

Human Development Report, Slovakia and Hungary

Draft Socio-Economic Portrait of Eastern Slovakia and Hungary

Working Paper

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I. Introduction

In the frame of *Chapter II* an overall socio-economic portrait of Eastern Slovakia and Northern Hungary will be drawn with the purpose of pointing at major reasons of lagging behind, of finding alternative scenarios which would help to alter the long term trend of economic and social development and foster a process of catching up, of seeking the possible ways of cooperation between local economic and social participants as well as between the two regions. In line with the goals of UNDP's Human Development Report *Envisioning Prosperity in Eastern Slovakia and Hungary* the following chapter should contribute to an integrated analysis of the regional development, social exclusion, decentralisation, post-EU accession opportunities, environmental management, and corporate social responsibility dimensions of eastern Hungary's and Slovakia's development challenges. In the course of the transition despite of a non-negligible catching up at macro-level, regional differences deepened, and in case of some micro-regions, or social and ethnic groups the danger of marginalisation becomes more marked. In case of Hungary as well as Slovakia the capital and the surrounding regions show the most rapid development, whilst in the Eastern parts of the countries backwardness is still characteristic.

II. Demographic trends in Northern Hungary and Eastern Slovakia

Besides some similarities demographic trends in Northern Hungary and Eastern Slovakia show also substantial differences. Thus, against a natural decrease of population in Northern Hungary, a slight growth of population is characteristic in Eastern Slovakia. Density of population shows similar values. Negative net migration balances and an ageing of population can be observed in both of the regions.

12.6% of the Hungarian population live in **Northern Hungary**. The number of inhabitants is steadily decreasing, however at a slower rate than the Hungarian average, due to a low level of birth rate (however exceeding the national average), a high mortality ratio and a negative net migration balance. However, there are substantial differences at intra-regional level. Thus, a small positive net migration is to be observed in case of county Heves, especially in the areas Füzesabony and Hatvan (see Chart 1) Negative net migration is the highest in the county Borsod-Abaúj-Zemplén where the disappearing of jobs in traditional industries was of the largest extent, and where unemployment rates are the highest, whilst employment and activity rates the lowest. The density of population is 95 person /km², somewhat higher than the rural average.

As regards trends of natural increase, the most underdeveloped regions with a high share of Roma population show the highest birth rates (e.g. Bodrogköz or Abaúj-Hegyköz). Whilst a decrease in the number of inhabitants is characteristic for the region as a whole, both in larger towns or rural areas, in villages with a high share of Roma population the population number shows an upward trend.

The number of inhabitants in **Eastern Slovakia** achieved 1 570,5 thousand citizens in 2005 which means a slight growth, totalling about 29 % of the Slovak population. Average population density in Eastern-Slovakia is 100 persons/km². It seems that decrease of the live births in Eastern Slovakia has reached its bottom and remains stabilised. However, the crude birth rate (12.0 life births /1000 inhabitants) is still higher than the Slovak average (10.1 life births/1000 inhabitants). This is the main factor why the natural increase of population¹ reached 4.6 thousand inhabitants. The crude rate of natural increase² is positive (2.9) and is much higher than in other regions of Slovakia (0.2 is total Slovak average). At the same time net migration is negative.³

The demographic trend in the region is influenced by relatively high natality reaching the highest values in Slovakia. In 2004 Eastern Slovakia accounted for 18,805 live births, the highest number in last 4 years (almost one third of all live-born children in Slovakia). This fact has had a positive influence on the age structure of the population. Even though the aging process is apparent; it is not so dramatic in here than elsewhere. Children represent one fifth of the population within the age structure, people in productive age form 63 % and post-productive age 17 %.

As regards the ethnic composition in **Northern Hungary**, the share (5.7%) and number (66,829) of Roma population is the highest in Hungary⁴. Other minorities living here are Germans, Slovaks, Ruthenians, Polish, Bulgarians, Rumanians, Armenians and Greeks. However, Roma population is the largest minority, and if looking at Eastern Slovakia and Northern Hungary as a region, then we can find here the largest Roma settlement in Europe.

A higher concentration of Roma population as compared to Hungarian average has been characteristic for Northern Hungary as a consequence of settling traditional industries. Thus, more than 2/3 of Roma population is settled in the county Borsod-Abaúj Zemplén attracted by heavy industry in the course of socialist industrialization. As a result the number of Roma inhabitants in areas like Ózd, Miskolc or Salgótarján as well as in their agglomeration multiplied. At present unemployment, social tension and a kind of segregation of Roma population causes especially in these areas severe problems. Whilst a negative net migration and declining birth rates can be observed in case of non-Roma population, the opposite can be said of Roma population. Transformation of the structure of jobs caused a resettlement of Roma to areas with a higher share of Roma population. (See Chart 2.)

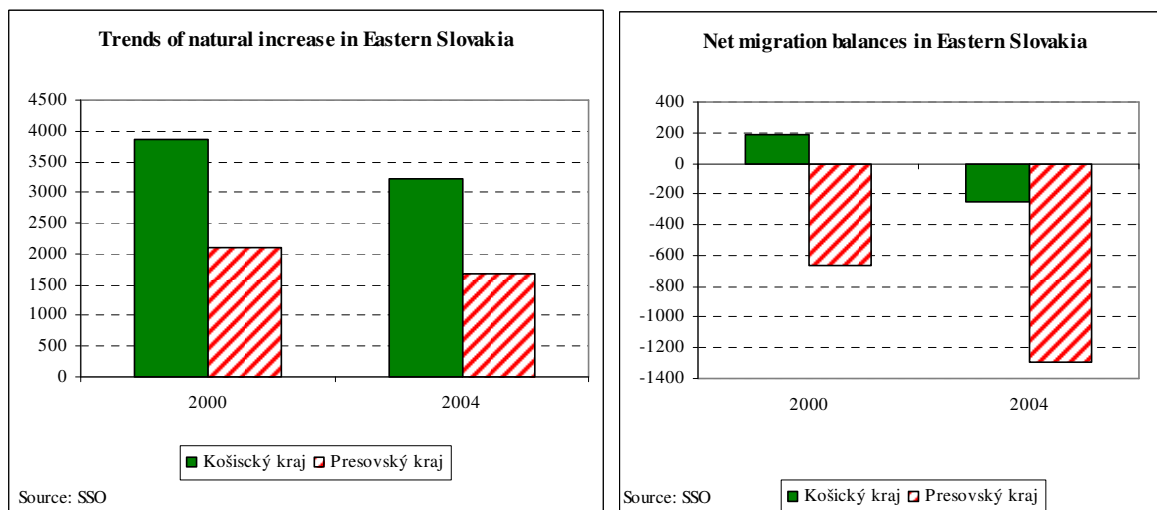
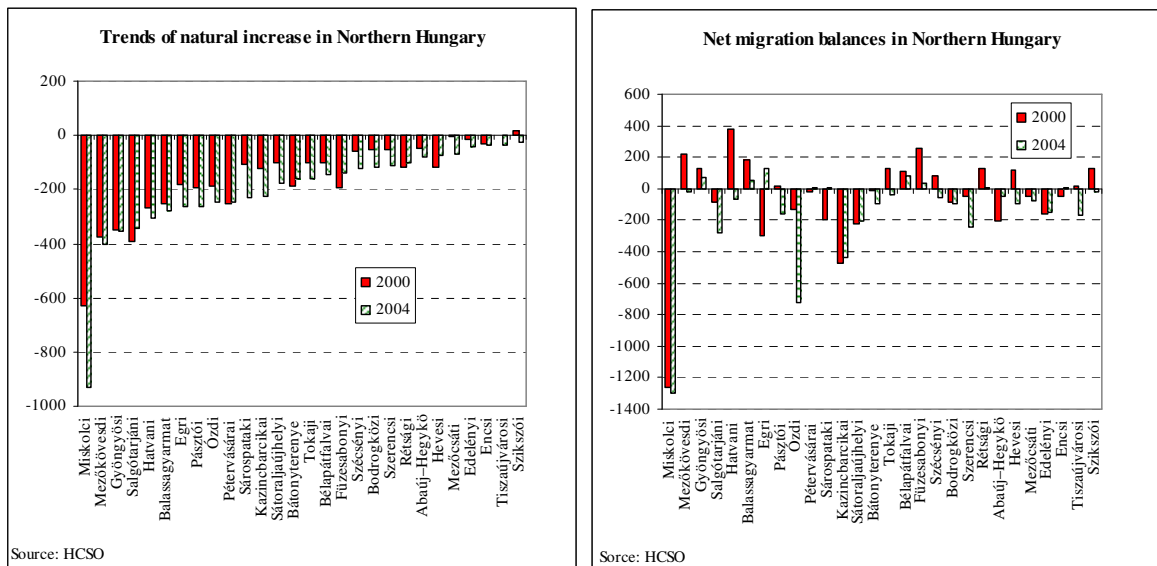
¹ Natural increase of population is computed as difference between life births and deaths.

² Crude rate of natural increase is computed as natural increase of population divided by mid-year population

³ Vladimir Gazda: Leading barriers to expanded employment opportunities for Roma and other vulnerable groups in the region. (First version, June 2006).

⁴ According to data based on the mikro-census of February 2001 by the Hungarian Central Statistical Office. See also the summarization of NORDA: *Gelsei Sándor, Ocsenás Róbert: Az összes és a cigány népesség száma Észak-Magyarországon*, 2001. Miskolc, www.norda.hu

Chart 1



Taken as a whole high unemployment, low activity and in some areas segregation of ethnic or socially disadvantaged groups can be regarded as one of the biggest problems in Northern Hungary, hindering cohesion.

In some micro-regions especially around the border to Slovakia, and in the inner peripheries, the share of Roma⁵ population is four or five times higher than the regional average (see Chart 2). In those areas the number of households living on social allowances is also much higher, and if considering the average level of incomes and the share of Roma population compared to the total, one can see an almost clear correlation between low incomes and high share of Roma (see also Chart 13), high unemployment rates and a low level of education. Taken as a

⁵ According to the methodology of micro-census ethnic status is given by the response. According to experience this data reflect only 1/3 of the real relations. As to this assumption, the share of Roma population is in some areas much higher than given by statistical data. Data are applied to resident population. See a detailed analysis in *Gelsei Sándor, Ocsenás Róbert: Az összes és a cigány népesség száma Észak-Magyarországon 2001. február 1., Norda, www.norda.hu*

whole the income structure of households in the region indicates that within total income the importance of social allowances (due to unemployment, a high dependency ratio etc.) is much higher than the Hungarian average (see Chart 16).

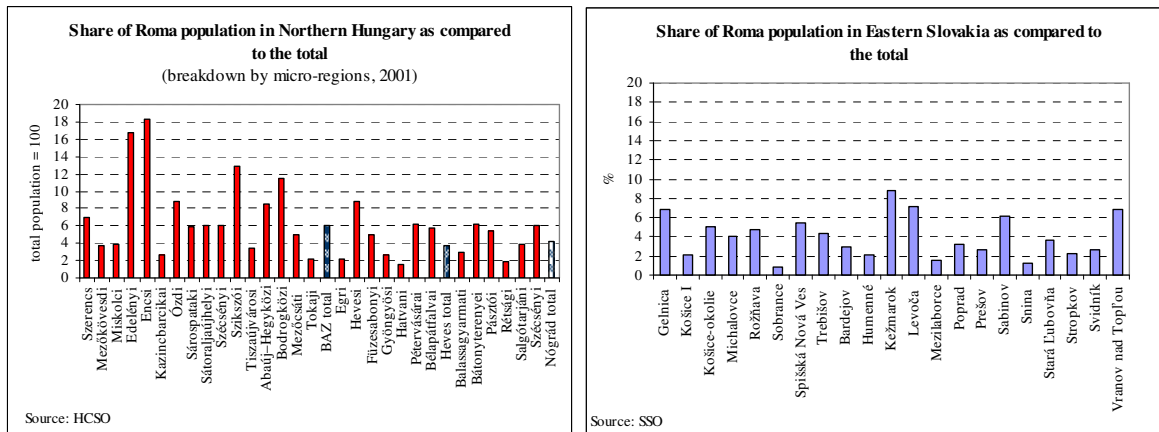
The concentration of the Roma population is the highest in **Eastern Slovakia** and in the southern districts of Central Slovakia, where 2/3 of the Roma population live. Majority of this ethnic minority live in the countryside. A lot of the Roma settlements are geographically isolated and are characterized by very bad health and housing conditions. Based on few accessible statistical data we can assert that Roma unemployment is very high and it achieves up to 100 % level in some locations of Eastern Slovakia. According to the National Labour Office, which documented ethnical composition of unemployment until 1999, the Roma unemployment totalled about 20 percent of all unemployed.⁶

Statistical data shows a lower level of the share of Roma population in case of Eastern Slovakia as compared to Northern Hungary, what can most likely be attributed to the method of micro-census as noted before.⁷ At the same time unemployment rates in Eastern Slovakia are higher, and this applies especially to regions where the share of Roma population is above the average. The two graphs of Chart 2 indicate a high share of population living under disadvantageous circumstances in both regions.

⁶ The last citizens' census was performed in 2002. According to official number, the share of Roma is above 1 percent of the Slovak Republic population, however, according to unofficial numbers they amount above 4 percent. This minority is concentrated in Eastern-Slovakia and in the Banskobystricky region. There are no official numbers of this minority average unemployment rate. There is some evidence that the unemployment rate in Roma villages exceeds 90 percent. The education level of their citizens only seldom exceeds the law-required level.

⁷ Owing to the methodology of the census, the data on particular demographic processes are underestimated. It should be noted, that the data on the Roma nationality are currently not usable when we want to characterize the number of members of the Roma ethnic group. These data are only to a low extent usable for the characterization of the reproductive behavior of Roma as well. If the realistic results should be achieved we have to refer to estimates, which are based on all kinds of data on Roma that are available. Until 1989, several federal data sources on Roma/Gypsies existed which had been based on the ethnic principle. Within all these surveys the particular persons were declared as Roma by other persons, usually by the creators or performers of the given survey. From the current point of view these data are in contradiction with human rights and thus after 1989 they have not been surveyed. In addition these ethnic surveys did not cover the whole Roma population. Usually Roma living as an integrated part of a majority society were completely or at least partially missing. Some surveys were focused only on a part of Roma population (adults, nomadic population, problem population etc.). Despite these facts, the ethnic data characterize the Roma population more precisely and completely than the data from the census on population of Roma nationality (Boris Vaňo: The Demographic Characteristics of Roma Population in Slovakia, 2001, Infostat Bratislava).

Chart 2



The minorities of the neighbouring countries live along the state borders. The largest minorities are the Hungarian and the Roma minority with their administrative centre in Košice. The Ukrainians and Ruthenians live in the north-eastern part of East Slovakia with their administrative centre in Prešov. The Polish minority plays only marginal role.

