

**THE FUTURE OF
INDUSTRIALISED CITIES AND REGIONS
UNDERGOING STRUCTURAL CHANGES**

**HUNGARY
Country Report**

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In Hungary, in the first period of modern industrialisation the spatial pattern of heavy industries (mining, energy production, iron and steel industries) was determined by the locational pattern of energy and mineral resources. Most of the industrial centres thus developed were in the areas disannexed from Hungary after World War II.

During the difficult consolidation in the mid-war period the new industrial pattern evolved slowly. In this process industrial development centred in Budapest and the surrounding industrial towns (later, in 1950 connected to the capital to form Greater Budapest), and the pattern was later completed through the development of a few secondary centres.

A new trend of accelerated development of heavy industries started in the late 1940'-early 1950's in accordance with the Soviet model similarly to all other socialist countries. A specific feature of this development in Hungary may have been the fact that the focus on heavy industries and their overwhelming ratio in the national economic structure was absolutely incongruent with the domestic economic potentials. Furthermore, the concentration on the promotion of the growth of iron and steel production and heavy manufacturing was highly detrimental to even the survival of previously promising developments in more sophisticated industries like electronics and precision instruments.

The dominance of heavy industries as well as mass production in all economic sectors involved an overall decline in the quality of both products and services.

Regional disparities have been a major development issue in Hungary throughout the twentieth century. A fundamental element of spatial disparities has been the gap between the capital, and later on the capital region and the rest of Hungary.

During the four decades up to the end of 1980's the changes of regional structure took the following pattern:

- the concentration of people, activities and investments in Budapest further increased,
- centres of heavy industries (mining, metallurgy and heavy manufacturing) evolved on the basis of existing towns and new towns, together forming a Northeast-Southwest axis of industrial development,
- from 1960 a decentralisation tendency began and increased further in the 1970's, involving all county centres and other major towns in the development of industry and housing,
- another feature of the 1970's was a modest decentralised development of services, especially of secondary and higher education, resulting the establishment of institutes of higher education in all county centres,
- industrial decentralisation spread further in the 1970's with the establishment of minor industrial assembling plants in small towns and some rural settlements,
- industrial decentralisation took the form of decentralisation of labour intensive industries and brought about the establishment of auxiliary plants without local management,
- all the decentralisation efforts resulted in low quality developments both in housing and industries, while the concentration of capital and intellectual resources prevailed in the capital and a small number of regional centres.

In view of the evolved situation structural changes were not only processes generated from the global trends but also indispensable though painful conditions of recovery of a fundamentally ill shaped national economy. One can say that the sharp decline of national domestic product in the early and middle 1990's was the consequence of a surgical procedure, of crisis, which however, was the necessary condition of future recovery.

Table 1: Yearly change of the GNP/Capita

year	previous year: 100	1887:100
1988	100	100
1989	100.1	100.1
1990	96.5	96.6
1991	88.1	85.1
1992	96.9	82.5
1993	99.4	82.0
1994	102.9	84.3
1995	101.5	85.6
1996	101.3	86.7
1997	104.4	90.5
1998	105.0	95.1

Table 1. starts in 1988-1989, the last years of the previous economic system, when the absolute figures of national product were misleading, as production itself did not contribute properly to national prosperity. The figures show a drastic fall of the national product in the first years of the decade. Afterwards a slow growth began, and they did not reach the level of 1988 before the year 2000.

The impact of industrial restructuring and the decline of heavy industries and mass production were first felt in the 1980's. Redundancies thus involved first affected the commuting, unskilled workforce living in the rural peripheries. The second wave of industrial decline brought about the closure of the small auxiliary firms in the rural centres.

Although the processes in the 1970's and especially the 1980's had had a preparatory role, the changes in the 1990's were large and radical. Privatisation and loss of the Soviet and other East-European markets, new trade orientations and cross border relations as well as the arrival of foreign capital have rearranged the spatial structure and changed the pattern of regional disparities.

Because of the intensity and robustness of the spatial changes, the resulting polarisation became more visible than ever before.

