

THE REGIONAL EFFECTS OF TRANSITION IN TWO COUNTRIES OF DIFFERENT ENDOWMENTS

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Historical antecedents

Apart from a few formal similarities ensuing from being part of the same political bloc for four decades, the 20th century development of the two countries was fundamentally very *different*. Historical development had tied the two countries to different geo-political gravity zones. Hungary, as part of the Central European macro-region, could join the mainstream of European industrial transformation much earlier; Bulgaria, by contrast, located in the Balkans and freed from Turkish rule as late as in the late 19th century, struggled for decades to establish the basis of a modern economy. The strategic purpose of the Hungarian economic policy between the two world wars was to create internal cohesion in a country reduced to one-third of its former size; whereas the Balkanic-type economy was characterised by the overall dominance of the agricultural sector. For a few years after World War II, however, employment was still dominated by the agriculture in both countries: it accounted for 80 percent of all employment in Bulgaria and 50 percent in Hungary. Industrial employment was at 11 percent in Bulgaria and 23 percent in Hungary during the same period. The small number of industrial workers (350,000 in Bulgaria and 700,000 in Hungary) were heavily concentrated in territory. Outside the capitals, only in a few major towns provided any industrial employment.

The *forced industrialisation process* of the socialist planned economy during the 1950s and 1960, which in both countries formed the basis of the modernisation programmes aimed at strengthening the new regime, had ambiguous results. The policies of this period definitely encouraged the growth of industrial employment and its more even territorial distribution, had a strong impact on the settlement structure, stepped up the process of urbanisation, and their social and cultural programmes helped the rural areas become more civilised. The indicators of quantitative development improved remarkably in both countries. Between 1950 and 1970, the rate of urban population grew from 20 percent to 53 percent in Bulgaria, and from 37 percent to 45 percent in Hungary. By 1970, industrial employment reached 1.1 million in Bulgaria and 1.7 million in Hungary. The economy, however, owing to collective ownership and the isolated economic integration, got stuck on a low level of development. The structural changes of the economy were paralleled by a

decrease in territorial differences; yet, the emerging relative territorial balance in fact meant the even spreading of poor performance. In 1975, the GNP per capita figures of the two countries were nearly equal, while territorial inequalities were remarkably contrasted. In the two countries, half of the territorial units surpassed the mean GNP figure of the COMECOM countries. 11 territorial units out of 28 in Bulgaria and 14 out of 20 in Hungary surpassed the Eastern European average.

The *centralised economy* assumed completely different shapes in the two countries: they greatly differed in their system of economic organisation, in their tools of economic policy and in the directions of their European contacts. After the 1968 reforms of economic policy, Hungary set off, though cautiously and not very steadily, on its way to a market economy; Bulgaria, by contrast, apart from a few minor realignments, firmly retained the outdated structures of a planned economy and political homogenisation until as late as the early 1990s. The “soft dictatorship” left its mark on Hungary also in regional and settlement development. At the beginning of the socialist period, regional development had a number of ideological goals: to ensure equal housing opportunities to all citizens, to level the differences in the living standards of the various social layers, and to represent the working class in every town. During the later periods of state socialism, these goals were replaced by practical technocratic issues. While the political declarations eulogised the soviet example, grains of the Western European patterns appeared in all aspects of the practical regional and settlement development policies and in the spatial organisation of the government; from the creation of basic service centres to the establishment of district schools and the process of administrative integration. In the central policies of regional development, the tools of economic planning were increasingly combined with elements of a normative regulation. In 1971, the Hungarian government issued a decree defining the long-term goals of regional and settlement development; in 1985, the Parliament passed a ruling on regional development.

The areas of regional assistance, the *meso-regions*, are also organised differently. The formal territorial administrative system of Hungary did not change. The 20 territorial units (19 counties and the capital) continued to form the basis of territorial administration after World War II. The only changes in the system of administrative units were the abolishment of district councils in 1971 and a certain degree of concentration of the administration of settlements between 1950 and 1990: the administrative tasks of 3200 settlements were performed by 1700 settlement councils. After the change of regime, however, each settlement became a separate municipality.

