Impact of the European Union on the Method of Demarcating the Beneficiary Regions in Hungary

Gábor Boros
Department of Social Geography and Regional Development Planning, Faculty of Natural Sciences and Technology, University of Debrecen, Egyetem tér 1, 4032 Debrecen, Hungary, gboros@vipmail.hu

Gábor Kozma
Department of Social Geography and Regional Development Planning, Faculty of Natural Sciences and Technology, University of Debrecen, Egyetem tér 1, 4032 Debrecen, Hungary, kozma.gabor@science.unideb.hu

János Pénzes
Department of Social Geography and Regional Development Planning, Faculty of Natural Sciences and Technology, University of Debrecen, Egyetem tér 1, 4032 Debrecen, Hungary, penzes.janos@science.unideb.hu

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Gábor BOROS*, Gábor KOZMA*, János PÉNZES*

IMPACT OF THE EUROPEAN UNION ON THE METHOD OF DEMARCATING THE BENEFICIARY REGIONS IN HUNGARY

1. INTRODUCTION

One of the most important tasks of the regional policy is the demarcation of the beneficiary regions; that is, the designation of those regions whose development is regarded as a primary task by the central government and it supports the development of the settlements and enterprises located there with the help of different financial instruments. In the spirit of this, it is not surprising that the designation of such regions has already appeared in the first real act on the regional development of Europe (United Kingdom, 1934 – Special Areas Act) (Thomas, 1975), and the legislations brought in the Western European countries after the Second World War also dealt with this issue in detail (e.g. Blacksell, 1975; King, 1975).

The less-favoured situation of certain regions, nevertheless, may be due to various reasons and in light of this, it is not surprising that the backward regions also had various subtypes (Artobolevskiy, 1997; Balchin et al., 1999), which required different approach. Some of the old industrial areas earlier used to be the centre of the economic life of a country, though from the 1950s some of them had to face the problem of crisis, and in the 1970s this phenomenon further intensified and became spatially extended (Hassink, 2005). In the course of the development of these regions, several kinds of methods were applied. Firstly, in many cases endeavours
were made to preserve the relics of the industrial past and to use it in tourism within the framework of heritage planning (Jonsen-Verbeke, 1999; Hders, 2002; Xie, 2006). Secondly, in the spirit of the total break with the past, the production sites were liquidated in certain regions and the focus shifted to the high-tech sectors (Birch et al., 2010).

Usually two groups are differentiated for the underdeveloped regions. The agro-industrial regions are mainly located in the peripheries of the countries. Within the framework of their development the most important task is to create a diversified economic structure (Briedenhann and Wickens, 2004; Sharpley, 2007) and the creation of agriculture for producing specialized local products (Libery and Kneafsey, 1998).

The regions with extreme natural conditions are located especially in the northern parts of the continents, while they can be found in patches in the high mountains as well. Important conditions for their emergence from the backward situation include the development of infrastructure and the provision of high quality services (Doloreux and Shearmur, 2006). In the course of this, however, endeavours must be made so that the investments should not cause major environmental damages.

The agglomerations of the metropolises, and within them mainly the city centres, appeared as regions in crisis among the objective areas of regional policy during the 1970s (O’Hanlon and Hamnett, 2009; Lange et al., 2010). The quarters concerned in most cases created attractive investment opportunities even for the private capital, and therefore the central government – besides the implementation of certain investments (e.g. public transport development) – mainly endeavoured to improve their situation by the modification of the legal environment.

The European Economic Community founded in 1957 initially paid only a little attention to regional policy, and a slow change could be observed only from the beginning of the 1970s. The difficulties of the new member states and the increasing regional differences made it necessary to increase the amounts of the financial instruments with this aim and to demarcate the regions eligible for aid at the Community level. In the spirit of this, in 1973, the Thompson Report proposing the creation of a fund for the financing of regional policy defined the eligible areas in a very detailed manner (Clout, 1975): those regions belonged to that category where the value of the GDP per capita was lower than the Community average and fulfilled at least one of the following conditions:

– more workers in farming than the Community average;
– at least 20% of the workforce in declining industry (coal mining and/or textile manufacture);
– persistently high unemployment or annual out-migration in excess of 1% over a long period.

