figure 1. GDP per head (pps, EU-27=100%) in the EU-countries, 2008

The economic development position of Hungary in the EU is bad and is getting worse: in 2008 it was 22th on the list of countries (64% of the EU average), only Latvia, Poland, Lithuania, Romania and Bulgaria came after it. Moreover, between 2003 and 2008 the value did not change (63-64%), so Slovakia and Estonia preceded Hungary.

Year	2003	2004	2005	2006	2007	2008
Weighted Coefficient of Variation of the GDP per head (pps) (%)	23.2	22.1	21.7	20.8	19.7	18.5

Table 1. The differences of development level between the EU-27 countries, 2003-2008

There are 271 NUTS2 regions in the EU-27 according to the NUTS-2006 document. The disparities in GDP per head at this level are large: in 2006 the richest regions of the EU - with 20% of the population - had 31% of GDP, and their GDP per head (pps) was 154% of the EU average; the poorest regions - with 20% of the population - had 9.5% of GDP, and their GDP per head was 48%. In 2006 nearly every seventh NUTS2 region's GDP per head was above 125% of the EU average, and every fourth was below 75%. Most of the underdeveloped regions were in the new Member States of the EU.

If we analyse the time-period: between 2003 and 2006 the disparities in GDP per head gradually narrowed (Table 2.). This convergence occurred because the capital regions of the new States and some other regions developed in these years.

Year	2003	2004	2005	2006
Weighted Coefficient of Variation of the GDP per head (pps) (%)	30.3	30.0	29.5	28.9

Table 2. The differences of development level between the EU-27 NUTS2 regions, 2003-2006

In Hungary on NUTS2 level there are seven regions, which were created in the middle of the 1990s, and they first appeared officially in the first National Conception of Hungarian Regional Development (1998) (Figure 2.). In 2006 six out of seven regions had bad development position in the EU: their GDP per head was below 2/3 of the EU average, moreover, except for the Nyugat- and Közép-dunántúli regions (64% and 58%), the values were between 40 and 43% (Figure 3.).