III. Major features of overall economic development

The two regions in question - Northern Hungary consisting of the Borsod-Abaúj-Zemplén, Heves, and Nógrád counties (NUTS 3 regions) in Hungary and the Košice and Prešov higher territorial VUCs—NUTS 3 regions in Eastern Slovakia⁸ represent the most underdeveloped regions in their country. Prešovský region reaches the lowest GDP share of all NUT III regions in Slovakia. The same applies to county Nógrád in Hungary. When considering the following statements it should be kept in mind that real GDP growth in Slovakia is higher than in Hungary or than the average of the NMS 12 (see Chart 3).⁹ Due to necessary and unavoidable budgetary adjustments planned in Hungary, economic growth will most likely slow down in 2007, whilst in case of Slovakia the rapid expansion of the past years will continue. According to expectations tax measures will fuel inflation in case of Hungary, and the reorganisation of public administration as well as the increase of taxes on labour will create a growth of unemployment. At the same time in Slovakia inflation rate, as well as unemployment rate will most likely fall in the short run. The rapid increase of current account deficit as compared to GDP in Slovakia, indicate some overheating in the economy, and there is some risk potential concerning the economic policy of the present government (see Table 1).

Table 1

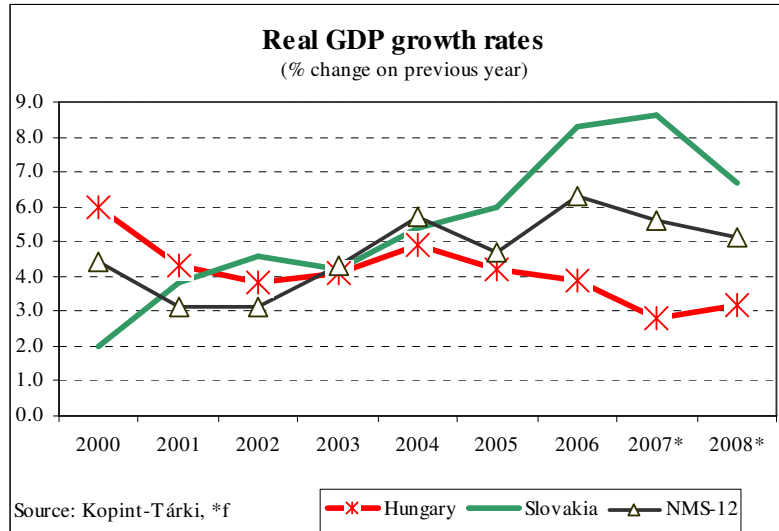
	Hungary					Slovakia				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
Real GDP	4.1	4.9	4.2	3.9	2.8	4.2	5.4	6.0	8.3	8.6
Inflation (HICP)	4.7	6.8	3.5	4.0	6.8	8.4	7.5	2.8	4.3	2.6
Unemployment rate (ILO)	5.9	6.1	7.2	7.5	7.8	17.6	18.2	16.3	13.3	10.7
Current account deficit as a % of GDP	-8.1	-8.1	-6.0	-5.0	-4.0	-0.9	-3.4	-8.6	-8.3	-5.4
Deficit of the state budget as % of GDP	-6.5	-6.6	-7.8	-10.1	-6.8	-3.7	-3.0	-2.9	-3.6	-3.0

Source: *Convergence Report, MFH, HCSO, Kopint-Datorg/Tárki*

⁸ Eastern Slovakia is administratively divided into two NUTS III regions i.e. Prešovský region (VUC Prešovský kraj) and Košický region (VUC Košický kraj). There are 11 districts (NUTS IV regions) in Košický region: Gelnica (GL), Košice I, Košice II, Košice III, Košice IV (KE), Košice-okolie (KS), Michalovce (MI), Rožňava (RV), Sobrance (SO), Spišská Nová Ves (SN) a Trebišov (TV). Košice (235 000 cit.) is the seat of Košický region. It is also the second largest city in Slovakia and industrial centre of the East Slovakia. Prešovský kraj is divided into 13 districts: Bardejov (BJ), Humenné (HN), Kežmarok (KK), Levoča (LE), Mezilaborce (ML), Poprad (PP), Prešov (PO), Sabinov (SB), Snina (SK), Stará Ľubovňa (SL), Stropkov (SP), Svidník (SK), Vranov nad Topľou (VT). The administrative centre of the region is Prešov (92 000 cit.)

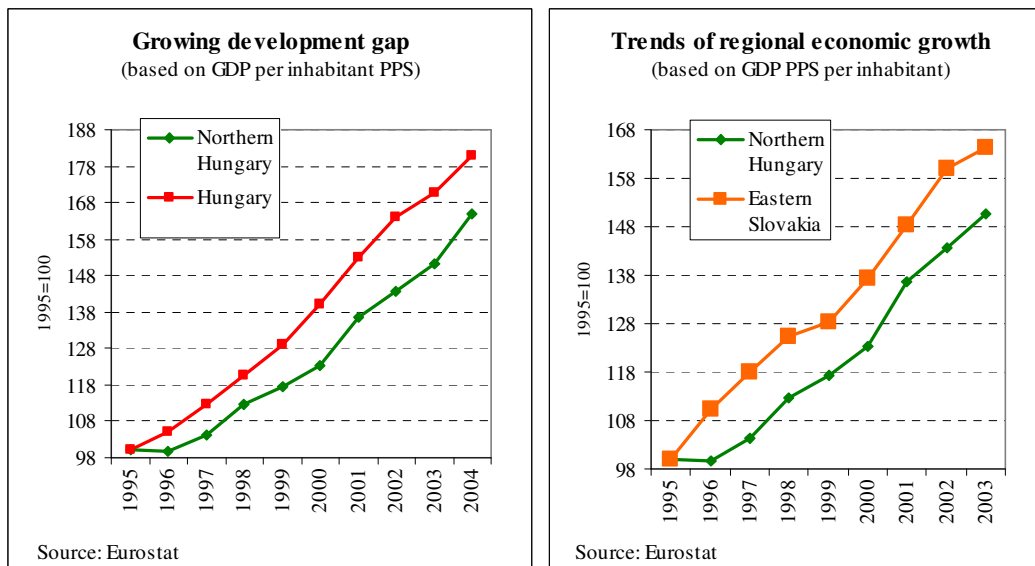
⁹ According to the latest News Release of Eurostat (79/2006- 15 June 2006) in 2005 GDP per inhabitant in terms of PPS reached 61 % in case of Hungary, and 55% in case of Slovakia as compared to EU 25.

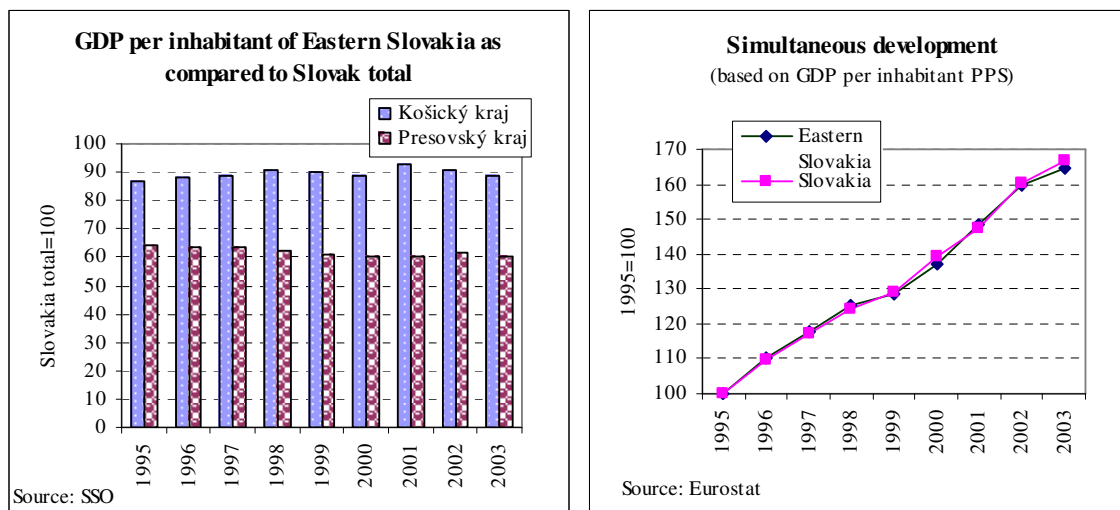
Chart 3



When comparing the two regions some differences in the development path of the recent years can be seen. Whilst in case of Northern Hungary a continued lagging behind the Hungarian average growth can be observed, as a consequence of which the contribution of Northern-Hungary to the total Hungarian GDP has been steadily dropping since 1995 (from 9.3 % down to 8.1 %; with showing a slight improvement in 2004, reaching 8.4 %) (see Charts 4, 4a and 5.) At the same time the Eastern-Slovakia region showed a more dynamic development, with a growth pattern similar to that of Slovakia.

Chart 4

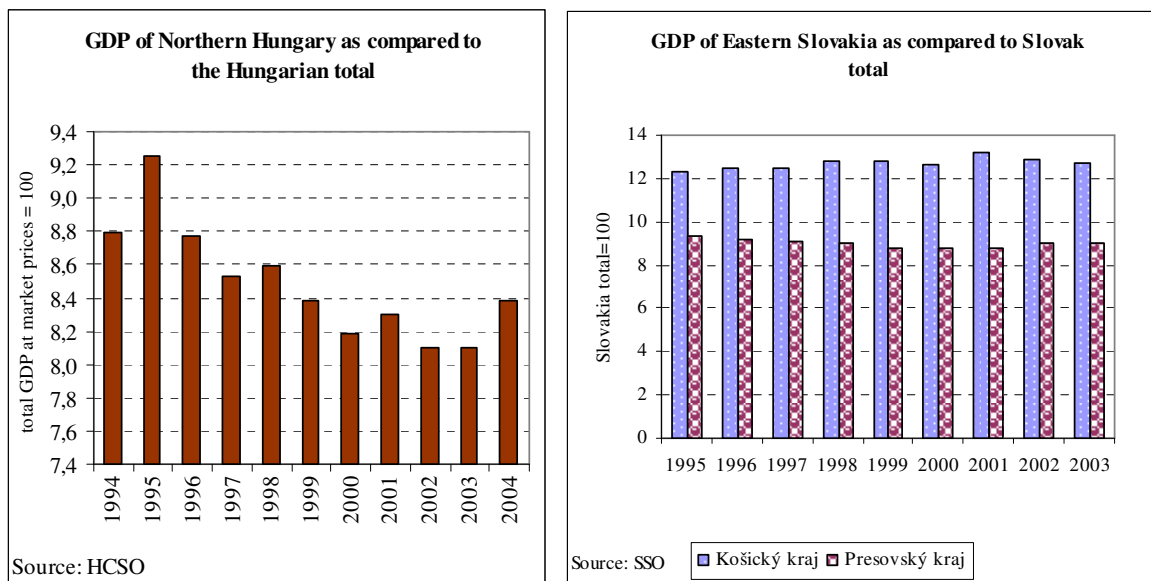




This becomes also manifest in the GDP (PPS) figures per inhabitant, showing that per capita GDP in terms of PPS has been higher in case of Eastern-Slovakia already since 1996. According to the recent data of 2003 the difference makes 0.7 % points as compared to the EU-25 average. As regards medium run development prospects of the two regions in question it is expected that the agglomeration impact will be of decisive importance. The less developed regions like Northern Hungary or Eastern Slovakia will preserve their positions, whilst more advanced regions with comparative advantages (e.g. Western Hungary or Bratislava region) will show a more spectacular growth and will attract more capital in the future as well.

However it should be kept in mind, that comparisons on the basis of GDP have their limitations, as little information is given about the real situation, the quality of life in the regions. Thus in the following part of the chapter a number of other measures (like productivity, employment, demographic trends, enterprise performance, infrastructural conditions, environment, household incomes, wage development, accessibility, business environment etc.) will be analysed in order to be able to draw a comprehensive picture of the real potential of the two regions concerned, and some development scenarios for the future.

Chart 5



The transition period has had severe consequences in case of the two regions. As regards **Northern Hungary**, it has become from one of the most industrialized regions in Hungary until the early nineties a crisis area which is still suffering from the heritage of a one-sided economy based on mining and metallurgy, and where a great number of enterprises failed the necessary structural adjustment. This applies in the first line to the counties *Borsod-Abaúj-Zemplén* and *Nógrád*. As regards the latter, it is the poorest NUTS III region in Hungary, with low household incomes, high unemployment, and the lowest per capita GDP. In the case of the third NUTS III region in Northern Hungary, *Heves*, the role of heavy industry was less marked, the food industry and agriculture have been affected mostly by transition¹⁰.

The bigger cities are the growth poles in the regions - the county centres like Miskolc or Eger, or towns where the development relies on the activity of chemical industrial firms like Kazincbarcika or Tiszaújváros. The improvement of accessibility via the construction of the Budapest and Miskolc route of the motorway M3 was supportive for the economic environment, and had positive impacts also in the Southern part of the Northern Hungary region. At the same time in peripheral areas with disadvantageous accessibility, poor infrastructure and weak entrepreneurship, the social and economic tensions are increasing. In these areas unemployment and inactivity rates are much higher than the average and the income situation of private households is weaker than in urban areas.

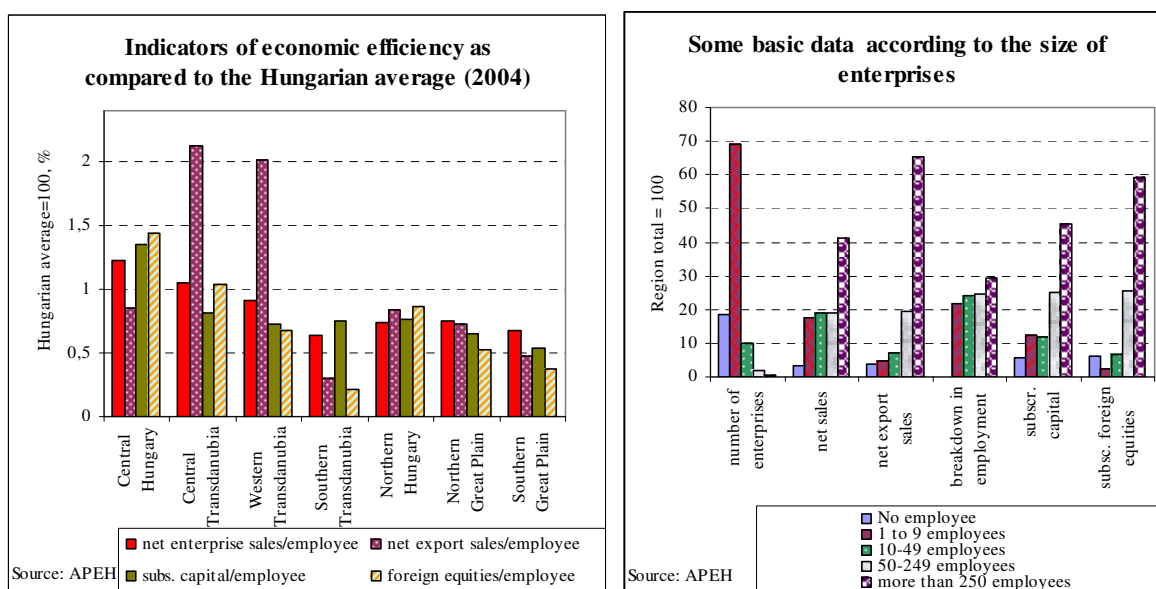
The composition of GDP shows also differences as compared to the total Hungarian pattern. The contribution of industry (C, D, E in national account terms) and construction to total GDP is 31.6%, that is higher than the national average (25.8 % in 2004), whilst that of the services sector is somewhat lower (57.4% and 65.2% respectively). Agricultural activities show the stable share of 5.4 % (national average 3.8%). Considering the fact that major part of services like the banking services, transportation, major trading companies are centralized in Budapest it is most likely that these proportions will be preserved in the future as well.