Territorial administration underwent several changes in Bulgaria. The fact that the territorial units, like in most other Eastern European countries, were not considered a stable framework for the organisation of the state, is explained by the fact that in the new nation states that emerged after World War II, meso-level public administration lacked those centuries-old traditions that had existed in Hungary. In 1959, the 13 territorial units in Bulgaria were replaced by 28 districts (*okrugs*); the

1987 administrative reform created 9 larger territorial units (*oblasts*) in place of the counties; finally, in 1999, the former 28 districts became the basis of territorial administration. These territorial units, however, perform the central administrative functions of the state, and fundamentally serve as the deconcentrated units of the central government.

In Hungary, by contrast, the unified territorial administration system of the state was not established: the counties are local governments led by elected bodies. The one and only element of the sub-national local government system of Bulgaria is the set of 262 “settlement groups” (*obshtinas*). One settlement group includes an average of 20 settlements, and the average population of these municipalities is 31 thousand. This is ten times as high as the average population of one municipality in Hungary. These large municipalities in Bulgaria were created in 1979. Then, 291 sets of settlement groups were established (*selishtna sistema*), which formed the basis of a long-term development strategy. These settlement groups were classified in five types; three of these types are classified as underdeveloped and cover 44 percent of the country’s population.

In Hungary, quite the opposite processes took place as in Bulgaria. As the first step towards the reform of the heavily centralised administrative system, the district councils were abolished in 1971, and in the 97 districts only the central administrative organs continued to function with limited scope of authority. In 1985, the districts were eliminated from the Hungarian administrative system. After the change of regime, all settlements became independent communities, which posed a great problem in the territorial organisation and development of the administrative and infrastructural services. In 1994, therefore, 150 small areas were defined for statistical and planning purposes. A small area is a group of geographically linked settlements with real economic and infrastructural contacts. Small areas do not have administrative functions; they only perform tasks of co-ordination.

From the 1970s onwards, a limited number of regional elements appeared in the *long-term economic plans* of the Eastern European countries, mainly following the Soviet attempts in regionalisation. The territorial framework of economic planning was the system of the planning and economic regions. Six such regions were defined in both countries. Owing to the centralised political system, however, no organisational changes toward decentralisation could be administered in these territorial units. The planning and economic regions only served the purposes of national planning. In Bulgaria, they played an important role in the distribution of central resources. In Hungary, they had no such function, but they greatly contributed to the modernisation of territorial statistical practices and to the development of regional studies. The spreading of the regional approach could also be witnessed in some sub-systems of the economic policy. There was an increase in the amount of development resources that the county councils could dispose of independently; a central regional development fund was established (with the aim to facilitate the structural transformation of the mining areas, the development of factories and plants in Budapest, and the industrial development of the selected rural centres);

and pilot programmes were launched for the development of backward rural areas. In neither of the countries were the territorial programmes closely linked to the new planning regions: in Bulgaria, the settlement systems, while in Hungary, the counties and the assisted areas identified within them were the beneficiaries of the poorly financed national territorial policy.

Changes in the *settlement structure* were primarily quantitative. By the late '90s, the rate of urban population reached 69 percent in Bulgaria and 63 percent in Hungary. The weight of both capitals, at the peak of the town hierarchies, is remarkable: Sofia accounts for 14 percent, Budapest for 18 percent of the population of the respective countries. The role they play in the economy and in cultural life is more dominant than their share of the population. The important elements of the market economy are concentrated in the capitals (*Table 1*). Several elements of a decentralised development policy could be designed to decrease this unfavourable, decades-long territorial concentration.