The debates accompanying the establishment of the European Regional Development Fund, however, resulted in the reduction of the available sources, and as
a consequence of this the definition of the eligible areas was essentially also transferred to the competencies of the Member States: ‘Regions and areas which may benefit from the Fund shall be limited to those aided areas established by member states in applying their systems of regional aids and in which state aids are granted which qualify for Fund assistance’ (EEC, 1975, p. 73/2).

Nevertheless, the enlargement of the European Communities and the sharpening of the economic problems from the mid-1980s made it necessary to increase the financial resources dedicated to regional policy and to modernize the applied methods, which was finally implemented in the budgetary period starting in 1989.

In Hungary, during the socialist decades, the regional inequalities decreased at the higher regional levels, while the differences between the towns and villages significantly increased and this was especially felt with respect to the infrastructural supply. The researchers have already warned of the problems of the rural regions in the 1970s, though actual steps by the government – mainly for ideological reasons – were taken only in the 1980s. The group of regions eligible for aids was first defined in 1985, when 573 settlements of the country got into this category.

The political change of regime and the transformation to market economy, however, resulted in a profound change in the conditions of regional development. The collapse of the COMECOM and the loss of the eastern markets caused several, earlier only hardly observable or not existing, socio-economic problems simultaneously. In a few years the Hungarian GDP decreased by 30%, and as a result of this the earlier hardly existing unemployment increased explosively (Nemes Nagy, 2001). The processes taking place, of course, had pronounced effects on the state of regional differences which can be summed up as it follows (Nemes Nagy, 1998).

At first the development level of Budapest spectacularly moved above the other parts of the country and then, similarly to the other former socialist countries, the west-east development slope also appeared in Hungary and became more and more powerful. The third aspect of the regional differences is meant by the urban-rural dichotomy, though these differences are not significant in the more developed parts of the country, while they are very spectacular in the more backward regions.

These processes and problems confronted the decision-makers and the actors in regional development with considerable challenges, and appreciated the surveys focusing on the demarcation of beneficiary regions. Besides, after the change of regime – as a consequence of the endeavours to access the European Union – the influence of the Union became stronger in this area as well, and the legislators in Hungary were increasingly striving to take into consideration the methods applied by the European Union in the process of the demarcation of the regions to be supported by regional policy within the country.

The beneficiary status of certain regions was favourable for Hungary – similarly to the other European countries – primarily in two aspects:
– in the given period there existed subsidies which were available only in the given region for the local governments and ventures;
– in another part of the subsidies the intensity was bigger in the beneficiary regions than in any other regions in the country.

In the spirit of the above, the aim of this study is to demonstrate how the actual regional policy of the European Union and the demarcation method applied for the beneficiary regions in the European Union influenced the practice applied for the national sources in Hungary.

The basis of the research is partly constituted by the relevant Community and Hungarian legislations concerning spatial demarcation. Secondly – especially when studying the Hungarian situation – in the presentation of the development process of the territorial units the literature on this subject was also processed.

2. BUDGETARY PERIOD 1989–1999

Within the framework of the reform of the regional policy of the European Communities, the system of Objectives was introduced in 1989, and in the period between 1989 and 1999, the designation of the eligible areas was completed for Objective 1, Objective 2, Objective 5b and Objective 6 (EEC, 1988, 1993). Although a new budgetary period began in the European Union in 1994, hardly any significant changes were made to the demarcation.

The priority of Objective 1 was to promote the development and structural adjustment of regions whose development is lagging behind, mainly including those NUTS 2 areas whose per capita GDP, on the basis of the figures for the last three years, was less than 75% of the Community average.

Objective 2 covered the declining industrial areas, and those NUTS 3 regions were eligible to meet the following conditions (EEC, 1988, p. 185/14; EEC, 1993, p. 193/11):
– the average rate of unemployment recorded over the last three years was above the Community average;
– the percentage share of industrial employment in total employment was equalled or exceeded the Community average in any reference year from 1975 onwards;
– there was an observable fall in industrial employment compared with the reference year chosen in accordance with the above condition.