Major sectors determining the economic shape of Northern Hungary are food industry, chemical industry, engineering, electric-energy production. These four sectors have a share of

¹⁰ See a detailed analysis in "Észak-Magyarországi Régió, Regionális Operatív Program 2007-2014", Miskolc, Versions May 8. and December 1 2006., Norda

56.9% of total value added of the region (2004). Export activities of the three counties of the region show a high concentration: almost 4/5 (79.4%) of total regional exports is performed by three branches (chemical industry, metallurgy, and engineering industry). Major companies determining the economic performance in the region are Borsodchem Ltd. (Kazincbarcika), TVK (Tiszaújváros), Bosch (Hatvan, Eger, Miskolc), TDK (Rétság). Major indicators characteristic for enterprise performance show also a development gap for Northern Hungary as compared to Hungarian average (see Chart 6).

Chart 6

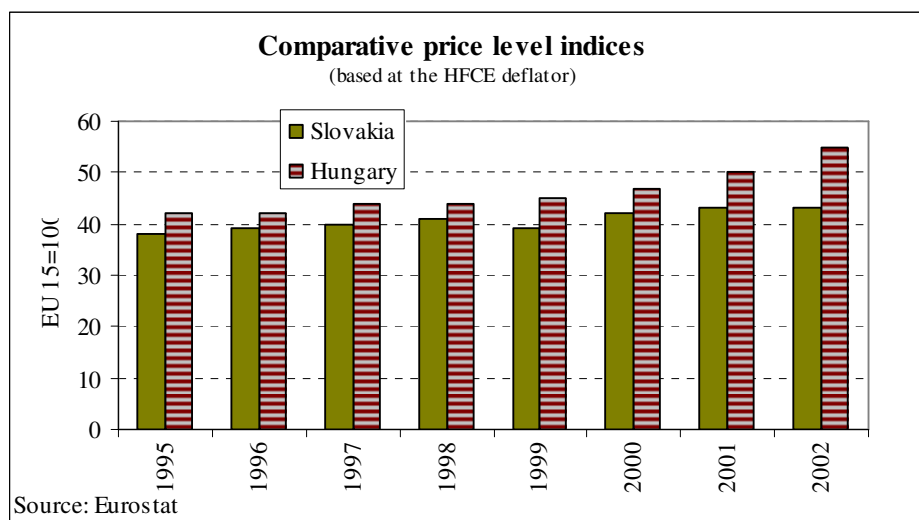


A great number of enterprises (mostly SMEs) in the Northern Hungarian region were founded due to a shortage of workplaces, with the aim to avoid unemployment. Most of these enterprises suffer from a shortage of capital, thus they have tried to offer non-capital-intensive, non-sophisticated services (like assembling, repair, catering). As a consequence of EU accession, rules affecting these activities have become more rigorous (like the introduction of the HACCP system) requiring additional capital, forcing a lot of SME-s to give up. In some cases like in Miskolc, the local municipality introduced some new rules (e.g. the compulsory renewal of entrance portals, an increase of rental fees). A start-up enterprises are almost unable to receive a credit, the only solution is to get a mortgage credit on their private immobility. The institution of micro-credit (supporting investments and developments) still exists; however, a precondition of liability is a two-year operation of the enterprise. And anyway, this is a kind of investment credit not to finance liquidity problems. So called Széchenyi credit card was very well accepted by enterprises, as it provided for freely disposable funding. However, only SMEs operating with profits were liable for this kind of funding, those closing the business year with a loss, have practically no access to any kind of funding.

The majority of SMEs produce for local markets (see Chart 6), thus the major obstacle of their future development lies in the lack of market possibilities, in the low level of living standards and a growing poverty in the region. Retail trade is not able to face the challenge caused by multinationals and Chinese trade. Local food producers have not enough market power either to compete with multinationals or to sell at the conditions required. Suppliers on the Slovak side of the border present an additional competition for local Hungarian suppliers.

The consumer prices (e.g. food, petrol, furniture, construction materials - see Chart 7) on the Slovak side of the border are lower than in Hungary, that is why the part of the market demand in the region is and will be satisfied there.

Chart 7



Delayed payments due to financial bottlenecks at local municipalities cause often disturbances in the liquidity of construction enterprises. With some exceptions (like Eger or Tiszaújváros) the local municipalities are heavily indebted.

Foreign investors play an important role in the future development of the Northern Hungarian region, even if their share as compared to total Hungary is low (see Chart 8). Major foreign investors come from Germany (like Bosch, Felo, Jeners GmbH, Leoni, Schön-KAEV in Heves, Euro-Candle, Knaus, Parat Automotive, Sinus etc. in Nógrád, Bosch in BAZ), Switzerland (Nestlé, Saia Burgess in BAZ and in Heves), from Italy (Besser, Magyar Kábel Művek Ltd /Pirelli/, Silco-Inox in Nógrád), from Japan (Mitsuba in Nógrád, Stanley Electric in Heves), from Austria (like OMYA in Heves), and from the Netherlands (Borsodi Sörgyár in BAZ), from Belgium (SIC Hungary Kft. in Nógrád), from Korea (DAI DONG), and from China (Eastern Asia Industries).

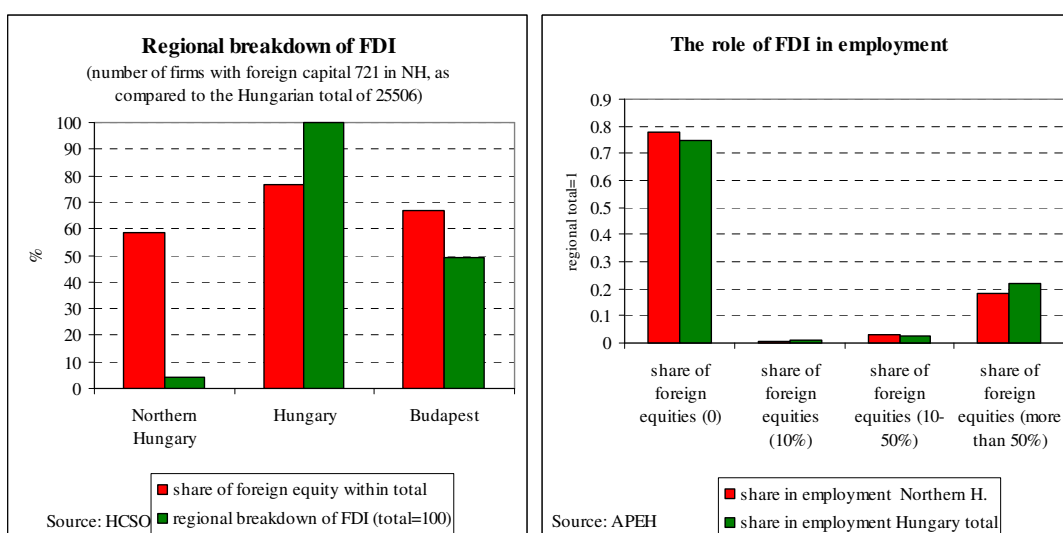
Despite of the great number of foreign investors as shown in Chart 8, their role in employment is smaller than that of Hungarian owned firms. Another problem is that most of the multinationals companies are less integrated in the local economy, their relations to medium and smaller Hungarian suppliers are limited. It was characteristic that FDI settled in the region as result of the privatization process, invested into already existing capacities mainly in the field of food industry, metallurgy and engineering industry. It is a relatively new phenomenon that foreign firms show an increasing interest in launching green field investments.

In order to encourage entrepreneurial activities and at the same time raise the interest of foreign investors so called special industry zones and several industry parks have been established with varying success. The three special zones (in Zemplén, in the area Ózd-Putnok and Salgótarján-Bátonyterenye) proved to be less successful, whilst the 20 industry parks settled in urban areas, mostly in larger towns show some positive examples. As a main advantage they offer an advanced infrastructural background for entrepreneurs. Simultaneously, there are large brown areas with a heavy environmental heritage and an

increased demand for rehabilitation, especially in socially backward areas with poor accessibility, for which no investor could be found so far.

Foreign investments on behalf of the enterprises settled in the regions do not seem to be characteristic, with the exception of BorsodChem. However, recently encouraged by more entrepreneur-friendly business environment – according to information by the local chamber of commerce – more and more enterprises are preparing to invest in or to re-settle to Slovakia. The construction of a motorway between Miskolc and Košice which has been on agenda several times would contribute to a better cooperation between two regions (e.g. the access to the Kosice airport is much more convenient for entrepreneurs in Miskolc and the surrounding region than that of Budapest). The industrial park was created in Kechnec, Slovakia where the Ford Works will settle gives way to a new kind of attitude, as the company management will live in Tornyosnémeti on the Hungarian side of the border.

Chart 8



Research and development could contribute to the narrowing of the development gap between Northern Hungary and the more advanced Hungarian regions. However, unfortunately, only 1.5% of total Hungarian R&D expenditures fall on Northern Hungary, 3/4 of which came in favour of Borsod-Abaúj-Zemplén county with the University of Miskolc. The contribution of FDI to R&D activities is limited so far, there are only some examples like the case of Bosch.

Another possibility of encouraging economic development and entrepreneurship in the Northern Hungarian region would be the fostering of tourism. The natural environmental base and the cultural heritage are given; there are spots of world heritage like Hollókő, Aggtelek or Tokaj-Hegyalja, beautiful historical places like Eger, and thermal water sources, walking and excursion routes. In order to be able to exploit the available natural and cultural resources an improved quality of services would be necessary. Despite of a large number of hotels and other accommodation facilities, the number of tourists staying over-night is still not satisfactory. A reason for this is that foreign tourists stay in the first line in Budapest, and, if at all, they spend only a one-day trip in the region. Another reason is the poor shape of transport infrastructure in the region, and the quality of intra-regional transport connections. In a number of cases the surrounding area of the otherwise famous tourist sight is discouraging both for visitors and for possible future investors. A fourth reason is the quality of services providing for entertainment. Although a lot has been done in this respect but there is still a

large investment demand. In order to encourage local tourism, accommodations in different price categories are needed.

As to **Eastern Slovakia**¹¹ transition has led also to substantial structural adjustments. The employment during the last decade decreased especially in agriculture, but increased in the service industry. The trend is most obvious in the case of Bratislavský region where the most of multinational companies, centre of research institutions, transportation centre etc. have been settled. The number of people employed in agriculture decreased by more than 60 % in the course of the last 10 years. The number of employees in industry and construction also went down. Foreign direct investments and different multiplication effects of the location of the capital caused significant changes in the Western part of Slovakia. The difference between the Western and the Eastern part deepened. This becomes also obvious from unemployment rate developments and average wage statistics. The foreign direct investments (FDI) are the main driving factor of economic growth in Slovakia. The decisive volume of the FDI entered Slovakia in the last 5 years. Unfortunately, they are located mostly in the Western part (mainly in Bratislavský region) and only about 10 % fall on Eastern Slovakia (see Chart 9).

As the Košice region has undergone a process of regionalization, the districts could be grouped together as to reflect a particular degree of development they have achieved. The most developed part of the region enjoying a multi-sector economy base is located in the districts of Košice. Another two urban areas: Michalovce and Spisšská Nová Ves belong to stabilized and progressively transforming microregions having a prospect of further development. According to statistical data the districts of Rozňava and Trebišov show long-term trends of stagnation. These stagnant microregions are characterized by one-sided orientation of economy, low level of economic activity, insufficient utilization of its own potential and high rate of unemployment. The depression areas of problem economies could be found in the districts of Sobrance and Gelnica. They are characterized by the lowest economic potential primarily due to decline of high-profile industries.

Real estate prices in the towns and communities of the Košice self-governing region differ to a great extent. The highest rental and housing prices are found in urban areas of Košice. Considering the low demand the rates in Sobrance and Gelnica microregions are on the low side.

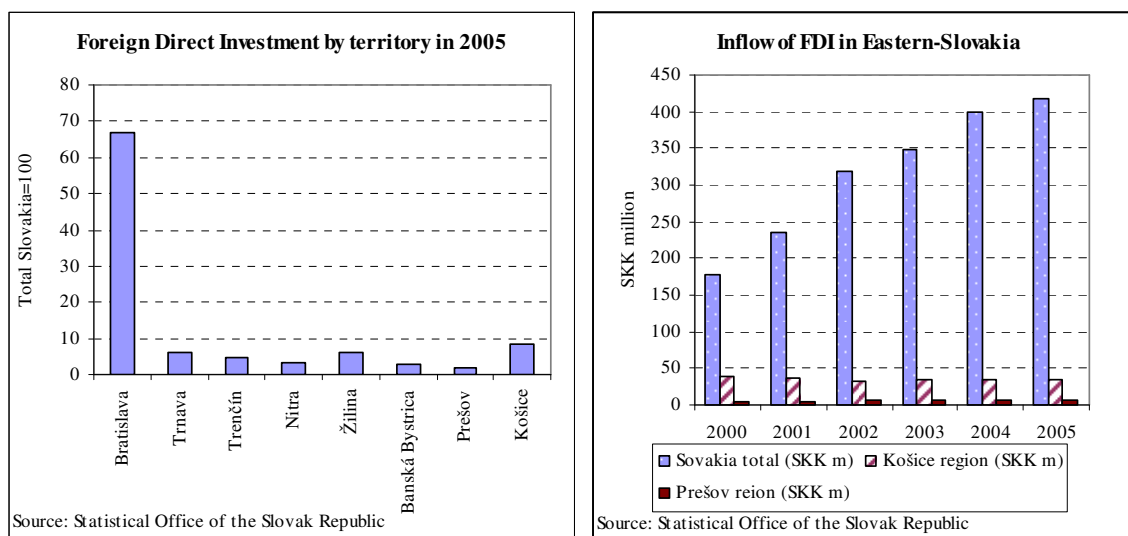
The quality of the road networks in the Košice region falls much below the standard. The network lacks motorway linkage with other regions. The motorway linking the regional capitals of Košice and Prešov continues towards Žilina and Bratislava. The linkage of the regional capital of Košice with the capital city of Bratislava via the south-bound road is of poor quality at the section Košice–Zvolen as reflected in a high rate of road-traffic accidents. In terms of quality, the north-south linkage of the Republic of Poland and the Republic of Hungary is also insufficient. The construction of a clearway connecting Košice and the Hungarian border is among the priorities of the region and city of Košice itself. However, according to recent information no progress is expected in the construction of a motorway or a clearway between Košice and Miskolc in the course of the next years. Research on the future of cooperation between the two regions¹² drew attention to the fact that for the disadvantageous position of both of the regions concerned the desolate transport infrastructure is responsible which hinders the development of bilateral contacts between Northern Hungary and Eastern Slovakia. National development plans of Hungary and Slovakia have given and still give preference to the development of East-West routes whilst for fostering relations

¹¹ Vladimír Gazda: Socio-economic portrait of Eastern Slovakia. First draft version. June 2006

¹² G. Fekete Éva: KÖZgazgatási és TÉrségfejlesztési térKÉP, MTA RKK MISKOLC 2004.

between the two bordering regions the improvement of North-South connections would be necessary.