In the shaping of a decentralised development policy, the large and medium towns of the second level of the town hierarchy play an important role. The endowments of the two countries are similar in this respect. Bulgaria has three towns with populations over 200,000 (Plovdiv, Varna and Bourgas), and three towns (Rousse, Stara Zagora and Pleven) between 130,000 and 170,000. Hungary has one town over the population of 200,000 (Debrecen), while three regional centres (Miskolc, Szeged and Pécs) have populations of around 160,000. In Bulgaria two towns (Sliven and Dobrich) have populations between 100,000 and 130,000, while in Hungary there are three such towns (Győr, Nyíregyháza and Székesfehérvár). These medium-large towns have strong economic and administrative potentials that enable them to perform regional roles.

Table 1

The weight of capital cities in some activities, percent, 2001

Activity	Sofia	Budapest
Industrial output	15.9	17.6
Foreign direct investment	49.9	56.5
University students	43.3	49.2
Employees in R&D	72.7*	55.8

* 1995

Source: Own calculations based on national statistical yearbooks.

The medium town network, with populations between 50,000 and 100,000, includes 15 towns in Bulgaria and 12 in Hungary. The small town network, with towns of less than 20 000 inhabitants is dense in both countries: it includes 152 towns in Bulgaria and 160 in Hungary. The spatial organising functions of most of the small towns are weak. They can only provide low quality services to the rural settlements in their sphere of gravity, and they don't play an important role in the

employment of the inhabitants of these settlements. In most of these towns, the majority of jobs were terminated with the closing down of the former industrial sites after the change of regime.

The *rural settlement structure* is also rather differentiated. Bulgaria has a large number of villages (5100), whereas in Hungary there are much fewer of them (2900). Although in European comparison both countries have a high proportion of villages, this type of settlement is far more typical of Bulgaria. There, 83 percent of all villages have fewer than 1000 inhabitants; this figure in Hungary is 59 percent. While in Bulgaria villages of over 5000 inhabitants are rare (there were only 8 such settlements at the mid 1990s), in Hungary 38 settlements belonged to this category in 2001.

To sum up, the following table contains the different spatial units of the two countries. *Table 2* indicates, that the differences in size between the territorial levels of the two medium-sized countries are due to the different settlement structures and local government systems.

Table 2

The NUTS systems, 2002

	Bulgaria		Hungary	
	Number	Average population, '000	Number	Average population, '000
NUTS 2	6	1380	7	1454
NUTS 3	28	296	20	509
NUTS 4	262	31	150	68
NUTS 5	5340	1.5	3135	3.2

The regional effects of transition

The soviet-type political system collapsed in both countries at the very beginning of the 1990s. The economic crisis that took place before and after the transition induced similar processes in both countries, but these processes were of different extent and magnitude and of different consequences.

There are significant differences between the two countries in the political conditions of the first years of parliamentary democracy, in the pace of the legal regulation of the market economy and in their economic performance. Although the two countries produced nearly the same economic output three decades ago, the gap between their performances has widened significantly. Hungary has recovered from the transformation crisis and has started to grow, whereas Bulgaria is only now beginning to introduce the crucial economic reform measures (*Table 3*). On account of the differences between the state of their economies and of their democratic institution systems, the two countries will qualify to access the European Union at two different dates.

Table 3

Main macro-statistical data, 1999

	Bulgaria	Hungary
Average population, '000	8,211	10,068
Total area, km ²	110,910	93,030
Gross domestic product per capita at current prices in PPS, euro	4,749	10,705
GDP percentage change over the previous year	2.4	4.5
Structure of production in percent of GDP		
Agriculture	17.3	5.5
Industry	23.1	28.2
Construction	3.7	4.6
Services	55.9	61.7
Exports of goods and services in per cent of GDP	44.1	52.6
Imports of goods and services in per cent of GDP	51.9	55.0
Gross foreign debt of the whole economy in per cent of GDP	79.8	55.9
Natural growth rate per '000 of population	-4.8	-4.8
Economic activity rate, percent of labour force	49.2	49.6
Unemployment rate	16.0	5.3
Average employment by sectors, per cent		
Agriculture and forestry	26.6	7.1
Industry	25.1	27.4
Construction	4.0	6.6
Services	44.3	58.9
Railway network, km per '000 km ²	38.7	83
Length of motorway, km	324	448
Number of cars per '000 inhabitants	232	224
Telephone subscribers per '000 inhabitants	397	358
Number of Internet connections per '000 inhabitants	3.2	13.6

Source: Bulgaria 2000, Hungary 2000.