The change of the political system in Hungary in the early 90's brought about deep changes in the economic and social processes and in the spatial structure of the country.

The Eastern and northeastern regions have been, on the whole, the losers of the transformation of the political system. Unemployment is long lasting, the rate of foreign investments is low, and although the number of enterprises is high, their profit is low, due to their poor transport connections to the dynamic regions and the capital. There are only a few larger cities and county centres standing out of their environment, but these absorb working resources of their smaller or larger environment (migration centres of high capital and institutional concentration, and of innovative man-power).

Table 2. and 3 show the spatial differences of industrial production as they have evolved by the end of the previous decade.

Table 2: Industrial Production, 1998

County, Capital,	Industrial output per capita, HUF
Budapest	673. 901
Pest	580. 401
Fejér	2. 662. 232
Komárom-Esztergom	1. 023. 178
Veszprém	620. 162
Győr-Moson-Sopron	1. 870. 893
Vas	1. 523. 882
Zala	778. 743
Baranya	420. 129
Somogy	406. 978
Tolna	566. 098
Borsod-Abaúj-Zemplén	621. 437
Heves	599. 125
Nógrád	430. 352

Hajdú-Bihar	463. 598
Jász-Nagykun-Szolnok	636. 500
Szabolcs-Szatmár-Bereg	363. 855
Bács-Kiskun	427. 169
Békés	451. 606
Csongrád	540. 086

The per capita values are by far the highest in the counties in Western Hungary where foreign capital was first attracted and remained there, the growth rate of both multi-national and national firms was rather high. The per capita figures in other dynamically developing areas like Budapest and its metropolitan region (Pest County) and Veszprém county are not so high, as in these regions the growth and ratio of services are in the forefront. The low figures in the former industrial region (Borsod, Nógrád, Heves, Baranya) are clearly due to industrial decline.

Table 3: Industrial Production, by counties, 1998-1999

Counties/Capital	1998 Output, billion HUF	volume indices previous year = 100, 0	1999 Output, billion HUF	volume indices, previous year= 100, 0
Budapest	1. 278, 0	102, 2	1. 406, 3	101, 0
Pest	606, 7	112, 4	693, 5	104, 5
Fejér	1. 128, 6	122, 8	1. 336, 6	128, 2
Komárom-Esztergom	316, 2	110, 5	366, 9	108, 3
Veszprém	236, 9	108, 5	257, 1	101, 0
Győr-Moson-Sopron	793, 6	163, 5	1. 148, 9	136, 2
Vas	414, 2	115, 4	511, 0	121, 7
Zala	230, 1	118, 5	296, 8	119, 3
Baranya	174, 3	117, 6	197, 7	115, 9
Somogy	142, 4	110, 2	170, 5	111, 4
Tolna	141, 9	117, 4	172, 8	112, 1
Borsod-Abaúj- Zemplén	466, 5	98, 2	493, 6	98, 0
Heves	195, 9	110, 2	207, 2	96, 9
Nógrád	91, 4	103, 0	100, 0	102, 7
Hajdú-Bihar	255, 0	112, 9	270, 7	98, 3
Jász-Nagykun- Szolnok	269, 2	101, 0	299, 3	103, 7
Szabolcs-Szatmár- Bereg	222, 5	115, 9	243, 8	102, 5
Bács-Kiskun	240, 2	108, 4	269, 5	105, 4
Békés	186, 0	93, 0	179, 0	90, 7
Csongrád	228, 7	109, 1	229, 6	94, 9

As it can be seen above, in the last years of the decade growth is continuing in the dynamic industrial regions. Some of the previously declining counties are slowly catching up, like Baranya, Zala, Somogy, Tolna in South Transdanubia. In the counties of Bács-Kiskun and Nógrád growth began a couple of years ago and accelerated lately due to their vicinity to the Budapest Metropolitan Region and the improvement of their accessibility due to the new motorway sections of M5 and M3. The rate of growth was also considerable in county Szabolcs-Szatmár-Bereg, which has been the poorest and most underdeveloped county in northeastern Hungary and therefore was the first recipient of both national and international support. Decline continues in counties Borsod (earlier the main area of heavy industry) and Heves, as well as Békés the underdeveloped rural county. In counties Hajdu-Bihar and Csongrád trade, financial and other services are growing faster than industry.