Chart 9



The US Steel Košice is the most important employer in East Slovakia. It gives jobs to more than 18,000 people with the wages highly exceeding the overall level of wages in Eastern Slovakia. The engineering industry located in the region, is often based on processing of the US Steel products. The most important producer in this branch is Tatravagonka Poprad and a plant of Whirlpool located in Matejovce near Poprad. This industry suffered by the conversion of military production and most of the enterprises substantially reduced their production. The traditional production in Eastern Slovakia is chemical production settled mainly in Humenné, Stražské and Svit. The chemical factories are owned predominantly by foreign investors. The electrical industry is rapidly growing. Besides the traditional producers (e.g. Tesla Stropkov) some new foreign firms started activities. Siemens belongs to the most important producers in this branch and is developing its activities in more plants and in higher variety of kinds of production involving IT, automotive systems and so on. Matsushita located in Krompachy and Embraco located in Spišská Nová Ves, develop their activities in electrical engineering.

The development of several industrial parks progressed in the recent years. The largest industrial park, Kechnec, which is located 18 km of Košice hosts international companies as Ford, Molex, Gilbos, Swep and Kuenz. Another industrial zone in Stražské fosters chemical production and related industries. A smaller industrial park in Michalovce is focused on light industries and electro-technical machineries.¹³

The economy of Prešov region is characterized by chemical industry and food industry. The most important industrial park in the Prešov region is located in Humenné with a presence of German, French and Danish foreign capital. This industrial zone has a possibility to set up energy-consuming productions. The industrial park in Záborske hosts companies from the light industry as Whirlpool, Tatramat and Tesla.

¹³ Analysis on Current Investment Environment in Košice Self-Governing Region, Košice Self-Governing Region, 2006 http://www.kosice-region.sk/NR/rdonlyres/9557F0FA-64D0-43F1-96E9-C8BAE680BA3B/0/Analyza_IE.pdf

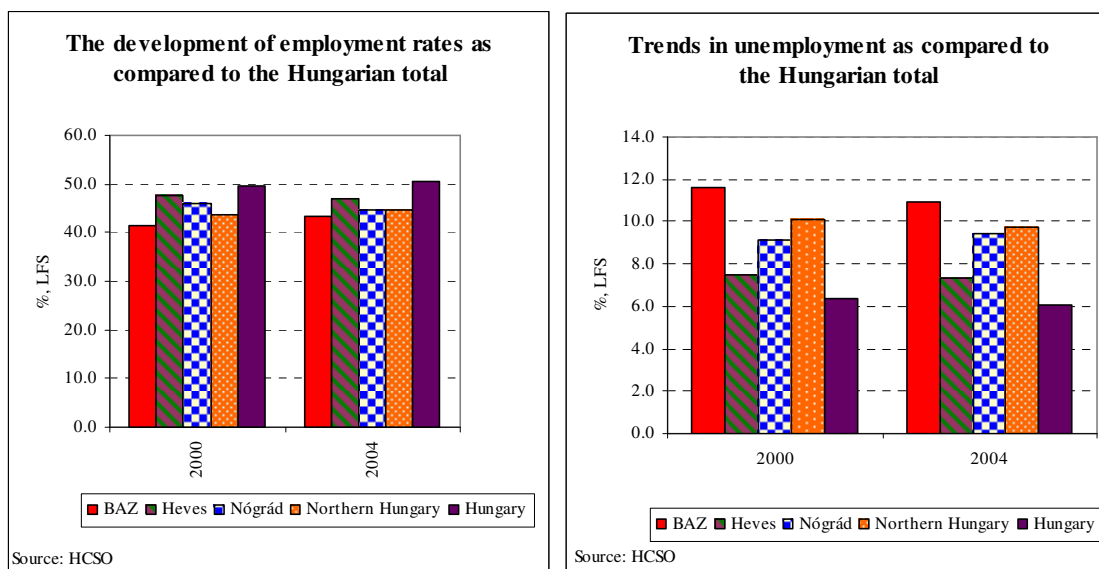
IV. Labour market characteristics, trends of employment

As it has been indicated before, weak economic performance in **Northern Hungary** has had severe impacts on labour market trends. Employment rates as well as activity rates are much lower than the national average, at the same time unemployment is also definitely higher (see Chart 10). The share of employed persons dropped especially in Borsod-Abaúj-Zemplén¹⁴, whilst the increase in the unemployment rate in the last five years was the highest in case of Nógrád. Differences are even higher if compared at intra-regional level (micro-regions). In case of the poorest micro-regions (like Bodroghöz, Edelény, Mezőcsát etc.) the ratio of employed/unemployed is 1 to 3. In the more advanced sub-regions like Eger, Gyöngyös, Tiszaújváros this is much lower, however taken as an average the ratio for unemployed/100 employed is 20 in case of Northern Hungary (2005), whilst in case of Central Hungary or Western-Transdanubia the same ratio is below 10. If analysing the gender rates in respect of unemployment, statistical figures show that male unemployment is relatively higher than female, however with the dissolving textile industry, in the last couple of years the situation for female labour force worsened. Long-term unemployment has shown some ease, however, the share of long-term unemployed (more than 50%) as compared to total unemployed labour force is still very high, and in case of some micro-regions especially in the county of Borsod (like Mezőcsát or Edelény) is dramatic. If considering the chances for finding some form of employment for young people there is also cause for worry, explaining negative trends in migration in case of some micro-regions, and a comparison with Eastern Slovakia shows that the problem there is even greater (see Chart 11). Looking at unemployment concerning the different age groups, the ratio is the highest in case of 15-19 year old labour (47.4% of the active population of this age group was unemployed according to recent data of 2005). The situation is somewhat better in case of the age group of 20-29 years, as a large share of these people have obtained already some kind of skills. However, the situation is still worse than the national average.

As regards the structural composition of employment in case of Northern Hungary the share of those employed in the field of agriculture (4.2%) is below the national average (5.5%), whilst the share of those employed in the field of industry and construction (37.3%) is higher (32.9%). As indicated before the services sector is still beyond possibilities, having a share in employment of only 58.5% as compared to 61.6% of the national average. The share of agrarian employment is the highest in case of Heves, however showing a declining trend. The increase in the share of employment in the services sector was the highest in case of Borsod reaching in 2005 63.1%, and the smallest in case of Nógrád (56.1% in 2005).

¹⁴ A foglalkoztatás és munkanélküliség területi különbségei az elmúlt 55 évben, KSH Miskolci Igazgatósága, 2006

Chart 10



When compared to the Slovak average the rate of unemployment has always been higher in both **Eastern Slovakian** regions. The unemployment in Slovakia showed an increasing tendency until 2001 when it started to decrease. Since 1999 the unemployment rate in Košice region has never been under 20 percent and it has remained slightly above the rate in Prešov region. In Košice region in the past eight years the absolute number of unemployed people varied between 64 thousand (1998) and 91 thousand (2000). In Prešov region in the past eight years the absolute number of unemployed people varied between 56 thousand (1998) and 85 thousand (2004).

Manufacturing of metals and metallic products holds a dominating position in the employment of the Košice region. The production and supply of electricity, gas and water has also a very strong position in the economy of Eastern Slovakia as well as in the employment of the region. Land transportation and piping transportation has a solid contribution to the total employment. Manufacturing of electrical and optical equipment ranks among significant branches as well. Production of food and beverages is important in the view of its rather high portion of employment in the region. Building industry, manufacturing industry and clothing contributes to total employment in a significant percentage.

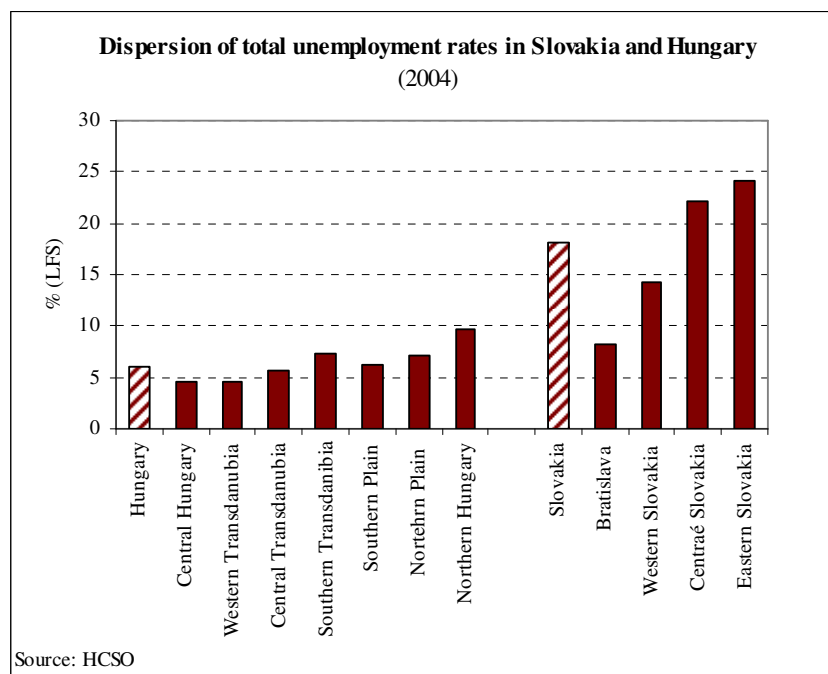
The Košice region has 337.9 thousand hectares of agricultural land within its boundaries. The natural condition of the region makes this area suitable for agricultural production, viz. Vineyards (the Sobrance and Tokaj vineyard areas), green grocer production and fruit production (in the south of the region). Future trends refer to the stabilization of the agro-production in the traditional agricultural areas (such as the districts of Trebišov, Michalovce, Košice-Vicinity) and at the level of the micro-regions, plus, there is a tendency towards renewing and/or establishing food-processing industry in the respective areas.

In Eastern Slovakia as in other parts of Slovakia there is a trend observable of a decreasing employment rate in the field of agriculture gradually reaching the level of EU. There has been a noteworthy tendency in agriculture. The loss of importance of agriculture as regards employment does not reflect the loss of this sector as regards the gross value added. The drop

in agricultural production was more moderate than the drop in its value added. This tendency indicates that the productivity of an agricultural workers has grown more rapidly than the productivity of an employee in another sectors. Labour productivity in agriculture is remarkably higher in the Košice region than in the agriculture in Slovakia in general. The labour productivity in Prešov region reaches the level of Slovakia.

Despite increasing labour productivity the average monthly wages still fail to catch up with the rest of Slovakia, reaching 77 % of the national average. There are only a few districts with average monthly wages higher than the national average in the field of agriculture (Medzilaborce, Bardejov, Sabinos, Sobrance).

Chart 11



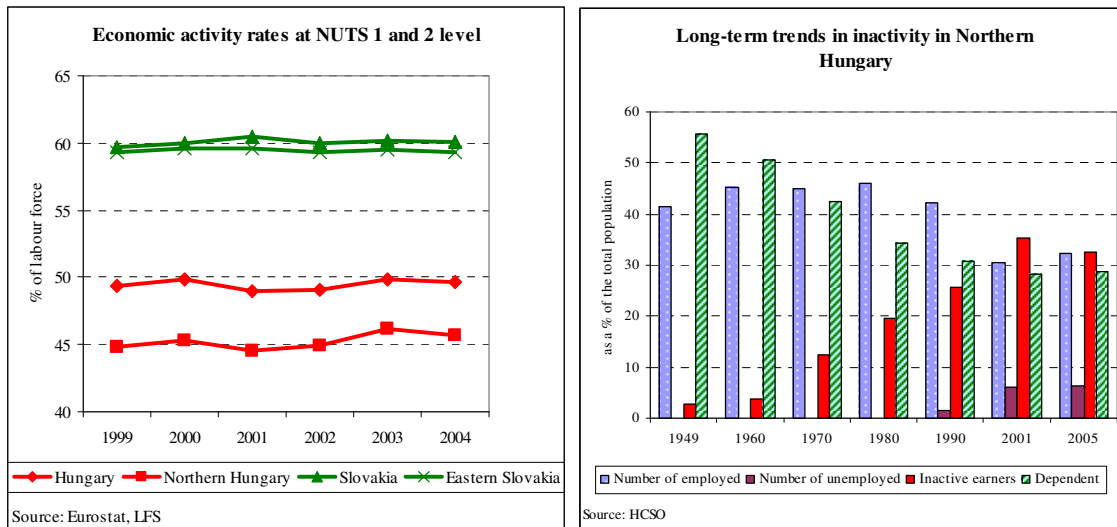
One of the major problems leading to above labour market trends in both regions is the inadequate vocational training, causing imbalances in labour market demand and supply. Within the group of unemployed, the share of low-skilled, under-educated labour is fairly high, especially in areas where the Roma population is high. The situation of these groups is especially vulnerable, as any solution is imaginable only in the long run.

Mobility of the labour force is somewhat higher in Northern Hungary than the national average: some 37.4% of employed (2001) works at another place than his residence. The direction of commuting is in the first line to Budapest, and some larger urban centres. The number of commuters increased in the course of the last years, and the share of male workers commuting is substantially higher than those of females.

Differences in economic activity rates indicates a lower level of activity on the one hand (see Chart 12), whilst on the other show that economic activity in Hungary is very low as compared by international standards. By 2005 the share of employed dropped to 38%, whilst the share of inactive population rose to 30%. However, in the Northern Hungarian region the share of those not participating in the labour market because of poor health condition is also much higher than the national average. In the Northern Hungarian region the share of unemployed and inactive persons grew especially in case of female workers, whilst in case of males unemployment rose with a simultaneous decline of employment. If we consider that