The radical transformation of the economic structure affected the different regions in different ways. The losers of transition, like in most other European countries, were the areas dominated by heavy industry and mining, and, as a special Eastern European feature, the extensive agricultural areas. The emerging market economy brought about the strengthening of regional inequalities. Studies carried out in Hungary in the mid-1970s showed that the performance of the most developed area, Budapest, was twice as high as that of the least developed counties of the North Great Plain. In 1999, the most developed Budapest boasted a GDP per capita figure 3.5 times as high as that of Szabolcs-Szatmár-Bereg, the most backward Northeast Great Plain county and that of Nógrád county, which had suffered a deep industrial crisis. For Bulgaria no county-level GDP data are available; in the mid-1990s, the gross output figure of the most developed former oblast was 3.5 as

high as that of the least developed one. The income gaps between the newly formed counties are probably even higher. Interestingly, however, the inequalities among the NUTS 2 regions are of a different size. The difference between the GDP per capita figure of the two extremes (the most developed region, Central Hungary, and the least developed one, the North Great Plain) is 2.4-fold. In Bulgaria, by contrast, the difference between the most developed Southeast region and all the others, which are nearly at the same level, is less than 15 percent. Comparing the regional data of the member states and the candidate countries we find that the Bulgarian regions are at the bottom of the European ranking, while in Hungary two regions are above the EU average (Central Hungary and Central Transdanubia), and one (West Transdanubia) is near that level (*Table 4*).

Table 4

Level of development of NUTS 2 regions, 1998

Level of GDP in PPS as a percentage of EU15 average	Number of regions		As a percentage of population of the country	
	in Bulgaria	in Hungary	in Bulgaria	in Hungary
75–50	–	2	–	39.2
49–36	–	3	–	42.6
35–26	–	2	–	18.2
25 or less	6	–	100.0	–

Source: Own calculations based on national statistical yearbooks.

The macro-regions, irrespective of their performance, are clearly not homogeneous units. Certain areas of each region have become the losers, other areas the winners, of the transition, depending on the former development level of their economies and on the intensity of the restructuring process the underwent. One condition of an effective regional policy is the accurate definition of the areas afflicted by the negative effects of transition. It is an important achievement of the regional policies of both countries that the respective lists of the problematic areas are available to the political decision-makers. The areas eligible for assistance were defined in both countries by a government decree. In Bulgaria, 77 settlement group local governments were labelled as underdeveloped and 20 as industrial declining areas; the 36 border municipalities are also subject to assistance. In Hungary, 89 small areas are eligible for assistance (83 of these are underdeveloped and in 6 industrial restructuring is recommended). The Bulgarian policy defines 5 categories of regional development target areas (developed, developing, industrial declining, underdeveloped rural, and cross-border co-operation areas), while in Hungary four groups are defined (underdeveloped, industrial declining, agricultural problem, and high unemployment areas). The Bulgarian policy allowed for a rather narrow scope of assistance: eligible areas (underdeveloped and industrial decline areas) comprise

only 17.5% of the country's population. In Hungary, this figure is 33.5% (Table 5). There are also differences in the territorial structure of the backward areas. In Bulgaria, the population of the eligible areas are evenly dispersed throughout the country, whereas in Hungary the three eastern regions comprise two thirds of the assisted population (Figure 1).