Table 4: Unemployment Rate

County, Capital,	Unemployment rate (%), December of			
	1995	1996	1997	1998
Budapest	5,7	5,0	4,5	3,6
Pest	7,4	6,9	6,9	5,9
Fejér	10,2	9,0	9,4	7,6
Komárom-Esztergom	10,7	11,5	11,0	9,5
Veszprém	10,0	9,4	9,1	7,9
Győr-Moson-Sopron	6,5	6,7	5,8	4,4
Vas	7,1	6,8	6,3	5,2
Zala	9,4	9,2	8,9	8,0
Baranya	11,6	12,0	13,3	11,0
Somogy	11,9	12,6	12,8	11,2
Tolna	11,7	13,6	13,5	11,5
Borsod-Abaúj-Zemplén	16,6	18,4	19,2	17,7
Heves	12,4	12,8	11,8	11,6
Nógrád	15,4	16,3	15,6	14,7
Hajdú-Bihar	13,7	15,7	15,2	13,7
Jász-Nagykun-Szolnok	14,5	14,4	14,6	12,4
Szabolcs-Szatmár-Bereg	18,8	19,0	19,3	16,9
Bács-Kiskun	10,1	10,3	10,5	9,4
Békés	12,9	13,6	14,0	12,3
Csongrád	9,0	9,0	9,2	7,8

While unemployment rate was gradually decreasing especially since 1995, the reasons of this decrease varied. In the dynamically growing regions the improvement of the employment situation has obviously been due to economic improvement. Unemployment, though decreasing, remained still high in the less developed eastern counties. Little improvement took place in the former heavy industrial counties like Borsod and Nógrád. In some counties, however, the relatively low unemployment figures are due to the ageing of population rather than to economic recovery.

Table 5: Labour data of industry by counties, 1999

Counties	Number of employees (persons)	of which manual workers (persons)	Employees in industry		Average monthly earnings of employees, HUF	
			per thousand inhabitants	as a % of the total number of employees	gross	net
Budapest	181.738	126.913	100	19,1	100.875	62.289
Pest	58.684	46.400	57	35,8	76.120	50.540
Fejér	50.697	40.283	119	46,1	89.117	56.435
Komárom-Esztergom	35.275	28.570	114	48,7	80.318	51.634
Veszprém	35.182	28.667	94	41,7	76.543	49.624
Győr-Moson-Sopron	55.703	43.545	131	45,2	84.295	54.101
Vas	37.220	32.424	139	49,5	73.849	48.757
Zala	23.306	19.312	79	34,0	64.664	43.298
Baranya	28.943	22.910	72	32,7	69.409	45.819
Somogy	21.679	18.038	65	31,8	58.461	40.187
Tolna	18.937	15.209	77	35,8	81.210	52.204
Borsod-Abaúj-Zemplén	50.911	39.979	70	36,1	76.743	49.630
Heves	23.983	19.631	74	38,3	76.834	49.702
Nógrád	15.884	13.024	73	41,9	61.162	41.577
Hajdú-Bihar	42.101	33.070	78	35,0	67.593	44.607
Jász-Nagykun-Szolnok	30.152	25.049	73	35,8	64.571	43.357
Szabolcs-Szatmár-Bereg	26.384	21.818	46	28,9	60.038	40.744
Bács-Kiskun	36.832	30.782	69	34,2	56.485	38.689
Békés	24.906	20.476	63	31,8	60.861	41.151
Csongrád	31.254	24.336	75	32,6	71.117	46.477
Total:	829.771	650.436	82	31,0	79.020	50.908

* According to the place of the headquarters.