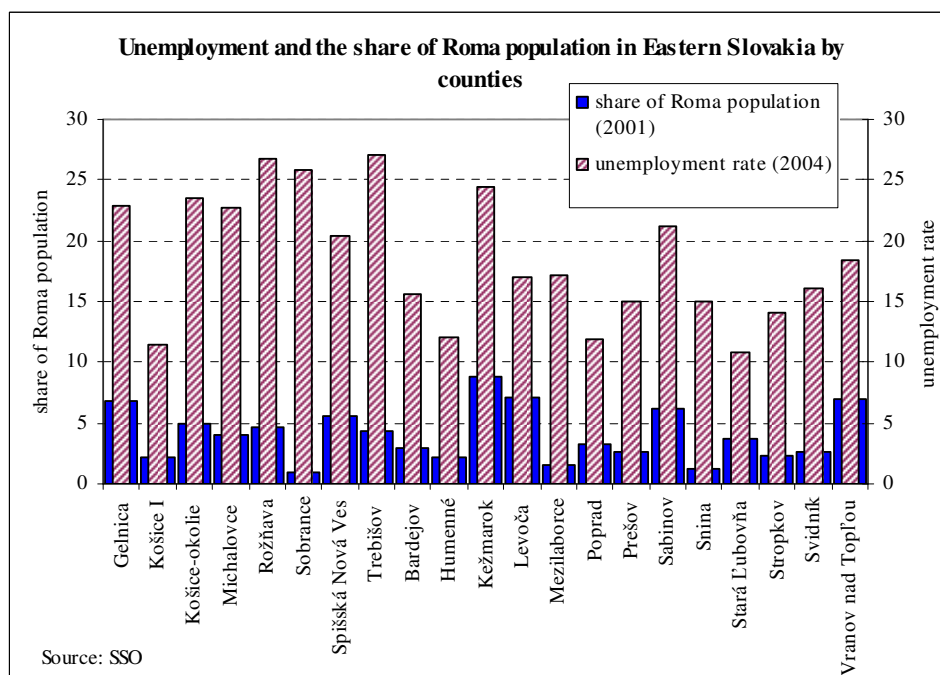
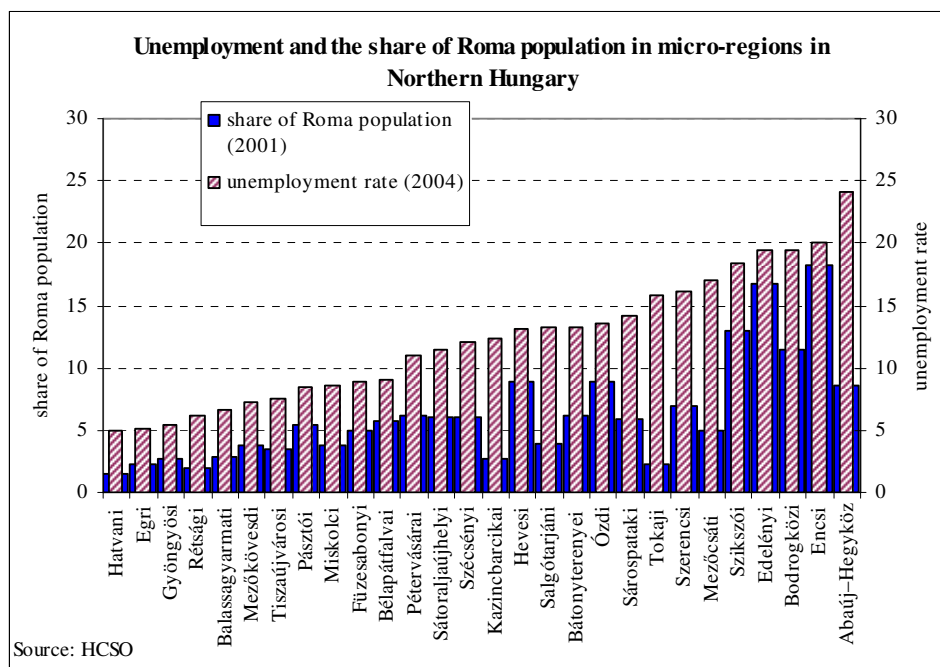
birth rates are higher than the national average, than the conclusion is that female workers stay away (or are excluded) from the labour market, and choose motherhood as the best possible solution in the region, thus contributing to a growing inactivity. A higher level of activity in case of Slovakia is coupled with a higher rate of unemployment than in Hungary. Unemployment is especially high in the Presovsky and Kosicky regions totalling a rate of 16.4 and 18.7%, respectively.

Chart 12



As already indicated before a higher share of Roma population is characteristic both for Northern Hungary and for Eastern Slovakia. Due to their relatively lower level of education, their socially disadvantaged situation these strata are relatively vulnerable at the labour market as well. As shown in Chart 13 in micro-regions with a relatively high share of Roma population the level of unemployment is higher as well.

Chart 13



The Roma unemployment has mainly a long-term character (i.e. more than 24 months). Their share among long-term unemployed is more than 50 per cent in case of Slovakia. The most vulnerable group is the Roma youth. They enter the long-term unemployment status without

obtaining any working skills at all. The long term youth Roma unemployment totalled about 25 percent of all unemployed.¹⁵

However, the high rate of Roma unemployment is a problem of the Roma minority in general, the inhabitants of Roma settlements are extremely disadvantaged and their employment is restricted only to some seasonal and occasional works. Roma women are also in a disadvantageous position. Most citizens of Roma villages are unemployed and their income is based on the social support system. That is why their standard of living does not exceed appropriate level. Nowadays, the marginalised inhabitant group's employment is considered to be one of the main factors of the social exclusion problem solution. The high rate of the Roma unemployment belongs to the key problems which should be solved. Besides the financial loss from macroeconomic point of view, criminality, social exclusion, drugs addiction, prostitution etc. mean another damage which is also important.

¹⁵ Jurásková, M. *Diskriminácia Rómov na trhu práce (Roma Discrimination in the Labor Market)*. Inštitút pre verejné otázky (IVO) <http://www.euractiv.sk/?a=show&cid=2764&pid=202&sid=202> 19.11.2004

V. Income and social-welfare situation and living conditions

The social-welfare situation of Northern Hungary and Eastern Slovakia show a lot of similarities. In both regions the level of incomes are below the national average, the share of social strata living under disadvantageous conditions is higher than in other parts of the country, the employment situation is as well as the social dependency worse than elsewhere in the country.

Average incomes in Northern Hungary are about 20 % under the Hungarian average. The share of the population living with incomes under the average is 41 %. The ratio between the sub-regions with the highest (Tiszaújváros) and lowest (Bodrogköz) incomes is more than two-folds (2.8). As compared to Budapest, the gap (calculated on the regional average) is more than 40 %. In case of the poorest sub-region (Bodrogköz) is even higher: 71% (Budapest), 57% (country average). Incomes in urban centres (Miskolc, Eger, Kazincbarcika, Gyöngyös, Tiszaújváros) are from 10 to 40 percent higher than the average (see Chart 14.)

Chart 14

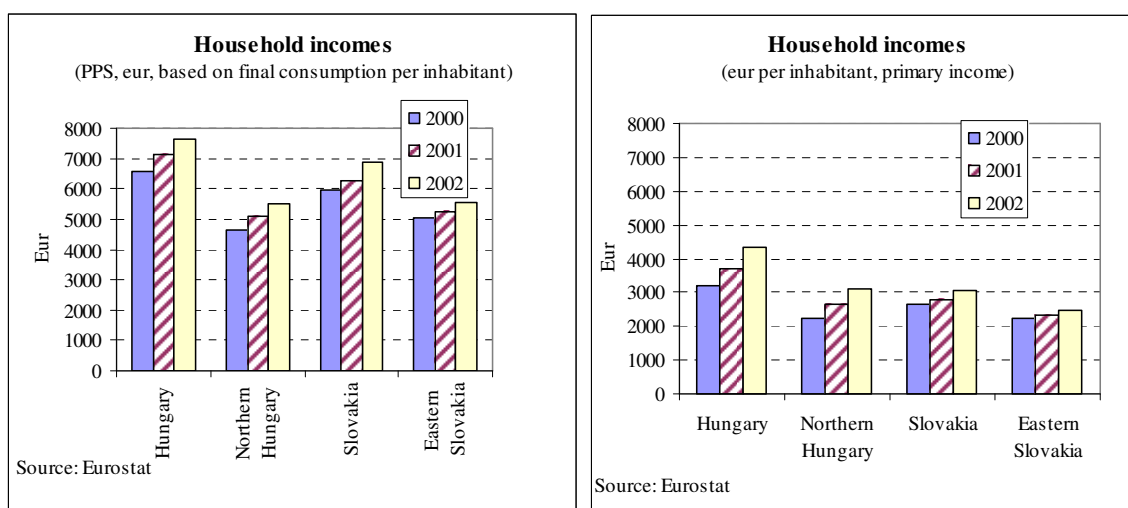
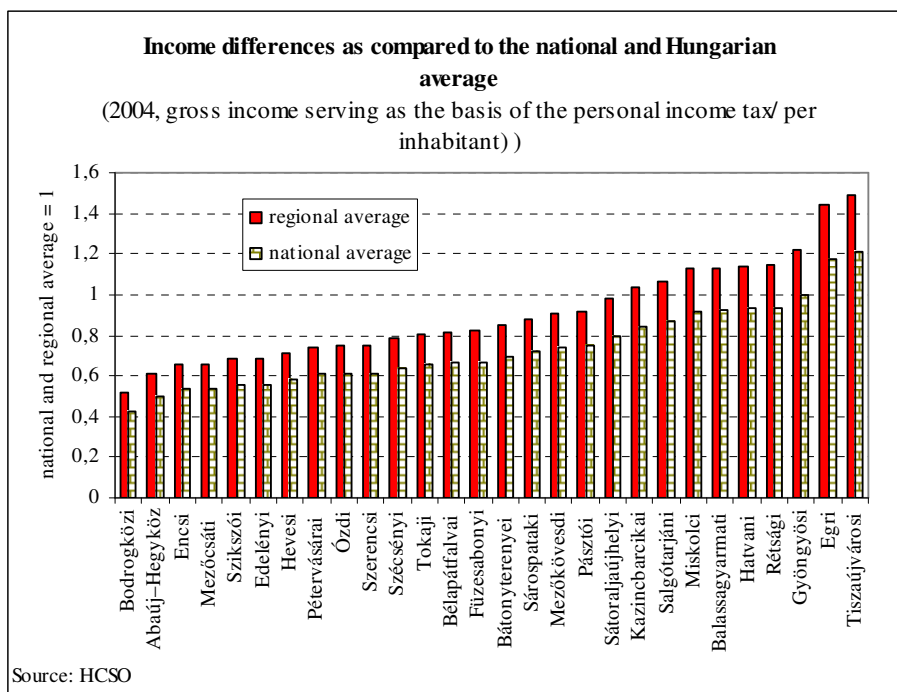
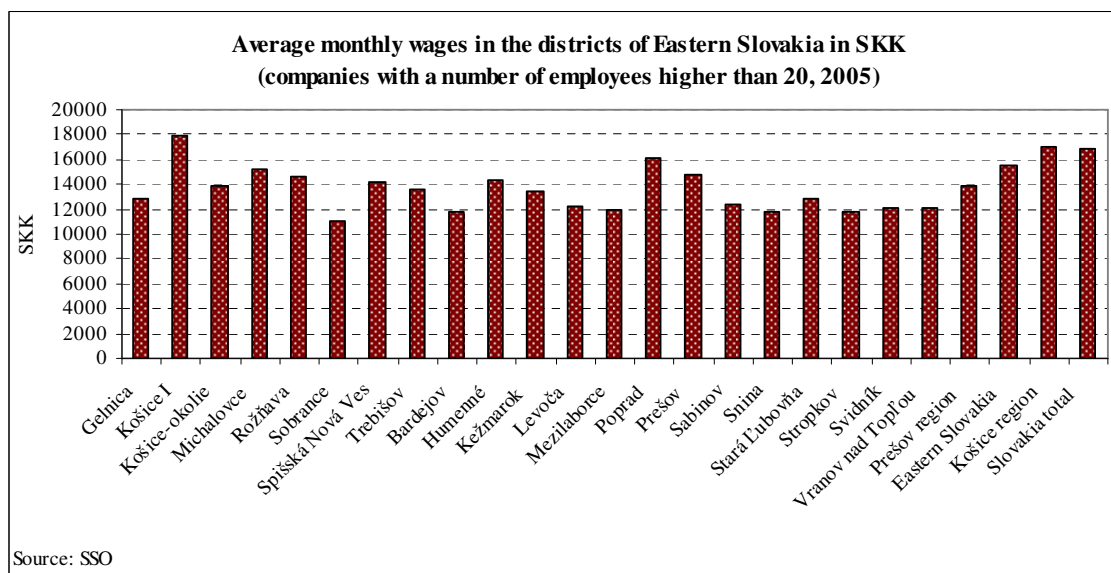


Chart 15



Weak economic performance, and the crisis situation in case of industrial activities lead to a high level of unemployment, which could not be reduced, and weak income situation in larger parts of Northern Hungary hindered the expansion of services. Unfortunately, most of unemployed labour is less educated, whilst labour force with higher education is leaving the region. As a result the structure of labour supply has become rather disadvantageous, with a high share of low educated, rather discouraging investors to settle down in the region. Own resources of enterprises are in most cases rather limited, thus the maintenance of major activities causes often difficulties in itself.

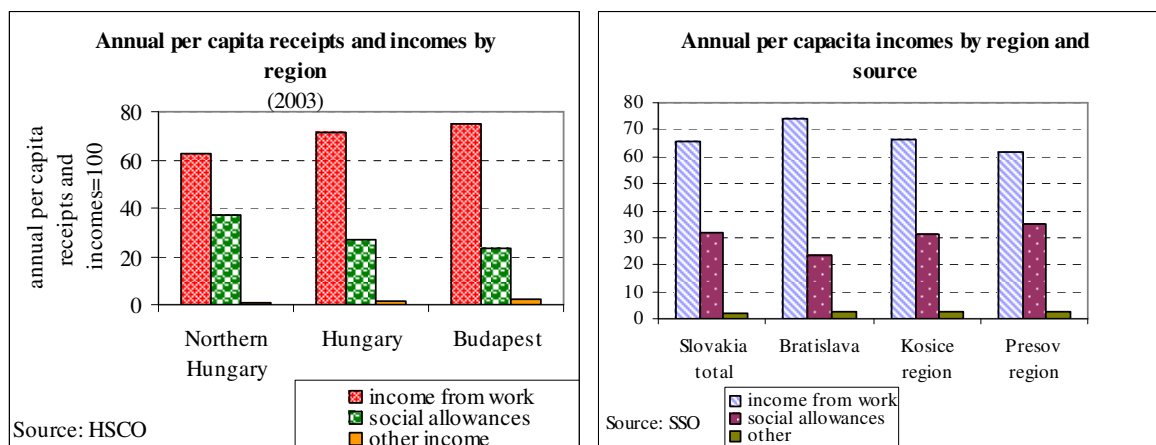
Chart 16



According to the latest statistics published by the Statistical Office of the Slovak Republic the monthly income of an average household member in Eastern Slovakia is by 350 - 500 SKK lower than the average monthly income of a household member in the rest of Slovakia. The average monthly wages in the Prešov region is by more than 4000 SKK lower than is the average monthly wages in the rest of the country. In the Košice region the average monthly wages are approximately the same as in the rest of the country. The inhabitants of Eastern Slovakia tend to save their money, while average Slovak household have a tendency to get into debts. Most income is spent by the households on foodstuff, non-alcoholic beverages and housing in general.

There are noteworthy discrepancies in the development of income on the micro level. In 2005 the average monthly wages were lower by more than 5000 SKK than the average monthly wages of Slovakia in the districts of Sobrance, Stropkov, Snina and Bardejov. On the other hand in the districts of Košice the average monthly wages were even higher than the average monthly wages in Slovakia.

Chart 17



As indicated by Chart 17 the number of people living to some extent on social allowances is relatively high. The high level of unemployment increased the extent of social dependency both in case of Northern Hungary and of Eastern Slovakia. The number of those living regularly on social allowance is 96.2/1000 inhabitants in case of Northern Hungary, being more than the double of the national average and showing the highest value among all regions in Hungary.¹⁶ The situation of social dependency is especially extreme in case of micro-regions with a high share of Roma population, like Edelény, Bodrogköz, Encs, Szikszó or Szerencs. Similar trends are characteristic for the two observed district in Eastern Slovakia as well, however the situation is somewhat better in case of the Košice region, but worse in case of Prešov.

To handle this disadvantageous situation is one of the major challenges in the area of Northern Hungary and Eastern Slovakia. According to the opinion of stakeholders in the region (ITD, Chamber of Commerce etc.) the key issue would be raising the level of education of both Roma and other socially handicapped strata, introduce new types of

¹⁶ See for details Észak-Magyarországi Régió, Regionális Operatív Program 2007-2014, Miskolc, 2006. december 6. Norda, , CCI number: 2007HU161PO006 www.norda.hu

vocational training, involving enterprises in this process, and changing the attitude of people in general to the problem at all. Most analysis are consistent in the statement that in areas where the Roma population is especially high like in the micro-region Bodrogköz or Encs, the living conditions of these people is much worse than that of non-Roma on the one hand, whilst the general situation of people living in this area is much below the national or regional average on the other.