Table 5

Assisted areas in 1999

Type of areas	Bulgaria		Hungary	
	Population, '000	Population coverage, per cent	Population, '000	Population coverage, per cent
Underdeveloped	–	–	3017	29.7
Industrial restructuring, declining	438	5.3	284	2.7
Agricultural problem	–	–	1322	13.0
Underdeveloped rural	1008	12.2	–	–
High unemployment	–	–	1742	17.1
<i>Specific problem areas total</i>	<i>1446</i>	<i>17.5</i>	<i>3408*</i>	<i>33.5</i>
Cross-border co-operation	1622	19.6	–	–
Growth	2970	35.9	–	–
Development	800	9.7	–	–

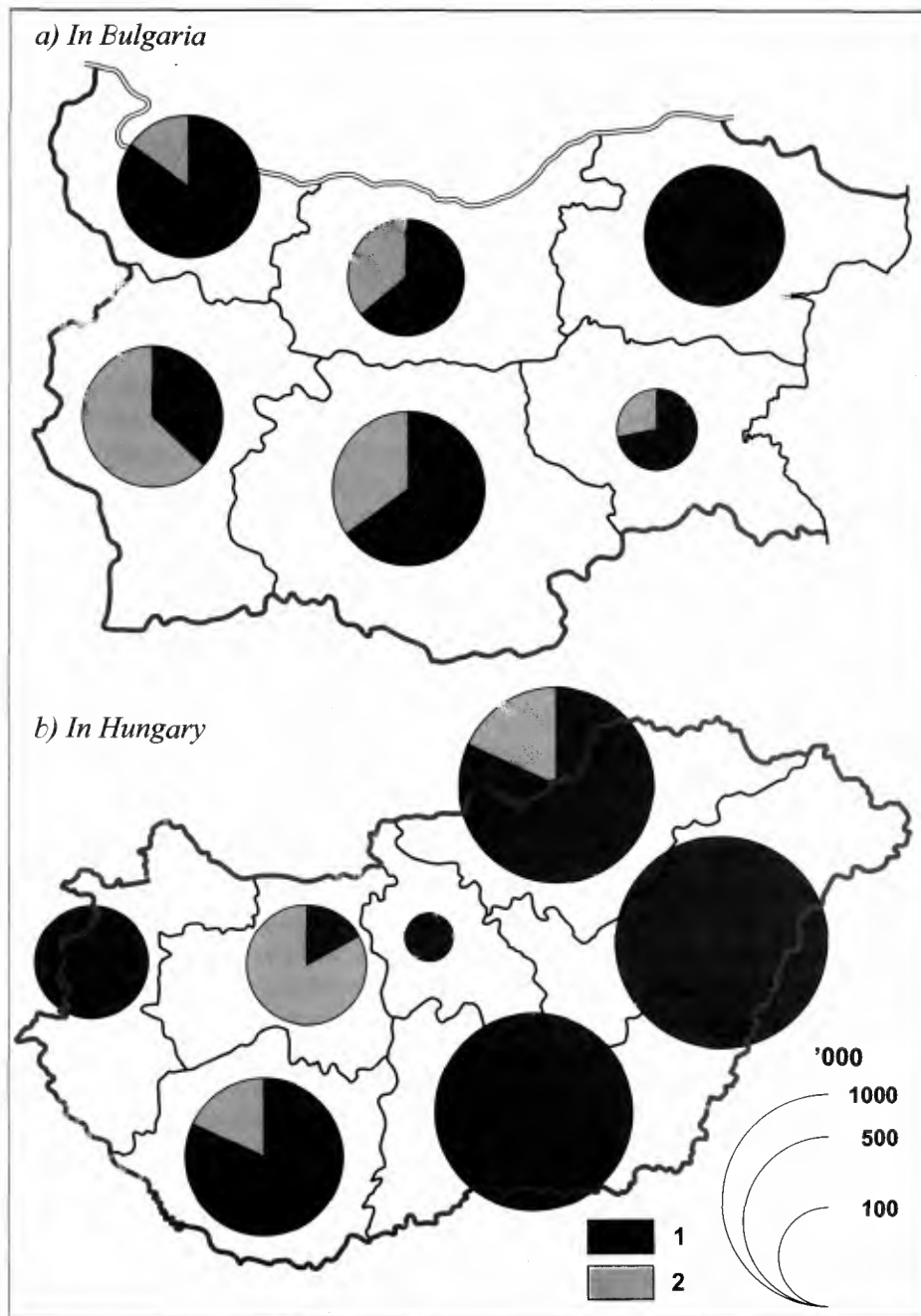
Note: One eligible area can be included in one or more problem types. The population of eligible areas was only counted once.