In the budgetary period starting in 1994, certain changes could be observed in the case of Objective 5b in comparison with the 1989–1993 budgetary period (EEC, 1993). The most important one is that while between 1989 and 1993 the criteria for this Objective were not defined strictly (the following factors had to be considered inter alia: the number of persons occupied in agriculture, the level to which an area is peripheral and its sensitivity to changes in the agricultural
sector etc.), then in the period between 1994 and 1999 a definite progress could be observed. As a consequence of that, those regions received support from this source which had a low level of socio-economic development based on the GDP per capita and fulfilled minimum two of the following three conditions (EEC, 1993, p. 193/14):

- high share of agricultural employment in total employment;
- low level of agricultural income, in particular as expressed in terms of agricultural value added per agricultural work unit (AWU);
- low population density and/or a significant depopulation trend.

As a result of the enlargement of the European Union, Objective 6 was created in 1995 to handle the special problems of the new accession states (development of areas with a very low population density and promotion of their structural transformation) having NUTS 2 regions with a population density of 8 inhabitants per km² or less.

In Hungary, after the change of regime (in 1991 and 1992), two types of beneficiary regions were distinguished in the regional development support system (Government Decree 75/1991, 13th June) on the provision of state grants for regional development and for the creation of new jobs (Government Decree 75/1991) on regional development supports for job creation and development of backward areas). Firstly, the socially and economically backward settlements were defined taking into consideration nine indicators; and secondly, the employment districts (these districts constituted the territorial basis of the evolving labour administration) with high unemployment rate (double of the national average).

The first considerable change came in 1993 when even the Hungarian Parliament also addressed the topic (Parliamentary Resolution No. 84/1993, 11th November) on the guidelines of the subsidization of regional development and the conditions of the classification of favoured areas) and distinguished three types of beneficiary regions:

- socially and economically backward regions (here 11 indicators were taken into consideration) where the region meant the employment districts (their number at that time was 176);
- settlements in a socially and economically backward situation based on the above indicators;
- those employment districts where the unemployment rate significantly exceeded the national average in December of the year preceding the year concerned.

In Hungary, the first comprehensive reform of the beneficiary system was carried out in the mid-1990s. First of all, the statistical microregion (catchment area) defined by the Central Statistical Office was declared as the basic unit for the demarcation of beneficiary regions which correspond to the LAU-1 (former NUTS 4) category in accordance with the European Union system (the expressions statistical microregions and regions are used as synonyms from this point on). Secondly, four types of backward regions were distinguished (Parliamentary Resolution
No. 30/1997, 18th April) on the principles of regional development policies and decentralization, on the criterion system of the classification of beneficiary regions:

– those statistical microregions were classified as socially-economically backward, where the complex value calculated with the help of 28 indicators did not reach the national average;

– the regions affected by industrial structural transformation included those statistical microregions where the ratio of industrial employees in 1990 exceeded the double of the national average, and where the decrease in the ratio of employees in industry between 1900 and 1995 and the unemployment rate on 20 June 1996 exceeded the national average;

– those statistical microregions had to be listed in the category of rural development regions where the rurality/urbanity index was low, the employment rate in agriculture exceeded the national rural average at the time of the census of 1990, the personal income tax basis per capita was below the national average (in 1998 this was changed to ‘below 90%’), and the unemployment rate exceeded the national average (in 1998 it was changed to 1.33 times of the value of the national average);

– those statistical microregions had to be classified as regions stricken by long-term unemployment where the rate of long-term unemployed in 1994, 1995 and 1996 exceeded the national average for at least two years (in 1998 it was changed to the following: the given index must be 1.33 more than the national average in all three years).

Besides – having regard to that possibility that as a result of a bigger settlement with more favourable conditions all the other settlements of a microregion might also be rejected from the category of beneficiary regions – the socially, economically and infrastructurally backward settlements, and the settlements with an unemployment rate significantly exceeding the national average were defined, and they also became regarded as beneficiary.