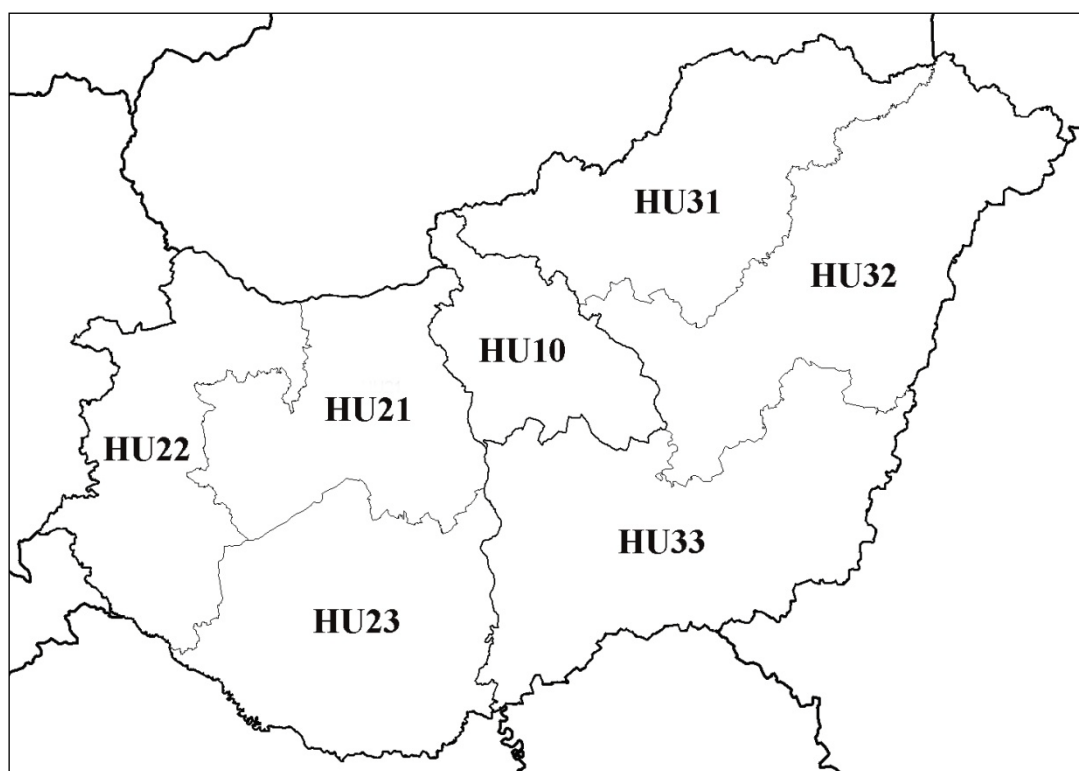


Figure 2. The Hungarian NUTS2 regions (HU10=Közép-Magyarország /Central Hungary/, HU21=Közép-Dunántúl /Central Transdanubia/, HU22=Nyugat-Dunántúl /West-Transdanubia/, HU23=Dél-Dunántúl /South-Transdanubia/, HU31=Észak-Magyarország /North-Hungary/, HU32=Észak-Alföld /North Hungarian Great Plain/, HU33=Dél-Alföld /South Hungarian Great Plain/)

Because of these values in 2006 among the 271 EU-regions the four most underdeveloped Hungarian regions (Dél-Dunántúl, Dél-Alföld, Észak-Magyarország,

Észak-Alföld) were between the positions of 251-255th in the list, some Polish, Romanian and Bulgarian regions were in worse positions. Only the Középmagyarországi region had high GDP per head: it was 106% of the EU average.