In 2002 a *Roma Strategy* was developed in the county of Borsod-Abaúj-Zemplén¹⁷ with the aim of improving the living conditions of the Roma people based on the cooperation of municipal bodies and representative institutions of minorities. The strategic goals defined were diminishing poverty, easing discrimination and exclusion, strengthening the role of Roma communities. The prevailing problems indicate that the implementation of the strategy could not ease the tensions in a satisfactory way.

Taken as whole, for both observed regions applies that living conditions are much worse as compared to the national average. Problems can be summarized as a high share of disadvantaged population, a high social dependency, high rate of inactivity, especially due to early retirement as a consequence of poor health conditions, a high share of population excluded from the labour market with no hope of re-integration. The quality of dwellings in general is below the national average, especially in disadvantaged areas mentioned before.

Life expectancy in case of both genders is worse than the national average: a high mortality rate and a high infant mortality are characteristic. Poor health conditions, a low quality of living conditions and a low level of education are especially characteristic for rural areas, whilst the situation in urban centres is much better. Health care services are also of a much better quality in urban areas, whilst in rural areas there is a shortage of health care professionals.

Housing situation in Northern Hungary in general, but especially in socially handicapped areas is much worse than the national average. Low comfort of dwelling is characteristic for the sub-regions Abaúj-Hegyköz, Bodrogköz, Edelény, Encs, Mezőcsát and Szikszó, that is areas with the lowest incomes (as shown in Chart 15) and the highest social dependency ratio. The situation is much better in urban centres like Kazincbarcika, Ózd, Miskolc, Tiszaújváros or Eger, however there are substantial quality differences between them as well. However, even in these areas, the share of blocks of flats built with the help of an obsolete technology during the 1960-1980-ies is relatively high, suggesting a poor quality of flats and an increasing demand for renewal. Taken as a whole in the region Northern Hungary only 6 % of the total dwelling stock was built later than 1990 and 22% was built later than 1980. The corresponding national average is 7.4% and 25.1%. The share of dwelling stock built in the years 2000-2005 is 2.6%, whilst the corresponding national average is 4.8%. The situation is the best in case of the county Heves, and the worst in case of county Nógrád, the poorest among them.¹⁸

Households in Eastern Slovakia are bigger than the Slovak average. Out of all the regions the Prešov Region counts the smallest number of households consisting of one or two household members and the Košice Region ranks third. On the other hand, both regions have the highest number of households consisting of seven and more household members. These households are, however, under equipped with devices such as refrigerators and freezers, washing

¹⁷ Középtávú Stratégia és Operatív Program A Borsod-Abaúj-Zemplén megye területén élő romák élethelyzetének javítására, 2002, BAZ Megyei Fejlesztési Ügynökség, Hitesy, Bartucz, Hollai

¹⁸ See for details KSH: Területi Statisztikai Évkönyv, 2005

machines, colour television devices, cell telephones, personal computers and the Internet. The only device that is present on the average level is the home telephone.¹⁹

The majority of the inhabitants of Eastern Slovakia live in family houses. The average age of these houses is lower than the Slovak average, whereas their size and the number of people living in one house are above the average. If we look at the development of new housing constructions only 14.6 % of all new flats was commenced in this region. This is quite a low percentage when compared to the share of population living in Eastern Slovakia.

The unfavourable situation in the area of housing construction in the region of Eastern Slovakia is reflected mainly in the calculation of the number of flats constructed per 1000 inhabitants. Within the territory of the Slovak Republic there were 2.3 flats constructed per 1000 inhabitants in 2004, while the situation became even worse in the region of Eastern Slovakia with only 1.4 constructed flats. The worst situation was observed in the Košice Region, with only 1.1 flats completed per 1000 inhabitants. As regards the number of fully constructed flats per 1000 inhabitants the situation thus worsened significantly in both regions compared with the year 2000.

¹⁹ The Profile of the Region of Eastern Slovakia, 2006 Prešov Region-Košice Region, [http://www.vucpo.sk/ganet/vuc/po/portal.nsf/wdoc/c44dbe71d51edf8ac125724100570995/\\$FILE/Profil%20regionu%20S-V%20ENG.pdf](http://www.vucpo.sk/ganet/vuc/po/portal.nsf/wdoc/c44dbe71d51edf8ac125724100570995/$FILE/Profil%20regionu%20S-V%20ENG.pdf)

VI. Environmental situation and natural resources

In **Northern Hungary** power stations, steel and chemical works as well as firms of electric industry are the major air polluters. With the exception of the county Borsod-Abaúj-Zemplén, due to shrinking industrial output the situation of air pollution improved in the course of the last years. The construction of gas pipeline-network as well as technological modernization in the field of industry contributed also to a decrease of environmental pollution in general. However, in the future growing road transport especially in case of big cities will cause problems concerning air pollution.

The quality of surface water supply has improved somewhat recently. However, the reason for this is in the first line that the polluting industrial producers have disappeared. Sewage water management is unfortunately still unsatisfactory in Northern Hungary, and numerous (mostly illegal) waste disposal areas, as well as water pollution on the other side of the border cause substantial environmental risk in the area.

The quality of drinking water has improved substantially in the course of the last 15 years. However, in areas with karstic soil the danger of drinking water contamination is relatively high, so the protection of the water base has to be improved. As regards the quality of public utilities the access to the public sewerage network is still highly unsatisfactory (56.6% of all flats are connected), especially in backward areas like Abaúj-Hegyköz where only 4.2% of all flats are connected to the public sewerage network.

In the rural parts of the region, especially in case of the hilly areas unsatisfactory water management caused severe problems, threatening dwelling settlements especially in the area Mátra, Bükkalja or Cserehát.

Northern Hungary is rich in natural resources, and the largest natural reservation of Hungary can be found in this area.

As regards **Eastern Slovakia**, in terms of water supply, the water resources located in the Prešov region are used to meet the water demand in the Košice region (e.g. the water reservoir of Starina), and vice versa, as results from the operation of both joint stock companies concerned. This explains why it is impossible to assess the water supply and the water resources of this region on their own, regardless those in the Prešov region. Among the most important surface water resources are the water reservoirs of Starina and Bukovec; the most important underground resource is the source located in the village of Drienovec.²⁰

Water resources shall suffice to meet the demand until 2012. Lately, the water consumption has fallen owing to more discipline in water management and decreased water consumption due to water price rise applied to the population and industry, enterprise preference for their self-contained sources and dissolution of a number of firms which used to need potable water for their manufacturing purposes. To ensure sufficient water resources for the Košice region after 2012, it will become necessary to increase the water treatment capacity at the existing water reservoir of Starina and build a brand-new water reservoir at Tichý Potok.

The territory of the Košice region is, compared to other regions in this country, rather rich in geothermal resources having good prospects for use in the future. Speaking of potential, the

²⁰ Štratégia rozvoja vidieka Košického samosprávneho kraja, November 2006, VVMZ, http://www.kosice-region.sk/NR/rdonlyres/DD9E14C2-5C13-4EE3-91AC-6E7DEC060BF6/0/strategia_rozvoja_vidieka_analyza.pdf

best prospects go to the Košice Valley which is noted for the occurrence of geothermal underground waters of the temperature ranging from 120°C to 160°C (over 3,000 meters in depth).

The essential part of the waste falling in the category of special waste is made up of municipal waste. Landfilling is among the most common disposal methods for this type of waste. Based on the data released by the Statistical Office of the Slovak Republic, 45.1 % of the municipal waste generated in the Košice and Presov region in 2003 was disposed by landfilling.²¹

The equipment of the flats in Eastern Slovakia is below the national average taking into consideration the presence of sewage system, septic tank and a flush toilet. On the other hand, the number of households connected to the gas distribution and to sewage system network is above the average.

The raw materials for energy use found in the region include some short reserves of natural gas, crude oil, and soft coal found in the districts of Michalovce, Sobrance and Trebišov. Hnojné (a site found within the district of Michalovce) has a deposit of lignite. An anthracite deposit has been discovered in the district of Trebišov. Some reserves of metallic raw materials are found in the mountain range of Slovenské Rudohorie (the Slovak Ore Mountains) surrounding Spišská Nová Ves, Rožňava and Gelnica, then in the west of the district of Košice-Vicinity (the deposits of siderite, copper ore, silver ore, iron ore, and lead, zinc, mercury).

In the past, the mentioned reserves of ore raw materials gave rise to mining industry, especially, in the districts of Spišská Nová Ves, Gelnica, Rožňava. At present, the exploitation is at the original sites no longer cost-effective, or has failed to be continued at the developed mining districts for lack of financial resources (e.g. the silver dike in the district of Rožňava) or has been moved (the soap-stone reserves in the district of Rožňava). Compared to some other sites in Slovakia, the reserves of natural gas found in this region are of value.

²¹ The Profile of the Region of Eastern Slovakia, 2006 Prešov Region-Košice Region, [http://www.vucpo.sk/ganet/vuc/po/portal.nsf/wdoc/c44dbe71d51edf8ac125724100570995/\\$FILE/Profil%20regionu%20S-V%20ENG.pdf](http://www.vucpo.sk/ganet/vuc/po/portal.nsf/wdoc/c44dbe71d51edf8ac125724100570995/$FILE/Profil%20regionu%20S-V%20ENG.pdf)

VII. Absorption of pre-accession EU-funds

The absorption of pre-accession funds shows a lot of similarities in Northern Hungary and Eastern Slovakia. The following pre-accession funds were designed to foster the preparation of accession countries to cope with EU funds after becoming full members of the European Union:

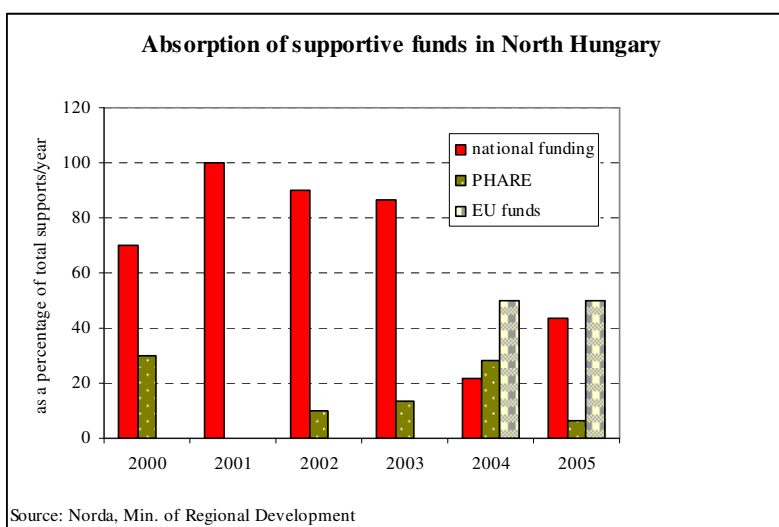
PHARE - preparation for European Regional Development Fund and European Social Fund

ISPA – preparation for Cohesion Fund

SAPARD – preparation for European Agricultural Guidance and Guarantee Fund

Detailed analysis concerning the absorption of supportive funds coming either from national or foreign sources are available in the first line for the period 2000 to 2005. Prior 2004 national sources played the decisive role in regional development. Pre-accession funds were received in a rather uneven way in the period concerned (see Chart 18). The greatest part of the state support in **Northern Hungary** (about 55 %) flowing into the region was allocated to the county Borsod-Abaúj-Zemplén with the largest population in the region, and characterized by severe problems and stubborn backwardness as already shown a prior in the chapter. The importance of state support can be indicated by the fact that its value totalled more than one third of the investment value generated in the period in question. Chart 18 draws attention to the fact that the role of national supports substantially declined after accession, and this process will be even more marked in the next financial period when the bulk of EU funds flowing into the region will multiply.

Chart 18



Priority goals of state support allocated to the scope of decisions of county and regional authorities were to diminish territorial differences, to foster catching up of backward sub-regions, to encourage the creation of jobs as well as urge investment activities. Thus municipal bodies co-funded investments generating or preserving jobs, development of tourism infrastructure, construction of bicycle-routes.

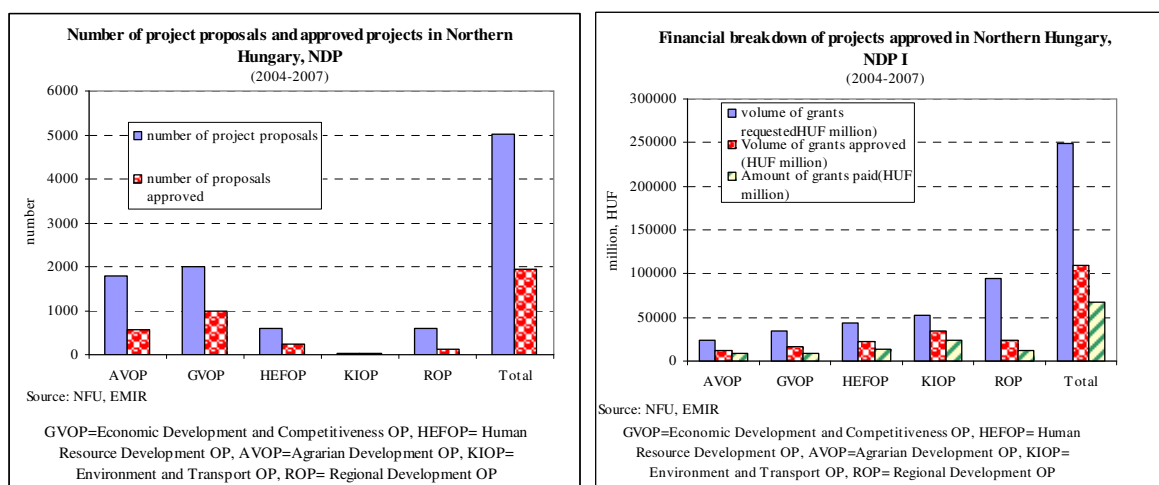
Decentralized PHARE programmes on territorial development launched in 2000 aimed at supporting integrated economic restructuring and at the improvement of the quality and skills of human resources in the frame of sub-regional programs. As to the later projects like collaborative actions between SME-s, renewal of thermal baths, and creation of new conference venues as well as retraining programs or access to PC-s at educational institutions were given preference. These programs were of relatively small size, thus they could not generate any spectacular results at regional level, and however their impact at project/micro-level should not be regarded as negligible.

In the years 2002-2003 projects aimed at urban development were implemented out of PHARE resources with Eger, Szécsény, Szikszó, Hatvan Tokaj, Miskolc being the major beneficiaries. These projects contributed mostly to the reconstruction of some central area of the concerned towns.

After accession in 2004 within the frame of the First National Development Plan the so called *Regional Development Operational Program* allocated resources for smaller scale investments fostering a catching up process. These regional programs supported the development of tourists' facilities, smaller investments in the field of transport infrastructure, reconstruction projects, the improvement of technical facilities in educational institutions, supported local employment pacts, the improvement of public administration services etc. According to available information out of total funds allocated to the Northern Hungary some 36% were used for the development of the tourist potential of the region, whilst 57% for the improvement of the local infrastructure. A minor part, about 6 per cent was allocated for the purposes of generating employment of people in disadvantageous social position, especially for Roma population. Additional grants could be applied from the sectoral operational programs like the Program for Economic Competitiveness, the Program on Human Resource Development, etc. These supported separate projects, not directly supplemented the financial facilities of the Regional Development Operational Program, but gave room to the implementation of different project ideas.