Source: Geshev 2001, Horváth 1998.

From among the various crisis phenomena of problematic areas, we will now only discuss high unemployment. In 1999, unemployment was at 16.0 percent in Bulgaria and 6.4 percent in Hungary. The district figures dispersed between 4.2 percent (Sofia) and 29.7 percent (Targovishte). In ten districts, unemployment surpassed 20 percent (covering 25 percent of the whole population). In Hungary, the capital saw the lowest rate of unemployment, at 5.3 percent, while the highest figure was in Borsod-Abaúj-Zemplén, 13.1 percent. Unemployment surpassed 10 percent in four counties (covering 19 percent of the total population). In part of the underdeveloped and high unemployment areas of Bulgaria, the rate of ethnic minorities is high, especially that of the Turkish minority (Gyurova 2002). In five districts, more than one third of the population is Turkish (65.9 percent in Kardzhali district, 52.9 percent in Razgrad district, 40.3 percent in Targovishte district, 38.1 percent in Silistra district, and 37.1 percent in Shoumen district).

Figure 1

Population of eligible areas by regions



The institutionalisation of the regional policies

One characteristic feature of the first post-communist democratic governments of East Central Europe was that they largely ignored the dramatic processes of the territorial restructuring of the economy. Only Hungary was an exception, where, after the 1990 democratic elections, the Ministry of the Environment and Regional Development was set up and a government scheme was prepared with a view to the restructuring of the heavy industrial areas then undergoing a severe and acute crisis. Yet, the government did not have a coherent regional strategy for the whole country; neither was the former regional development fund reshaped to meet the new development objectives; instead, it was abolished. The political elite did not recognize what regional development was all about; many identified it as a relic of the previous planned economy and considered it as a relic of communist-type economic planning.

The first government to undertake the establishment of the system of objectives, tools and institutions of regional development was the one that assumed office in 1994. The first element of their regional policy package was the passing of the regional development act in 1996. Despite innumerable compromises, this act successfully combined several decades of Hungarian regional development traditions with the rules of the structural and cohesion policies of the European Union. The Hungarian act also served as an example for the legislations of the other Eastern and Central European candidate countries (*Horváth* 1998). The regional development institutions were formed, the central, county and regional level regional development councils were set up, and the regional development fund was reorganised. The regional development act was too cautious, however, about institutionalising the regions. At first, it did not even include a definition of the development and planning regions; instead, the counties could organise voluntary regional associations to co-ordinate their common development tasks. The compulsory establishment of the seven regional development councils was ordered in the 1999 amendment of the act. For political reasons, however, the new government severely violated the partnership principle of the regional councils, terminated the representation of the regional chambers of commerce and industry in the councils, lowered the number of representatives delegated by the small areas, and by increasing the number of representatives from the ministries, it clearly subjected the councils to the central government. This was an obvious violation of the principle of decentralisation. In 1998, the Hungarian parliament passed a resolution on the National Regional Development Concept, and in 2001, the chapter on regional priorities of the National Development Plan was completed.

The new government, assuming office in 2002, pledged in its programme to restore the norms of the European Union in the regional development act, to set up the necessary decentralised institutions, to organise the regional local governments and to reform the regional budgets.