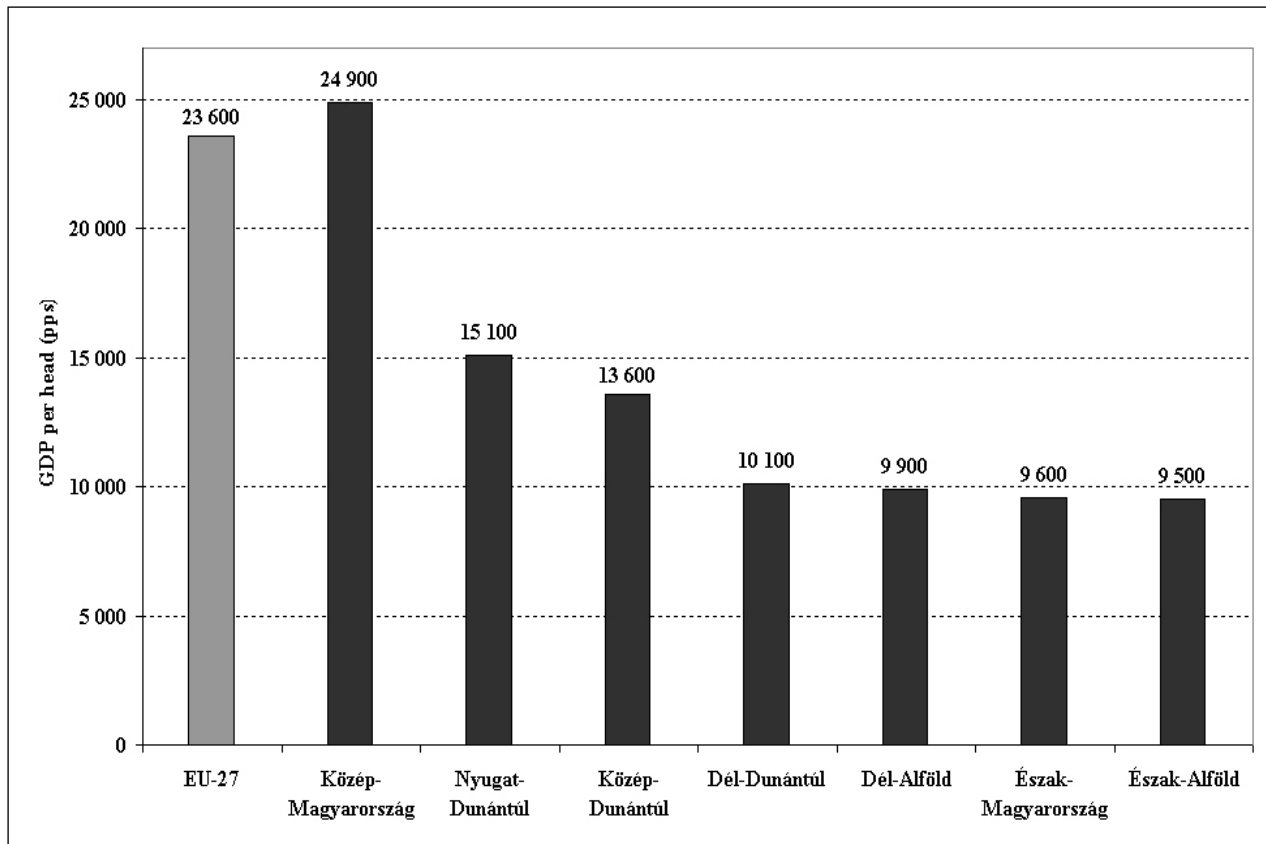


Figure 3. GDP per head (pps) in the Hungarian regions, 2006

Over the period of 2003-2006 disparities in GDP per head between the Hungarian regions broadened: while the value of the central region gradually increased (from 100% to 106%), and it outdistanced several European regions, in the meantime the relative positions of the rural regions worsened. The economic development of the central region (capital Budapest and its region) is singular in Hungary, furthermore this is prominent in the EU.

But this process is not special, between 1995 and 2004, capital city regions strengthened their economic position within the countries on average their share of national GDP increased by 9% while the population only increased by 2%. Only Berlin and Dublin saw their share of national GDP decline (by 10% and 3%) [4], in other words, within the Member States economic activity has become more concentrated in capital city regions throughout the EU.

The problem is that in Hungary this change was very dramatic. Hungarian rural regions fell behind, and the regional difference was large and it was increasing. If we analyse the difference of GDP per head within countries, we can recognize that in most of the old Member States it did not change or there was slow convergence, but in the new Member States there were divergences (Table 3.)

The results emphasized that the important reason of the measured convergence in the EU is that the underdeveloped countries have started the closing up, but it is territorially different, it is concentrated to only some urban (mainly capital) regions.

Country (number of regions, NUTS-2006)	Weighted Coefficient of Variation of GDP per head (pps) (%)			
	2003	2004	2005	2006
HUNGARY (7)	34.2	33.4	35.6	37.6
Bulgaria (6)	23.7	26.0	26.4	30.9
Slovakia (4)	27.8	28.3	31.7	30.1
Romania (8)	23.7	23.0	26.9	27.5
Greece (13)	24.5	26.2	25.6	26.8
Belgium (11)	25.0	25.2	25.6	25.5
Czech Republic (8)	24.9	24.2	25.1	25.4
Italy (21)	24.3	24.2	23.8	23.4
Portugal (7)	22.8	23.0	23.3	22.6
United Kingdom (37)	21.9	22.1	22.4	22.4
France (26)	20.9	19.9	20.3	20.4
Poland (16)	18.3	18.7	19.4	19.5
Slovenia (2)	19.2	18.6	18.5	18.7
Croatia (3)	18.3	17.6	19.2	19.1
Spain (19)	19.1	18.8	18.4	18.4
Germany (39)	17.8	17.6	17.3	17.3
Austria (9)	18.0	16.8	16.9	16.1
Ireland (2)	17.7	16.4	16.7	15.9
Denmark (5)	...	14.4	16.3	15.7
Finland (5)	15.4	15.7	15.4	15.5
Sweden (8)	14.8	15.6	16.4	15.3
Netherlands (12)	11.0	11.3	11.9	11.7

Table 3. The differences of development level in the EU-countries (and Croatia), 2003-2006 (except for those countries (6) where the country is one NUTS2-region)

3. Competitiveness

Competitiveness is a complex idea, a generic term. In the respect of territorial dimensions competitiveness means a readiness of the regions to take part in the competition of the regions [7]. Economic competitiveness is often measured by a method, when the state of economic development (GDP per capita) is disintegrated to two factors: labour productivity (GDP per employment) and employment (employment per population) [7][8].

In the EU the differences of economic competitiveness between the countries are similar to the case of economic development: the old Member States are in better positions. But while in 2008 the values of GDP per employment of these states were above the EU average (except for Portugal) and the values of the new Member States were below it, at the same time the state of employment is complex: in some South and West European countries the state of employment was worse than, for example, in the Baltic states, Slovenia, Czech Republic (Figure 4.). Hungary is in a group where the values of the two factors are below the EU average, moreover, this country is separated from the other countries of the group.