As shown in the analysis made by NORDA, the demand for development funding was a great deal larger than the volume of available resources. This demand was especially high in the field of human resource development and in case of regional programs (ROP). In certain fields, like the improvement and extension of tourist facilities past programs can be regarded as first steps, in order to achieve sustainable impacts the continuation of these programs is necessary. A better concentration of available funding sources is unavoidable, as a fragmented use cannot bring substantial or spectacular results. It will remain a problem that whilst on the one hand there is a large need for the rehabilitation of brown areas, due to unsettled property positions in this respect remarkable results cannot be hoped for in the coming years either. As regards the sustainability of impacts of funding in the future larger scale integrated programs will/should be preferred as projects with a small local impact cannot generate real progress with a regional effect.

Chart 19



As regards the implementation of the projects past experience drew attention to inadequacies in respect of administrative capacities. The process of approval of successful applications proved to be often very long, in some cases, too much bureaucracy hindered an efficient implementation.

In **Eastern Slovakia** as well, until 2000 regional development was mostly supported by national sources. In the pre-accession years, from 2001 on the role of PHARE funds started to gain importance. These funds were devoted in the first line to support investment activity and institutional building. As regards investment supports priority areas were grant schemes in the field of industry, the development of transport and tourism as well as the support of innovation activities in case of SME-s (for a detailed breakdown see Table 2).

Table 2

PHARE in Eastern Slovakia
(Number and Volume of approved grants in EUR)

Region	Industry		Transport		Tourism		Innovation of small and medium enterprises	
	Nr	Volume EUR	Nr	Volume	Nr	Volume	Nr	Volume
Košice Region	26	1041728	5	479022	16	1321768	19	706955
Prešov Region	10	379502	4	391449	8	601846	9	383897
Other regions	73	2658926	28	2399577	34	2646385	54	2503699
Slovakia Total	109	4080157	37	3270048	50	457000	79	3594521

Source: Ministry of Economy, Slovakia www.economy.gov.sk

The largest programmes include the following projects: the development of Fishing lakes in Snina (2 mil. EUR), development of transport in Zemplinska Šírava (2,8 mil. EUR), tourism in the micro region of Velká Domaša (2.7 mil. EUR), development of industrial park in Humenné – Guttmanovo (2 mil EUR), establishment of industrial park in Rožňava (2.4 mil. EUR), Technological Incubation Centre in Prešov (2 million EUR).

The financial contribution from *ISPA* (Instrument for Structural Policies for pre-accession) in Slovakia in the period from 2000 to 2006 amounted up to 1.04 billion EUR. In the period between 2000 – 2003 on the entire territory of Slovakia 20 projects have been selected for funding from *ISPA* with a financial contribution of 159.8 mil EUR. Thereof in Eastern Slovakia 4 large projects were implemented totalling 47.3 million EUR (having a share of 29% of Slovak total). See Table 3.

ISPA in Eastern Slovakia

Table 3

Region	Number of projects	Volume of projects (million EUR)
Košice Region	2	26.2
Prešov Region	2	21.1
Other regions	16	112,5
Slovakia Total	20	159.8

Source: Ministry of Economy, Slovakia www.economy.gov.sk

Out of the total funds by *SAPARD* (Special Aid for pre-accession measures for Agriculture and Rural Development) only 9.1% were allocated in Eastern Slovakia (see Table 4 for details)

Table 4

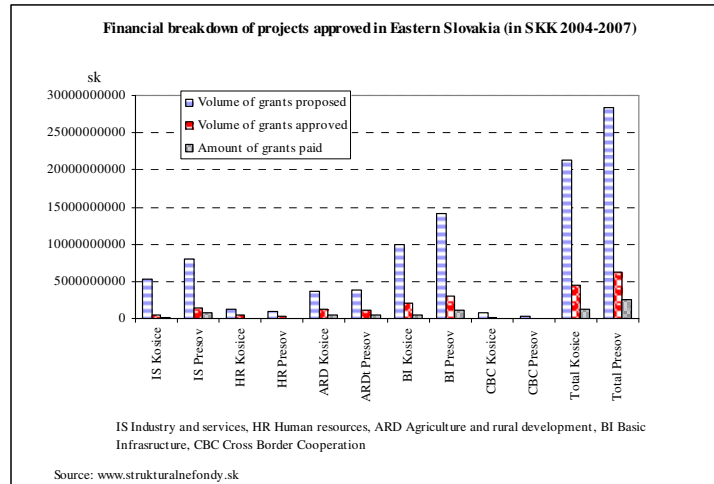
SAPARD in Eastern Slovakia

Region	Number of projects	Volume of projects (SKK)
Košice Region	92	473 601 544
Prešov Region	77	379 869 349
Other regions	780	8 518 767 545
Slovakia Total	949	9 372 238 538

Source: Ministry of Economy, Slovakia www.economy.gov.sk

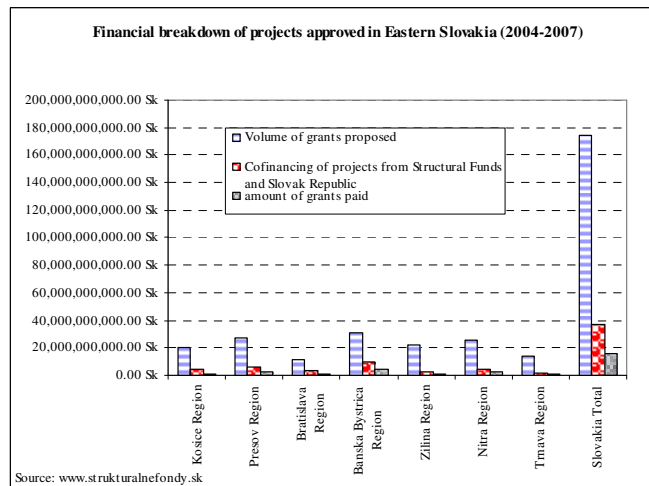
After accession in 2004 within the frame of the first *National Development Plan* the so called *Regional Development Operational Program* allocated resources for regions lagging behind with the purpose of promoting structural adjustment and encouraging economic growth. Besides regional programmes Eastern Slovakia could also benefit from the sources of the so called *Sector Operational Programmes* like SOP: Human Resources, Industry and Services, Agriculture and Rural Development, Basic Infrastructure. Slovakia also participated in 2 Community initiatives: INTERREG III A and EQUAL. The following Charts 20 and 21 show the actual breakdown of Structural Funds in Slovakia.

Chart 20



Due to the fact that Slovakia has selected a centralized system in implementation and management of EU projects, there is widespread room for the participation of regional self-governments (Higher Territorial Units in Slovakia) to enhance the effectiveness of the functioning of EU Funds in Slovakia

Chart 21

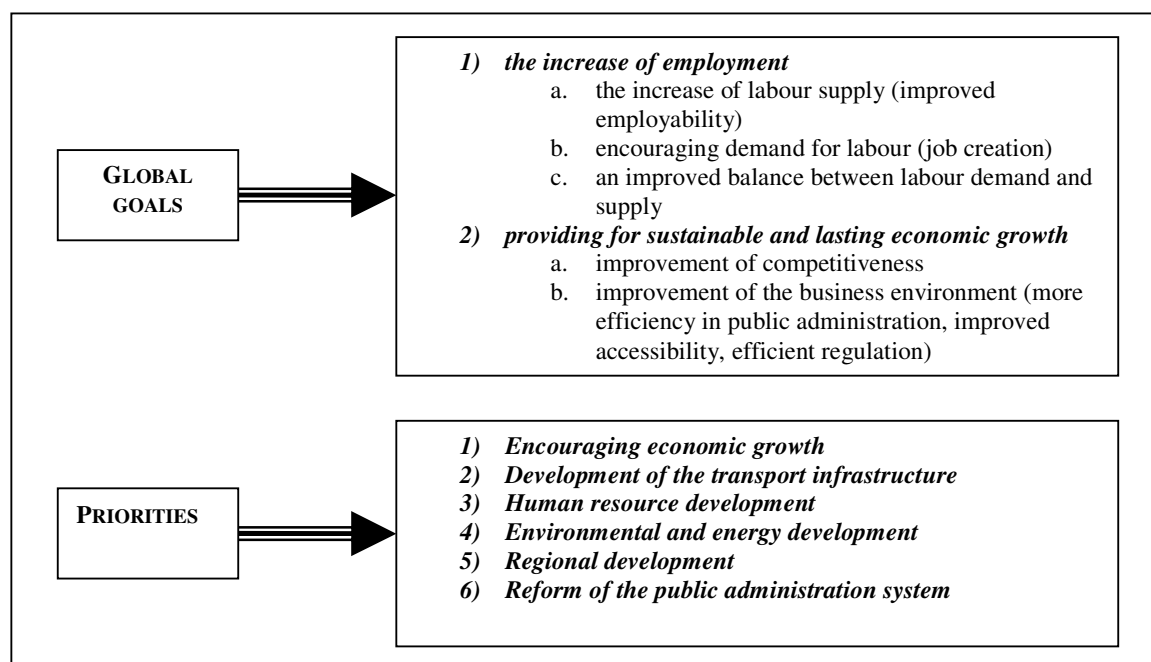


VIII. A comparison of the priorities of the National Strategic Reference Frameworks of Hungary and Slovakia set for the period 2007-2013

The new of the *National Development Plan (National Strategic Reference Framework) of Hungary* for the years 2007-2013²² envisages a more balanced regional development providing for an increase of regional competitiveness and social and economic cohesion. Among major goals are the support of innovation, knowledge-intensive activities, of SMEs as well as the improvement of the business environment. High priority is attributed to the creation of development poles, the improvement of relations between rural and urban areas, the supporting of a comprehensive programme enabling a catch-up in backward areas, and to the fostering a sustainable development in the Balaton, Danube and Tisza areas. The improvement and expansion of the transport infrastructure, the increase of economic activity, the raising of employment, the creation of an environment-oriented energy sector, as well as the improvement of the quality of public administration belong to the core elements of the new programme. The structure and the hierarchy of different goals and priorities of the National Development Plan for the period 2007-2013 can be seen in the Chart 22.

Chart 22

The structure of the National Development Plan II in Hungary

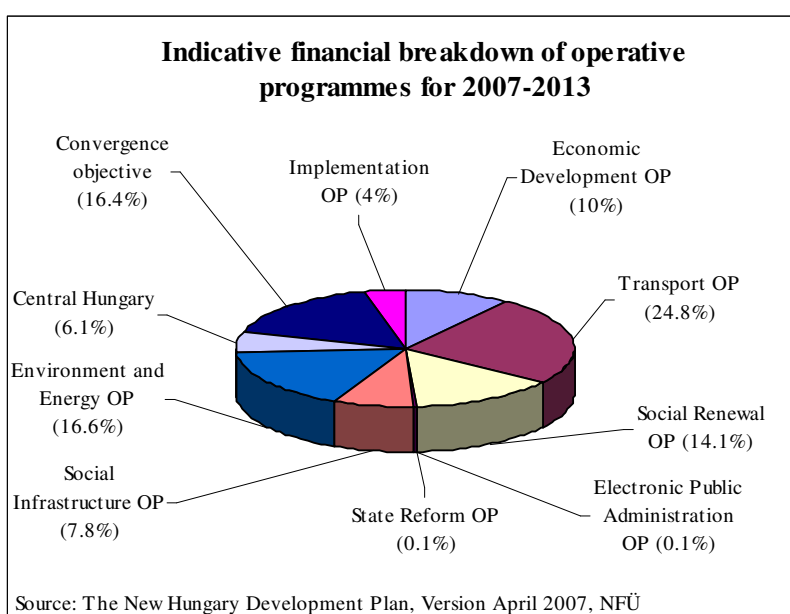


Source: Új Magyarország Fejlesztési Terv, Foglalkoztatás és növekedés – 2007-2013, <http://www.meh.hu>

²² See Új Magyarország Fejlesztési Terv, Foglalkoztatás és növekedés – 2007-2013, <http://www.meh.hu>

According to prevailing information some € 22.4 billion will be available in the form of EU grants under the Cohesion Policy section of the EU budget for Hungary²³. The planned (indicative) breakdown envisages approximately 16 to 17 % of total grants for regional development in the convergence regions (see Chart 23). Within this frame 21 % of funds will be allocated for development plans in Northern Hungary. In the frame of the National Development Plan efforts are made in order to distinguish between tasks to be handled in an optimal way at regional level (like integrated local programs or project packages, local infrastructure development, improvement of the local environment, raising the efficiency and rationale of public services at the level of local municipalities; improving competitiveness at local level, etc.), and those to be handled at national level (like major investment projects with multi-regional impacts, major infrastructural projects aimed at improving the national transport infrastructure, centrally (i.e. by ministries) controlled projects of national importance etc.).

Chart 23



Under heading *European Territorial Cooperation* covering cross-border programmes and projects some €338 million with the aim of supporting an organic integration of Hungary into its border environment and to enhance the realignment of Hungarians living in the neighbouring countries via generating joint regional, infrastructural, institutional and economic development programs.

As regards the regional *development plan for Northern Hungary*²⁴ major priorities are the improvement of economic performance with a special emphasis to the traditional branches (like chemical industry, a modernized energy industry with building on renewable resources and environmental industry), establishing regional knowledge centres, and encouraging

²³ Accounted on 2004 price level. On current price level this will be about €25.3 billion. This will be completed by on the average some 15 per cent national contribution, thus available funding for development purposes will reach an amount of €26.3 billion. Besides this, from the European Agricultural Fund for Rural Development some € 3.8 billion, and from the European Fisheries Funds €34.3 million will be available for Hungary at current prices.

²⁴ See for details Észak-Magyarországi Régió, Regionális Operatív Program 2007-2014, Miskolc, 2006. december 6. Norda, , CCI number: 2007HU161PO006 www.norda.hu

business related services. The improvement of the preconditions of tourism, as well as the fostering of urban centres, especially the development of Miskolc into a technology centre, belongs also to the major goals of the near future. The improvement of local public services in rural areas with small villages could contribute to the easing of the Roma problems. As a global task the region is participating also in the development of the Tisza area.

A detailed structure of the North Hungary Operational Programme can be seen as follows (Chart 24 and 25).

