

Regional, urban and rural development

REDUCING INTER-REGIONAL DISPARITIES REQUIRES A COMPREHENSIVE APPROACH

- ▶ Hungary has among the largest inter-regional gaps in GDP per capita in the OECD. These territorial imbalances could become a drag on national performance and create pressure on public budgets.
- ▶ Despite recent advances in regional policies, further efforts will likely be required to position Hungary for post-2020 Cohesion Policy. A broader approach which integrates national sectoral policies with regional, urban and rural development policies will be needed.
- ▶ Key reform areas should include how to develop small cities as “engines of growth” for lesser-performing and rural regions. The national urban policy under development should consider how smaller cities are linked together and with the national capital in a “system of cities”.
- ▶ Building on the public administration reforms in 2012 at the subnational level, it is timely to assess how these reforms can be better mobilised to address the challenge of increasing territorial imbalances.

What's the issue?

Inter-regional disparities are high in Hungary and constitute a major challenge to the country's long-term economic development. Hungary currently has the 6th largest inter-regional disparities in terms of GDP per capita among small regions in the OECD, as measured by the Gini index. These inter-regional gaps have risen since 2000, more so than in most other OECD countries, especially in the years before the crisis.

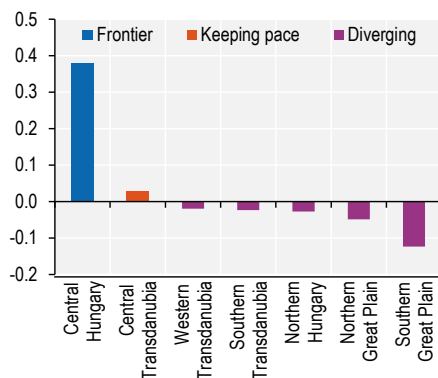
The capital region, Central Hungary, is performing well, but other regions are not benefiting enough. Central

Hungary accounts for around 30% of the population, yet contributed nearly 60% of Hungary's GDP growth between 2000 and 2015 (see Figure). Budapest and its metropolitan area, located in this region, are home to 3 million people. The second largest functional urban area is around ten times smaller (Miskolc). Furthermore, Hungary is the fourth least urbanised country in the OECD. Other regions are not benefiting from agglomeration economies.

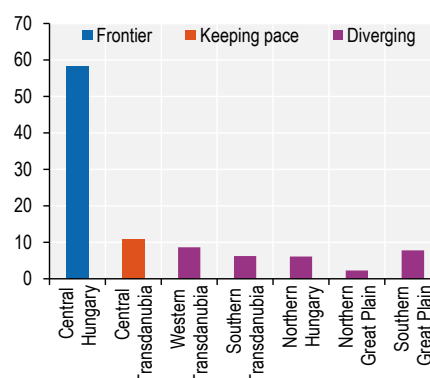
Over the past decade, the national government has made important advances in its regional development

Central Hungary accounts for the bulk of labour productivity and GDP growth

Contribution to labour productivity growth, defined as the percentage point difference in growth with and without the region, 2000-15



Contribution to national GDP growth, defined as the ratio of a region's change in GDP to the national change, in percent, 2000-15



Note: Labour productivity is defined as GDP divided by total employment (at place of residence).

Source: Based on OECD (2016), *Regional Outlook*, OECD Publishing, Paris; OECD Regional Statistics Database and Eurostat Regional Labour Market Statistics Database.

policy framework, and more will likely be needed post-2020. The National Development and Territorial Development Concept (2014) provides common guidance for the implementation of national as well as European Structural and Investment Funds programmes. Governance arrangements for regional development have been simplified, with the abolishment of regional county and micro-regional development councils in 2012. Given the strong reliance of Hungary's regional development efforts on EU funds, a new approach may be needed in the post-2020 Cohesion Policy Framework to ensure that different regions and municipal districts have the capability to adapt and perform.

The national government is also currently preparing an urban policy and it is important that it fosters linkages between the capital and smaller cities as well as rural areas, and contributes to regional equality and population retention. The capital region will continue to be a key growth driver of the national economy and the location of key services and manufacturing that are integrated into global value chains. More needs to be done to support smaller cities to act as "engines of growth" for lesser-performing regions and rural areas.

Effective relationships with subnational governments will be required to implement these policy reforms. A key factor affecting the performance of regions is the quality of local and regional institutions (including skills and competencies, leadership, shared vision and priorities for development). It is five years since Hungary underwent a significant municipal and territorial public administration reform, and it is timely to review how it can be refreshed to better address the challenges faced by lesser-performing regions.

Why is this important for Hungary?

Urban-rural disparities, including disparities between the East and the West of the country, result in lower national productivity performance and increasing inequalities. Growth pressures in the national capital (congestion, housing costs) will result in lower levels of national productivity and wellbeing if they are not managed effectively. Ensuring public service provision in lesser-performing regions that experience outmigration will become increasingly expensive. Over time, there will be a political challenge of maintaining fiscal transfers from better-performing to lesser-performing regions.

Addressing the regional imbalances will require more than regional policy. The challenges will need to be tackled across different policy fields, such as regional development, innovation, labour market and skills, transport and spatial planning. Good multi-level governance practices are also found to be important for supporting regional catching-up dynamics.

What should policy makers do?

- ▶ Focus regional development policies on supporting productivity drivers and growth in all regions through strategic investments, not mere subsidies, to facilitate the diffusion of innovation and good practices beyond the capital.
- ▶ Ensure the new national urban policy considers how to enhance linkages between the capital and smaller cities in a "system of cities", as well as with rural areas.
- ▶ Assess how to position Hungary for post-2020 Cohesion Policy, including strengthening the integration of national sectoral policies with regional, urban and rural development policies.
- ▶ Identify strategies to strengthen the institutional capacities in lesser-performing regions, building on the 2012 municipal and territorial public administration reforms.



Further reading

OECD (2016), *OECD Economic Surveys: Hungary 2016*, OECD Publishing, Paris. http://dx.doi.org/10.1787/eco_surveys-hun-2016-en

OECD (2016), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264260245-en>

OECD (2015), *Hungary: Reforming the State Territorial Administration*, OECD Public Governance Reviews, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264232921-en>