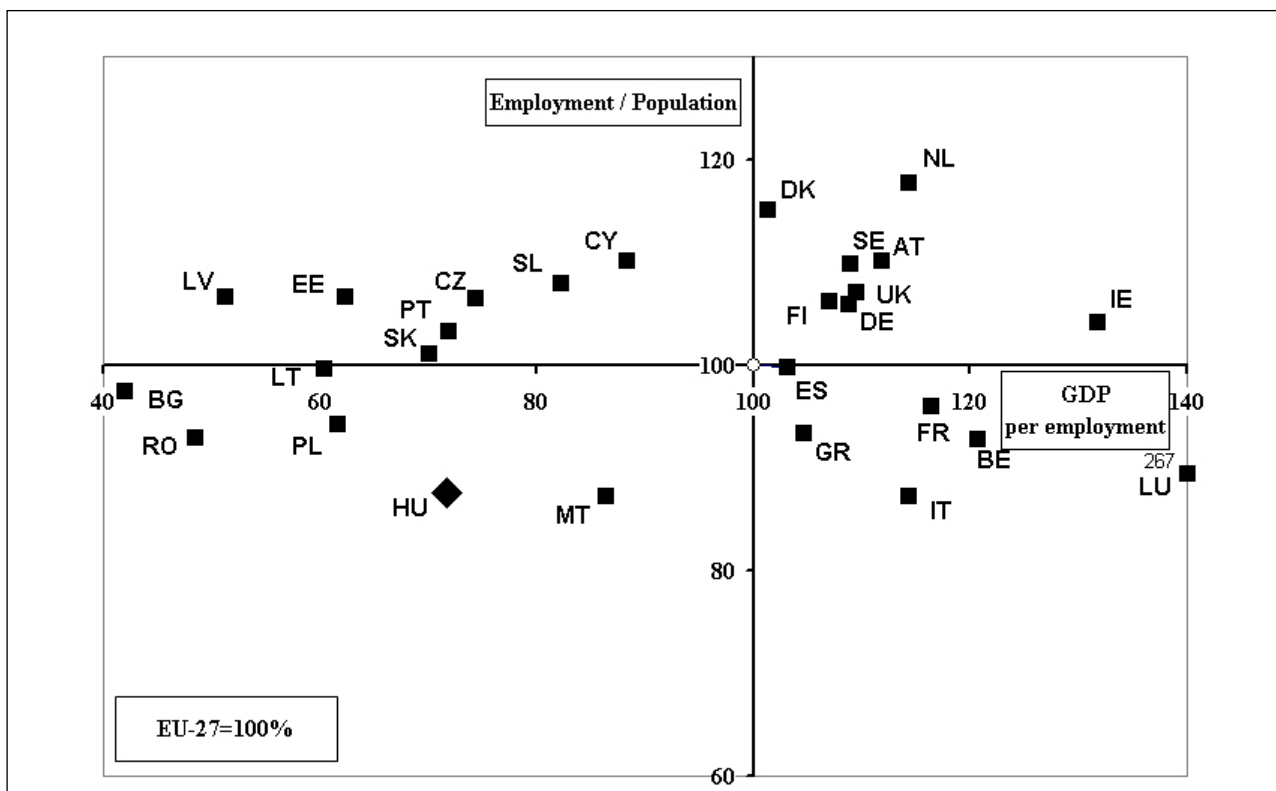


Figure 4. Labour productivity and employment in the EU-countries, 2008

In the period 2003-2008 the economic development level of Hungary did not change (63%-64% of the EU-average), but the values of the two components were changed: the labour productivity improved but the level of the employment declined (Table 4.).

Year	2003	2004	2005	2006	2007	2008
GDP per employment (EU-27= 100%)	68	69	69	70	70	72
Employment rate (EU-27=100%)	93	92	91	91	89	88

Table 4. Labour productivity and employment in Hungary

On regional level in 2006 there was a large dispersion in the cases of employment and labour productivity. Labour productivity of the old Member States' regions was close to or above the EU average, and only some urban regions could close up from East. On the other hand the condition of employment is composite, similarly to the case of the countries.