3. BUDGETARY PERIOD 2000–2006

During this period, the Objectives were aggregated in the spirit of concentration, and territorial demarcation could be observed only in the case of Objective 1 and Objective 2. The Objective 1 comprised the following regions (EC, 1999, p. 161/8):

– regions corresponding to NUTS level II whose per capita GDP, measured in purchasing power parities and calculated on the basis of Community figures for the last three years available on 26th March 1999, was less than 75% of the Community average;

– the outermost regions, which were all below the 75% threshold;

– the areas eligible under Objective 6 for the period 1995 to 1999.
The new Objective 2 brought together the former Objective 2 and Objective 5b, and as a consequence of the aggregation, the spatial demarcation of the Objective became extremely complex. Firstly, those NUTS 3 level regions belonged to this Objective where the ‘average rate of unemployment over the last three years was above the Community average, a percentage share of industrial employment in total employment was equal to or greater than the Community average in any reference year from 1985 onwards and an observable fall in industrial employment compared with the reference year chosen in accordance with the former condition’ (EC, 1999, p. 161/9).

Secondly, within the frames of Objective 2 those NUTS 3 level rural regions were supported which fulfilled at least one-one condition of the below listed condition pairs (EC, 1999, p. 161/9):

– ‘either a population density was less than 100 people per km², or a percentage share of agricultural employment in total employment which was equal to, or higher than, twice the Community average in any reference year from 1985;

– either an average unemployment rate over the last three years was above the Community average, or a decline in population since 1985’.

The third group of the regions belonging to Objective 2 was constituted by the urban regions facing different problems (e.g. high crime and delinquency rate, particularly damaged environment) and having high population density, while the fourth group consisted of the depressed coastal areas dependent on fisheries.

The European Union, nevertheless, was also aware of the fact that the sudden termination of the subsidies might cause serious problems for the individual regions, and as a consequence of that, those regions which used to belong to Objective 1 or Objective 2 between 1994 and 1999, but fell from these categories between 2000–2006 as a result of their development, received temporary subsidies until 31st December 2005.

In the first half of the new millennium, no major modifications like the former classification could be observed in the Hungarian regional policy with regard to the beneficiary areas. The only more significant change was meant by the fact that the former four types of beneficiary regions were reduced to three in the spirit of concentration (Parliamentary Resolution No. 24/2001, 20th April) on the principles of regional development subsidies and decentralization, and on the criteria system of the classification of beneficiary regions) since the category of regions stricken by long-term unemployment has ceased to exist (this was partly also the consequence of the microregions of this category belonging to another category as well according to the calculations made in 1997 – Nagy, 2011). Besides, the category of temporarily (for 2001 and 2002) beneficiary regions was also introduced, which included the beneficiary regions of the former categorization, but not beneficiary statistical microregions according to the new categorization.
The following should be mentioned as minor changes:
– In the course of the demarcation of the socially-economically lagging behind regions only 19 indicators were taken into consideration instead of the former 28 indicators;
– In the case of the regions affected by structural transformation, the condition with regard to the industrial employees in 1990 lowered to one and a half times of the national average;
– Those regions where less than 50% of the population of the given area live on settlements with a population density over 120 people per km², the ratio of agricultural employees exceeded the national rural average at the time of the 1990 census, the personal income tax basis per capita was below the national average, and the unemployment rate exceeded the national average had to be listed among the rural development regions (in this case, therefore, the state of 1997 basically returned).

Similarly to the method applied during the second half of the 1990s, in the first half of the new millennium it prevailed as a requirement that the settlements which were lagging behind from a social-economic and infrastructural point of view, and are stricken by significant unemployment, must be regarded beneficiary from the aspect of regional development.

4. BUDGETARY PERIOD 2007–2013

During the 2007–2013 budgetary period, the regional policy of the European Union is basically grouped around three objectives (EC, 2006). In the case of the Convergence objective, four types were distinguished in the case of the areas belonging there.

Firstly, within the framework of the convergence objective mainly those NUTS 2 regions got access to support, whose GDP per capita, measured in purchasing power parities and calculated on the basis of Community figures for the period 2000 to 2002, is less than 75% of the average GDP of the EU25. Secondly, this priority also includes the so-called Cohesion Countries where the value of the GNI, measured in purchasing power parities and calculated for the period 2001 and 2003, is less than 90% of the European Union average for the same reference period. Thirdly, support is given for the NUTS 2 regions affected by the so-called statistical effect. Fourthly, this group also includes those former Cohesion Countries (meaning Spain) which cannot be later listed in this category, as a result of the lower European Union average GNI per capita value.
In the case of the *Regional competitiveness and employment* objective, two types of regions were supported:

– the NUTS 2 regions totally covered by Objective 1 between 2000 and 2006 whose nominal GDP level *per capita* will exceed 75% of the average GDP of the EU15, that is they are not omitted from Objective 1 due to the statistical effect (these are the so-called ‘phasing-in’ regions);

– those regions which belong neither to the new Convergence objective nor to the ‘phasing-in’ regions.