Major goals and priorities of the North Hungary Operational Programme

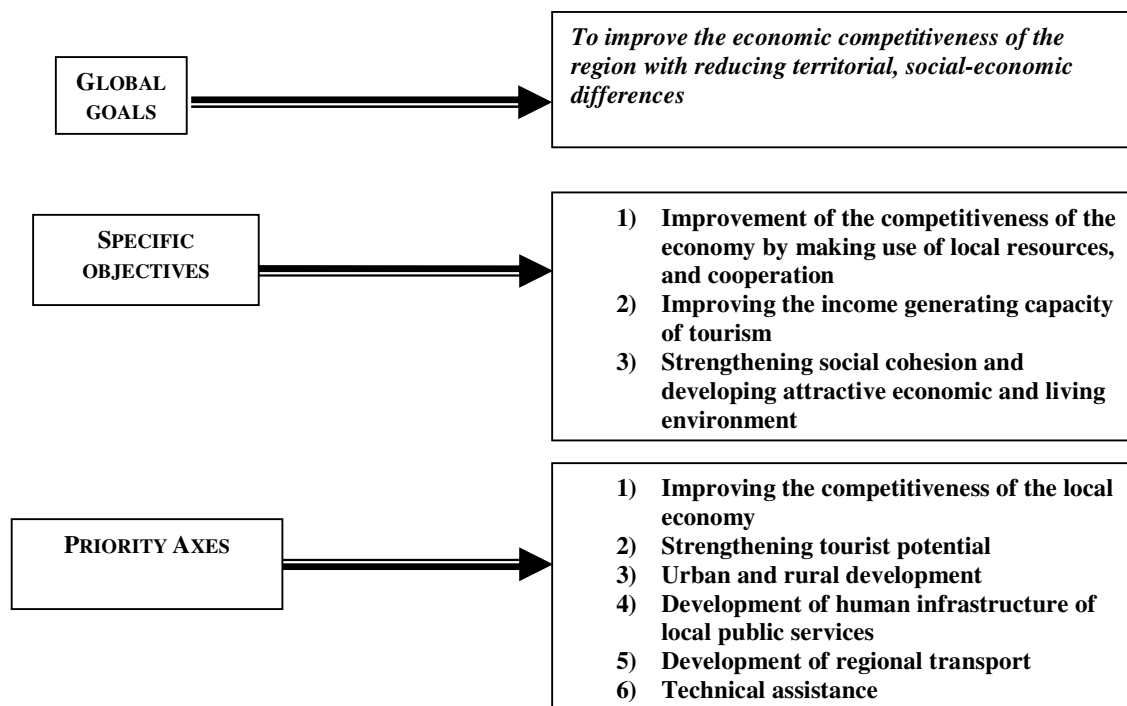
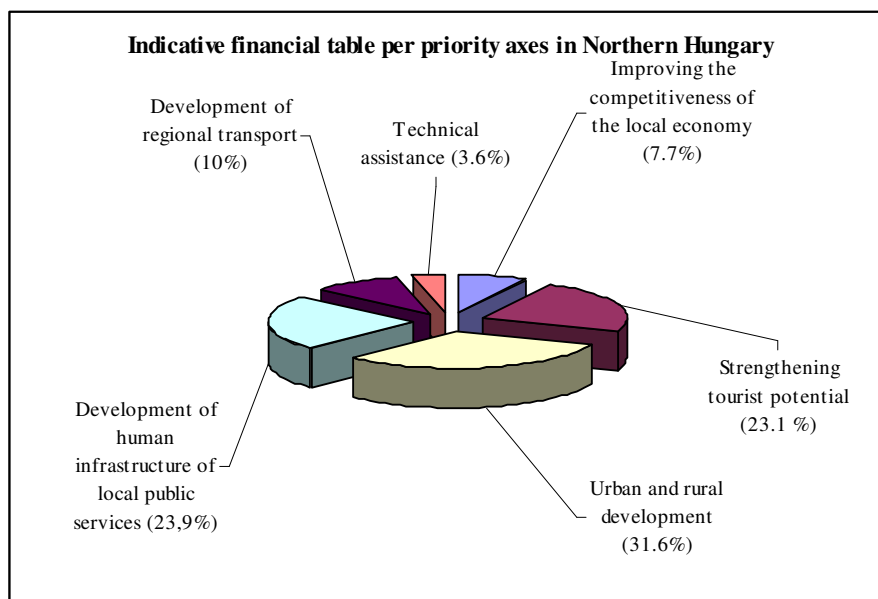


Chart 25

Indicative financial breakdown per priority axes



Source: Észak-Magyarországi Régió, Regionális Operatív Program 2007-2014, Miskolc, 2006. december 6. Norda, , CCI number: 2007HU161PO006 www.norda.hu

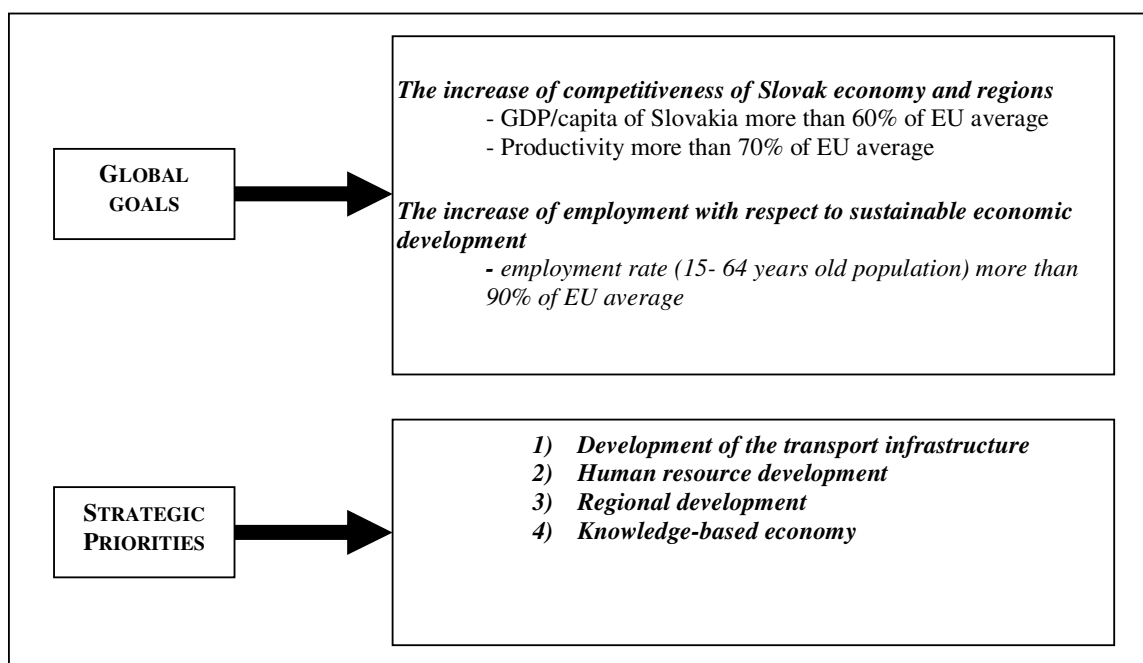
The new *National Development Plan (National Strategic Reference Framework) of Slovakia* for the years 2007-2013²⁵ puts emphasis on the increasing level of competitiveness and productivity of Slovak economy and its regions as well as the increase of employment. The strategic goals could be divided into three main areas:

- 1) development of infrastructure and regional access by increasing the attractiveness of regions for future investment,
- 2) enhancing of Knowledge-based Economy as an effective tool for increasing the competitiveness of the productive segment of society by advanced level and quality of technologies,
- 3) fostering the development of Human Resources.

The structure and the hierarchy of different goals and priorities of the National Development Plan for the period 2007-2013 can be seen in the following Chart 26.

Chart 26

**The structure of the National Development Plan
(on 8. 10. 2006 adopted by Slovak Government resolution nr. 1005/2006)**



The volume of EU grants for Slovakia in the Financial Perspective for the period 2007-2013 amounts up to 10.91 billion EUR. According to the National Strategic Framework submitted to the Commission by the Slovak government there are 11 operative programs planned. Transportation is set to be the largest operative program from a financial perspective using 3.2 billion EUR. The second largest program concerns the development of environmental infrastructure and protection with an allocation of 1.8 billion EUR.

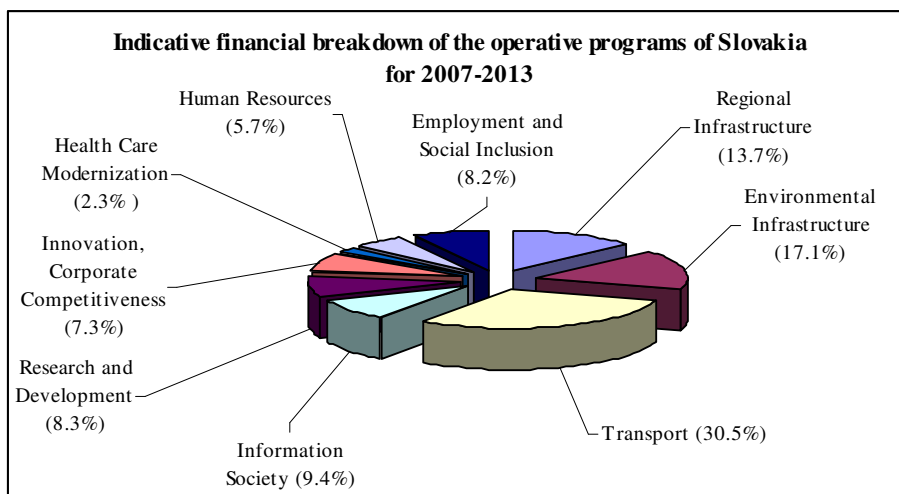
According to the principle of territoriality most resources will be used in the areas declared as innovative development poles. The principle of territoriality concerns the areas of

²⁵ See Národný strategický referenčný rámec 2007-2013. www.vlada.gov.sk

Knowledge-based Economy and Infrastructure. Whilst in case of Human Resource programmes, the allocation of resources will not follow the principle of territoriality.

The structure and financing of the operational programs is presented in the following Chart 27.

Chart 27

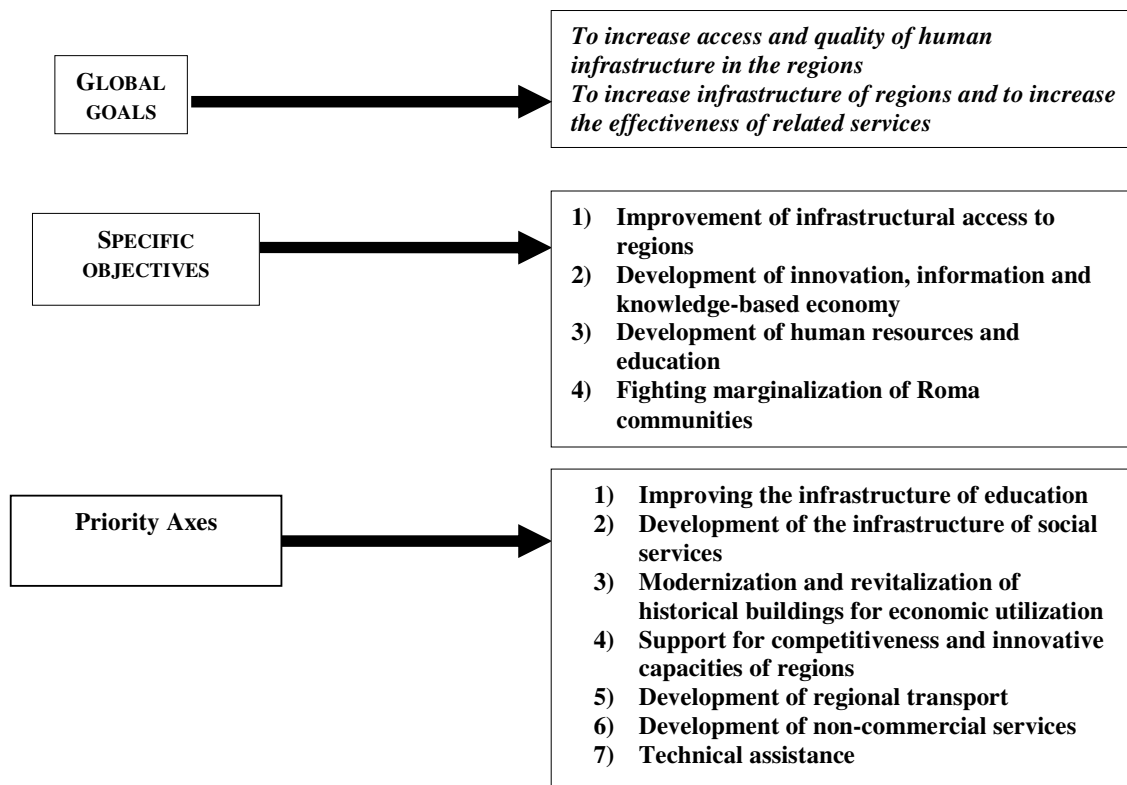


Regional development and cohesion is set as a strategic priority. The Regional Operative Program focuses on infrastructure and human resources. There is a horizontal operative program focusing on the negative effects of the marginalization of Roma communities. Apart from the Hungarian Development Plan there is no specific program dealing with Eastern Slovakia. The access to the funding of the regional operative programmes is based on the socio-economic indicators of development of regions.

The structure of regional programmes is depicted in the following Chart 28.

Chart 28

Major goals and priorities of the Regional Operational Programme for Slovakia



A comparison of the regional development programmes set for Northern Hungary and for all regions in Slovakia shows a lot of similarities. The improvement of competitiveness, the development of the regional transport infrastructure belongs to the priority axes of the plans. In case of Northern Hungary an increased attention is paid to the development of the strengthening of the tourist potential, to the improvement of the preconditions of local public services as well as to urban and rural development. In case of all regions in Slovakia the improvement of the physical infrastructure of education, development of the social system and of non-commercial services are also mentioned among the priority axes. The support for Roma communities is tackled by the regional operative programme in case of Slovakia, whilst in case of Hungary this will be handled both by North Hungary Operational Programme and by the centrally controlled operational programmes.

In the frame of the new INTERREG program called *European Territorial Cooperation a "Hungary-Slovakia Territorial Co-operation Programme 2007-2013"* will be launched focused on the improved integration of border regions, mainly in the fields of economic and human cooperation as well as cross-border environmental issues, protection of nature and improving accessibility. Joint programming bodies will provide for the smooth implementation of strategic goals. However it should be kept in mind that whilst from the region Northern Hungary all parts, all the three counties are involved, from Eastern Slovakia only the Košice NUTS III region will benefit from the program.²⁶

²⁶ See for details: Objective 3: Hungary-Slovakia Territorial Cooperation Programme, 2007-2013, January 2007, www.vati.hu

IX. Final remarks

This brief portrait of the two bordering regions (Northern Hungary and Eastern Slovakia) shows a lot of similarities. In spite of the fact that their geographical positions and the similar level of economic development would provide a potential for a good cooperation, there is limited experience in this direction so far. Future trends in possible cooperation between economic players of the two regions will be affected by the differences of the macro-economic development path to be followed in the two countries. Prevailing data and information suggest that whilst Slovakia will remain most likely one of the most dynamic country in Eastern Europe, economic growth in Hungary will most likely slow down in the coming years. A catching-up to the EU average will continue in case of both countries, however, at a different pace, thus the prevailing welfare differences between the two countries might become narrower. However, welfare differences between the two discussed regions, on the basis of the recent data of Eurostat (GDP/inhabitant in PPS) have already disappeared in the course of the last ten years.

Different kinds of contacts, like labour migration, are more characteristic in case of the border region of Western Hungary and Western Slovakia. Contacts between enterprises could be fostered by the development of the transport infrastructure in both regions, as planned by the National Development Plans. Comparative advantages of the prevailing Slovak tax-system will encourage investors to move in the region, if other preconditions are provided for as well. For Hungarian investors in general Slovakia is already one of the major objective, thus besides Netherlands, Germany and Austria Hungarian firms are the largest investors. Bilateral trade has relived in the course of the last years, especially exports of Hungarian firms expanded. All in all, the conditions for an increased cooperation in general are not bad, now it is the tasks of the local players to find better contact to each other. Local economic contacts cannot be encouraged simply from outside, they have to be built on prevailing social, cultural, human networks. Policy makers should pay more attention to the importance of these networks, should rely on and encourage them.

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