The labour data in Table 4 show that in 1999 industry was the leading economic sector in the dynamic West Hungarian counties like Győr-Moson-Sopron, Vas, Fejér, Komárom-Esztergom etc., while in the Central Region (Budapest and Pest county) services represent the highest share in the employment structure. Another advantageous process is the changing behaviour of the multinationals. At the early stage the incoming foreign firms were flexible, that is, easily coming and equally leaving, and involved in low level production such as assembly or auxiliary production. Recently some of these firms have moved out to countries providing cheaper labour, and more sophisticated and more stable firms have come instead. Furthermore, whereas earlier the incoming firms brought their own management and experts, recently more and more Hungarian specialists, managers are given leading status and are actively involved in management. It can be also seen that incomes are the highest in these counties, so are the activity rates, and therefore the people are less motivated to continue in higher education and re-training. Wage levels are low in the regions where industrial development is a recent upheaval and is evolving with the help of institutional support.

In the lagging regions, where the prospects of productive employment are uncertain, young people and those in the middle age group are more willing to enter higher education and further training and retraining courses.

Furthermore, a closer look at selected industrial centres reveals a great variety.

Table 5: Population and population change in selected industrial centres

City, town	Population 1998 (.000)	Percentage of 1990 %
Budapest	1.839	91.2
Győr	127	98.4
Miskolc	174	88.4
Pécs	159	93.3
Salgótarján	44	92.9
Székesfehérvár	105	96.6
Tatabánya	72	97.0
Veszprém	63	98.1
Ajka	33	96.1
Bátonyterenye	15	97.4
Dorog	13	101.5
Dunaújváros	56	95.0
Kazincbarcika	34	92.0
Komló	28	94.6
Oroszlány	21	99.5
Ózd	41	93.3
Tiszaújváros	18	95.6

It must be mentioned first of all that during the last decade population as a whole decreased in Hungary, due to low birth rate and also to relatively high death rate in the middle age group. Furthermore, population in cities decreases because of an upheaval of out migration of especially young families into suburban settlements around cities. Therefore the rate of population decrease in itself is not a relevant indicator of a city's development. The demographic as well as employment figures must be looked at and analysed separately, as they are results of different processes.

Table 6: Industrial employment in centres of industries, 1997

City, town	Number of industrial employees per 1000 inhabitants %
Budapest	49
Győr	195
Miskolc	103
Pécs	87
Salgótarján	156
Székesfehérvár	235
Tatabánya	82
Veszprém	92
Ajka	235
Bátonyterenye	115
Dorog	154
Dunaújváros	243
Kazincbarcika	204
Komló	123
Oroszlány	131
Ózd	98
Tiszaújváros	435

The following groups can be distinguished:

- Budapest, the capital city and the only one in the million population range. It is also the only city in Hungary, which is directly linked to the regular international air transport. Job loss due to the decline of industries has been offset by the rapid growth of services, and the derelict industrial sites are gradually taken over by commercial facilities. Nevertheless, there are still signs of dereliction, and though there is employment shortage in certain sectors, there is growing unemployment and homelessness because of the flow of job seekers from the less developed parts of the country and also from other countries.
- Győr and Székesfehérvár are dynamic centres of growth. Their further development largely depends on their potential to maintain and promote the existing, high quality industries, attract more services especially by means of providing suitable environment and high quality workforce.
- Locational advantages and wise local management are the causes of the consolidation of two heavy industrial centres, Tatabánya and Dorog. In both cases a *modus vivendi* could be achieved through the attraction of small and medium size firms to replace industrial closures.
- Dunaújváros, Tiszaújváros and Kazincbarcika were established as so called socialist new towns in the 1950's and 1960's. Their economic structure has survived though at a reduced level. This survival is due to the continuous modernisation of iron and steel production at Dunaújváros and of chemical industries in both other towns, and also to the process of industrial diversification in the period preceding 1990. Their stability is, however, uncertain.
- In the economic structure of Pécs and Veszprém heavy industry (coal and uranium mining in Pécs and chemical and machine industry in Veszprém) used to have the leading role, though commercial, administrative and cultural services were always important too. These latter are taking over leadership, and both cities could profit from their cultural assets and architectural as well as natural potentials for tourism.
- Komló, Bányaterenye, Oroszlány were small though growing coal mining towns which have lost the whole possibility of their livelihood with the closure of mines. Their originally young population is now ageing; most of them live on subsistence support. Migration from these towns is made difficult because of the current age structure, low housing –prices and scarcity of employment possibilities in the neighbourhood.
- Similar is the situation of Ajka and especially Ózd. Both were historic centres of metallurgy (Aluminium production at Ajka and iron and steel production at Ózd). As they were not “socialist new towns” they did not figure as priorities of Government support when the first difficulties of heavy industries emerged from the late 1970's. Therefore little effort, if any, was taken to improve their situation. From 1990 the crisis was therefore particularly serious in their case. Since then a series of small and larger scale experiment were made for rescue, ranging from the continuation of production under local management to the transfer of workforce to dynamically developing regions and the support of new firm establishments. After subsequent failures new solutions are emerging by means of public-private partnership.
- Finally, Miskolc and Salgótarján are both county centres and were major centres of iron and steel production. Both cities were employment centres of outstanding importance, recipients of large-scale support of urban development. Their industries provided relatively high salary as well as housing for their workforce. Therefore both cities were centres of in-migration, but as the quality of life which they offered was not appropriate, out-migration was also substantial. Thus their growth was the resultant of substantial turnover, and their population was not stable. Once the attraction of industrial jobs began to decrease, the decrease of population became a visible process. Nevertheless, in view of the size of their population and industrial workforce, the Government was reluctant to face the problems of sudden, large-scale unemployment. Therefore, the operation of the industrial firms continued with government support, thus delaying the loss of jobs and making the process more gradual. By the end of the last decade this arbitrary maintenance of industrial production could not continue. Meanwhile several strategies were worked out under various international (Phare and bilateral) programs which all remained unimplemented.
- In both cities there are potentials which can be beneficial in the restructuring process. First of all, both cities have access to areas of outstanding natural beauty, and they also have historic monuments and natural resources (like spas e.g.) to attract tourism. Both cities are close to the national

border with Slovakia, which gives them access to funds supporting cross border cooperation. Finally, in both cities there are beginnings of local enterprise as well as civil organisations, self-help and commitment to change.

The solutions in both cities – in view of the dimension and character of the impact of restructuring – must be sought in multiple ways.

- The attraction of domestic and foreign capital is promoted by means of national support. New industrial parks have been established, which are now gradually occupied.
- A range of small and medium-size firms has emerged, some are successful, and others are less so, especially because of poor marketing.
- In both cities cultural institutions (museums, theatres etc.) are important motors of city promotion.
- The educational institutions (schools and the university in Miskolc, schools, polytechnics and training centres in Salgótarján) are essential focal points.
- The first steps of cross border cooperation – after the failure of industrial cooperation between the firms of Miskolc and Kosice – are in the field of environment and tourism. Joint programs are organised.

Consolidation in Miskolc and Salgótarján will be a long and still painful process, and it is only hoped that the current phase is the beginning of a period of improvement.

In the National Development Program and the regional programs the issue of industrial restructuring and its impact on the former industrial centres are dealt with, suggesting various solutions, for the implementation of which operational programs are worked out. The current, careful optimism is due to the fact that there is a slow but visible process of development dynamism moving towards the East and South of Hungary. This process is supported by the improving relationships with the neighbouring countries.

In the national and regional programs care is taken to promote the environmental improvement of the former heavy industrial areas. Most of these areas are surrounded by an attractive natural environment, and therefore are like scars in a beautiful landscape. Environmental improvement is an important precondition of their stable socio-economic growth and development.

In the National Spatial Plan zones are identified where the implementation of complex environmental improvement is urgent and indispensable.

These zones cover continuous and specially damaged areas that had been exposed to irreparable changes and destruction due to mining and related industrial activities (waste rock piles, slag dumps, sludge reservoirs).

In the municipalities incorporating such zones, re-utilisation and landscape planning of the areas designated for complex landscape rehabilitation have to be carried out in accordance with the landscape plan based on the new objective(s), furthering spatial interests, specified in the spatial plans of special regions and counties.