The Bulgarian National Assembly passed the regional development act in 1999. The structure and content of the Bulgarian and the Hungarian acts have a lot in common. The operation of the regional institutions is built upon the same principles in both countries. However, a significant difference is that no development councils have been established in the Bulgarian counties, and that the sphere and amount of regional development resources there are more scarce and more limited. The establishment of regions proved to be an easier task in Bulgaria, perhaps because territorial local governments there lack a history of traditions and because a territorial administrative reform was carried out parallel with the establishment of the new meso-regions. It is to be noted, however, that in spite of all this, the establishment of regions involved a certain degree of hesitation and uncertainty. It is for a reason that the government decree on regions highlights that the regions can only function to achieve the basic objective of their creation, that is, to facilitate regional development, and that their number and territorial boundaries cannot be modified within the time frame of the National Regional Development Plan (*Geshev 2001*). The most important document of this framework act is the National Regional Development Plan, which identifies the regional priorities until 2006.

Regional policy copes with countless problems in both countries. Shortcomings are also regularly spelled out by the European Commission. The reports evaluating the progress made by candidate countries contain innumerable critical comments (Bulgaria 2000, Hungary 2000). The reports over the past few years have made the following comments on Bulgaria:

- The relationship between the territorial administrative units and the planning and statistical regions is not clearly defined;
- Inter-ministerial co-ordination is weak, administrative capacities available for the operation of regional development are insufficient;
- The tasks and scope of authority of the regional level are not clearly defined;
- Regional development can draw on extremely limited budget resources; there are no independent regional budget provisions; and the conditions of mid-term co-financing have not been ensured;
- Available regional statistical data is poor.

Though more developed in formulation, and to some extent also in content, Hungarian regional policy also has a lot to improve; the European Commission listed the following shortcomings:

- Despite good preparations, little headway has been made in the operation of the institutions capable of receiving structural funds;
- The county and regional level development councils still do not operate smoothly; 8-to-10-strong regional development agencies are considered a significant improvement of the administrative capacities of the regions;
- The financing of regional development requires reviewing. The distribution of tasks among the ministries has to be clarified, and the mechanisms for the co-ordination of the various sectoral resources have to be worked out. The lack of co-ordination and insufficient staff and finances greatly hinder the preparation of plans.

The conclusions of the comparison

Bulgaria and Hungary are two small or medium-sized countries of Europe. Their regional inequalities are rooted in their belated industrial development and in the delay their urbanisation processes suffered compared to Western Europe. Their forty years of planned economy could not significantly reduce either their deficiencies in economic potential, or the reasons underlying their territorial inequalities. At the expense of considerable social costs, the economic and social inequalities among the regions were somewhat reduced during the two decades of socialist regimes. In the early 80s, it became clear that this process did not guarantee sustainable development. Policies based on the same ideological rudiments, however, went together with different practices in the two countries. The pragmatism of Hungarian regional development, also thanks to intensive co-operation with Western European professional circles, applied a number of arrangements for development not permitted elsewhere in Eastern Europe. The fact that these attempts had only partial results is explained by the prevailing political system, which worked heavily against economic reforms. To some extent, post-communist regional development in Hungary could rely on nearly two decades of antecedents. As a consequence, well-coordinated professional planning commenced in Hungary as early as at the very beginning of the 1990s, even before Hungary signed the agreement to become a candidate country, with a view to design an up-to-date system for regional policy.

Almost all elements of the system of objectives, tools and institutions of regional development struck root in Hungary for the first time in Eastern Europe. Bulgaria, where in the socialist period the territorial location of economic production followed the soviet model, undertook to introduce certain elements of the modern European regional policy only later. In these changes, the conditions required by the European Commission were more motivating than internal economic and social needs.

Despite the numerous similarities in the changes that have taken place in the territorial structures of the two countries, the differences in the responses Bulgaria and Hungary gave to the challenges of regional development and the varied results of their development efforts demonstrate that the “Eastern European Bloc” is at least as heterogeneous as the European Union. This is a fact which the structural policy reforms of the Union have to take into account.

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