The *European territorial cooperation* objective is primarily intended to build on the experiences of the INTERREG Community Initiative, and aims at the harmonized and balanced development of the European Union. The objective – in line with the former INTERREG regulations – consists of three key areas.

Firstly, in the *cross-border cooperation* the NUTS 3 regions of the European Union along all internal and certain external land borders, and maritime borders participate. Secondly, the European Union finds it important to continue the *transnational cooperation* within the framework of which 13 cooperation zones designated by the European Commission are eligible for support. Thirdly, with respect to the *interregional cooperation* the Commission still found it important to establish relations and exchange experiences between regions in the different Member States.

The Hungarian classification system created in the second half of the decade terminated the formerly used sector-related beneficiary region types. Pursuant to the new regulation (Parliamentary Resolution No. 67/2007, 28th June) on the regional development subsidies and the principles of decentralization, and classification criteria for beneficiary regions), the microregions were ranked with the help of a complex indicator based on 32 indicators, and the regions below the microregional average got to the category of the disadvantaged microregions (94 microregions in total). From among the regions, those with the lowest indicator, which represented 15% of the total population of Hungary, became the most disadvantaged microregions (47 microregions in total). In the course of the further categorization, a decision was brought that those microregions which had the lowest indicator within the latter group, which represented 10% of the population of the country, had to be listed in a separate category, and a complex programme needed to be developed for them (33 microregions in total) and their development must be given high priority in the support.

Similarly to the former regulation, the category of beneficiary settlements still remained (including those settlements which were not located in the in beneficiary microregions, but were disadvantaged from social, economic and infrastructural points of view, and had an unemployment rate above the national average), and the category of the temporarily (until 31st December 2008) beneficiary microregions.
5. COMPARISON OF EUROPEAN UNION AND HUNGARIAN DEMARCATION METHODS

The analysis of the impacts of the demarcation methods used in the regional policy of the European Union can be made from several aspects.

It may be essentially established that Hungary endeavoured at taking into consideration the methods applied in the European Union during the elaboration of its national level regional policy, and in the spirit of this it modified the criteria system of the demarcation several times. These modifications were made in increasingly shorter periods relative to the entry into force of the new European Union specifications (1994 → 1997; 2000 → 2001; 2007 → 2007), which actually reflects the development of the adaptation ability of the country.

Similarly to the European Union, Hungary also endeavoured at creating a coherent system as a spatial background for the demarcation. As a consequence of the lack of the appropriate background, the process – like the European Union trends (difficulties in the creation of the NUTS system) – progressed slowly in the first years (years after the transition), and such a system, the level of microregions (the present LAU 1 level), was created only by the mid-1990s which later also provided a basis for the classification of beneficiary regions.

In Hungary, in addition to the microregions – similarly to the European Union (see European territorial cooperation – NUTS 3 level) – another territorial level was also used for establishing the beneficiary status (settlements – LAU 2): however, as opposed to the European Union, here the aim was to manage the problems resulting from the system of microregions and not to set up a separate support category.

Regarding the types of beneficiary status, significant differences may be still observed between the European Union and Hungary during the first half of the 1990s, which may be mainly traced back to the fact that the actors of the regional policy in Hungary did not have enough experience in this field, and as a consequence of this only the social-economic backwardness and the unemployment were set into the focus. From the mid-1990s, nevertheless, it was more and more realized that the backwardness could have various types, and – following the categorization applied in the European Union – besides the general social-economic backwardness the category of the regions stricken by industrial structural transformation and the category of rural development regions were also introduced.

Unemployment constituted one of the most significant problems in Hungary, and in the spirit of this, it is not surprising that for a certain amount of time this category also used to be a category forming factor, though – as we have already referred to that above – did not result in assigning beneficiary status for newer regions.