Six out of seven Hungarian regions were below the EU average in the cases of both factors, although Nyugat- and Közép-dunántúli regions were close to the average in terms of employment. The Közép-magyarországi region had a similar average value, but the GDP per employment was much higher than in the Hungarian rural regions, despite this the value was only slightly above the EU average (Figure 5.).

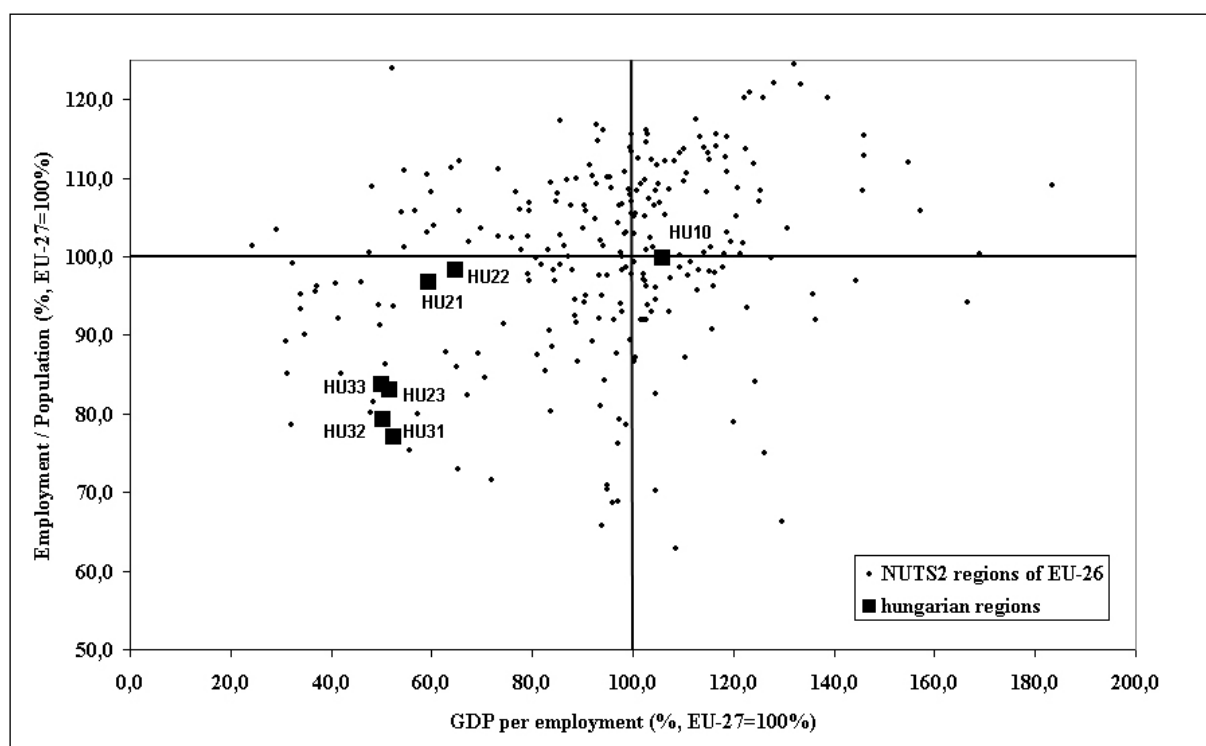


Figure 5. Labour productivity and employment in the EU-regions, 2006

From 2003 to 2006 Közép-Magyarország considerably, Közép-Dunántúl and Észak-Magyarország slightly improved its position in the case of labour productivity compared to the EU average. The values of the other four Hungarian regions decreased. The state of employment became worse in all the seven regions, to the

greatest extent in Közép-Dunántúl and Észak-Magyarország, to the least extent in Dél-Alföld and Közép-Magyarország.

4. Conclusion

In the past years the level of development of Hungary stagnated in the European (EU) context, and the position of its regions became more disadvantageous, except for the central region. In the case of economic competitiveness the labour productivity of the country improved, but the employment declined. Four out of the seven Hungarian regions' (Észak-Alföld, Dél-Alföld, Észak-Magyarország, Dél-Dunántúl) ability of competitiveness was very slight and was weakening, the position of two regions was a little bit better, but was weakening as well, only the Közép-magyarországi region was in a relatively good situation: its labour productivity improved and the level of employment stagnated.

5. References

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Photo 183. Students on excursion / Studenti na izletu