In the case of the three (four) categories concerned, however, it may be regarded as a Hungarian peculiarity that a microregion – as opposed to the European Union requirements – may be beneficiary for several reasons (table 1), and
the microregions belonging here were given supplementary financial allowances. It may be also regarded as a Hungarian peculiarity that from 2002 the category of the most disadvantaged microregions was introduced within the category of beneficiary microregions (from 2007 it was supplemented by the group of the most disadvantaged regions to be assisted by the complex programme), and the microregions belonging to this category also enjoyed further financial allowances.

Table 1. Changes in the most important data related to the category of beneficiary microregions in Hungary between 1997 and 2007

<table>
<thead>
<tr>
<th>Year</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
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<tbody>
<tr>
<td>1997</td>
<td>76</td>
<td>17</td>
<td>32</td>
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<tr>
<td>1998</td>
<td>88</td>
<td>9</td>
<td>36</td>
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<td>2001</td>
<td>94</td>
<td>69</td>
<td>–</td>
</tr>
<tr>
<td>2004</td>
<td>95</td>
<td>77</td>
<td>–</td>
</tr>
<tr>
<td>2007</td>
<td>94</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Explanations: A – number of microregions belonging to the category of beneficiary regions, B – number of microregions which are regarded beneficiary from two aspects, C – number of microregions which are regarded beneficiary from three aspects.

Sources: Government Decree No. 106/1997 (18th June) on the registry of beneficiary regions of regional development, Government Decree No. 19/1998 (4th February) on the register for the beneficiary areas of the regional development, Government Decree No. 91/2001 (15th June) on the list of beneficiary microregions of regional development, Government Decree No. 64/2004 (15th April) on the list of regions benefitting from regional development, Government Decree No. 311/2007 (17th November) on the classification of beneficiary regions.

Nevertheless, in Hungary the urban settlements were mostly characterized by a development level above the average, and as a consequence of that they never belonged to the category of beneficiary regions on subjective rights. In the European Union budgetary period starting in 2007 – following the trend beginning in 2000 – the system of sector-related classification ceased to exist, and the Hungarian system entering into force in that year also followed that.

Similarly to the European Union, Hungary was also aware of the fact that the abrupt termination of the beneficiary position might cause significant problems, and in the spirit of that, from 2001 onwards the category of temporarily beneficiary regions was created for the microregions that fall from that status (this happened only a little more than a year after a similar step was taken by the Union).

With regard to the indicators used for the demarcation of the regions belonging to the category of beneficiary regions it meant an essential difference that on the level of microregions there was no possibility to calculate the gross domestic product, and as a consequence of that, endeavours were made to develop a system relying on several indicators to calculate the general social-economic backwardness (table 1).
In the case of the other two categories of beneficiary regions, however, considerable similarities could be observed regarding the concrete indicators. In the case of the regions affected by industrial structural transformation, both in the European Union and in Hungary, the ratio of industrial employees within the total number of employees, the changes in the ratio of the industrial employees, and the unemployment rate were applied, although of course the concrete reference values and time intervals differed.

In the course of the definition of the rural development regions both in the European Union and in Hungary the ratio of agricultural employees and the population of the area concerned were taken into consideration. Nevertheless, it may be regarded as a difference that in the Union the low income referred only to agriculture (being valid until 1999), while in Hungary to the total income. Besides, in the European Union the depopulation of the rural areas was taken as a serious problem, and therefore their depopulation was regarded as an indicator, while this indicator in Hungary played an important role in the demarcation of the socially-economically lagging regions. It may be regarded as an interesting fact, however, that the unemployment rate, as an indicator used for demarcation in the case of this type of region in Hungary was introduced already in 1997, while in the European Union it was first taken into consideration only in the budgetary period starting in 2000.

6. CONCLUSIONS

As a conclusion, it may be established that the actors of the Hungarian regional policy endeavoured to take into consideration the European Union trends during the demarcation of eligible areas in the course of the elaboration of the national level regional policy. This phenomenon may be observed especially from the second half of the 1990s, and can be regarded very remarkable with respect to the designation of the types of beneficiary regions, and the indicators used during the demarcation. From among the differences, most of all the bigger weight of unemployment in Hungary, the application of different beneficiary stages (for example, microregions being beneficiary for three reasons, most disadvantaged microregions) and the neglecting of urban areas in Hungary must be mentioned.

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