

Chapter 3

Hungary¹

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Introduction

Accession to the European Union in May 2004 has brought an end to the 15-yearlong process of political and economic changes that have deeply transformed Hungarian society. In October 1989, after more than forty years of socialist rule, Hungary was officially declared a democratic republic. Half a year later, in the spring of 1990, the first free elections were held and the cornerstones of a democratic republic were laid down. In place of a single state party that had monopolized power from 1948 on, innumerable parties were formed, six of which, having won more than five per cent of the votes, were brought into Parliament by the democratic elections (their number in Parliament has in the meantime decreased to four). The newly-elected government was made up of conservative parties², and had a strong liberal and a weaker leftwing opposition in Parliament. Since 1990, the governing parties have been changing every four years, since no incumbent government has managed to win a subsequent election. They have, however, all served their full terms. In December 1991, Hungary concluded an Association Agreement with the European Community, which has been in force since 1 February 1994. In March 1994, Hungary was the first country from the region to apply formally for EU membership. Membership took effect on May 1, 2004.

In January 2003 Hungary had 10,142,362 inhabitants. Unless there is large-scale migration into the country, the population is predicted to fall below the magical number of 10 million in the near future, since it has been decreasing quite steadily since 1980. This negative reproduction rate - one of the worst in Europe - has contributed quite significantly to the ageing of Hungarian society. In 2001, 20.8 per cent of the population were more than 60 years old and only 16.1 per cent were under the age of 15: a ratio that concerns not only demographers, but also economists.

Hungary's surface area is 93,000 sq.km. Although the population is predominantly urban, agrarian settlements still accommodate a high percentage. Statistical data shows that in 2003 a considerable segment of the Hungarian population (35.1 per cent) lived in villages, whereas 64.9 per cent lived in cities and towns. This meant a substantial change from 1960, when 43.3 per cent of the population lived in villages and 56.7 per cent in towns and cities³. The largest city by far is the capital Budapest, which had a population of 1,719,342 inhabitants in January 2003. Only one ninth of the capital's population, namely 205,881 people, live in Debrecen - the second largest city after Budapest. The population in the third largest city of the country - Miskolc - barely reaches 180,000 (Central Statistical Office, 2003).

A series of significant changes ranging from the political to the demographic have exerted a profound influence on how cities and towns have developed in the last 15 years. In the study reported here we have aimed at describing not only the changes themselves, but also the policies and strategies - or their lack - that underpin them. They are further explained along the lines of the subsequent propositions:

¹ In van Kempen, R, Vermeulen, M. and Baan, A. (eds.) *Urban Issues and Urban Policies in the New EU Countries*. Chapter 3. pp. 37-60. Euricur. Ashgate, The Netherland, 2005

² Although the meaning of the term conservative can be rather flexible, in the Hungarian political spectrum it defines parties with a strong ideological emphasis on Christian values and the importance of the countryside, or the representation of the peasantry and the agrarian population. In this particular government of 1990 three parties took part: the Hungarian Democratic Forum, the Smallholders Party, and the Christian Democratic Party.

³ A series of administrative decisions has been partly responsible for this change. Based on a series of (not very strict) conditions, each year a number of villages receive the status of a town.

The years after 1990 brought about a thorough decentralization of policy making in many different policy fields. Each Hungarian city could to a considerable extent choose its own path of development. In most cases this development was accompanied by the deep physical and social polarization of the cities that was the result of market-orientation - a trend that was by far the strongest in Budapest.

National urban policy virtually vanished after 1990. Since then, urban development has been mostly strongly influenced by free market conditions and the initiatives of the central government have only had a limited effect.

Economic and Social Position of the Cities in Hungary

The motors of Hungarian economic development are the cities. It is around them that the bulk of foreign investment is concentrated. But how much of their development is felt in the countryside surrounding them is questionable. What seems sure is the fact that they provide employment opportunities for many people living in the surrounding villages, where the economic activity is disproportionately less. Nowhere is this better exemplified than in Budapest and the surrounding Pest County. The high GDP of the city of Budapest decreases quite spectacularly when GDP is counted jointly with that of Pest County; together, Budapest and Pest County form the Central Hungarian NUTS 2 region. As shown by the data from 2001, for the 1,777,000 residents of Budapest the GDP reached EUR 11,674 per capita, while for the 2,829,000 inhabitants of the whole Central Hungarian region it was only EUR 9,035 per capita. It can be stated in general terms that cities in the Hungarian countryside stand out against their respective counties and regions, producing higher GDPs and lower unemployment rates than the settlements around them.

Population Change in Budapest and Other Cities

The cities, including Budapest, are usually attractive places in which to live. The population growth is, however, confined mostly to the small and middle-sized towns, whereas bigger cities are steadily losing residents. In the case of the capital, both the most and the least prosperous head for the conurbation: the first group in the hope of more greenery, while the second group perceives such a move as providing access to feasible accommodation, for the most part exchanging their expensive homes on the housing estates to more affordable family houses. However, most families leaving the city still rely on its infrastructure, school, and health care systems. What seems to be changing is that the inner city of Budapest is becoming more attractive for the younger generation. Particularly in the last ten years, a constantly growing cultural palette has evolved in the city, offering high-quality entertainment to all age groups.

The capital's population peaked in 1980 with 2,059,000 and has been decreasing steadily ever since. By 1990 it had fallen to 2,016,000 and ten years later, in 2001, to 1,777,000. The following two years brought a further decline, so that by 2003 the population was only 1,719,000 (Table 3.1). What remains unchanged, however, is the fact that women outnumber men: currently, by roughly 160,000.

Table 3.1 Population change in Hungary and Budapest

Year	Hungary	Budapest
1980	10,709,463	2,059,226
1990	10,374,823	2,016,681
2001	10,200,298	1,777,921
2002	10,174,853	1,739,569
2003	10,142,362	1,719,342

Source: Magyarország statisztikai évkönyve 2002 (Statistical Yearbook of Hungary 2002).

This drastic decline of the population of Budapest has two major sources: the negative reproduction rate and the suburbanization. Research shows that these two factors have been equally important, each contributing to a net loss of approximately 10,000-12,000 persons annually⁴ (Gerőházi et al., 2002). The two tendencies have led to a drastic alteration of the age structure in Budapest (Table 3.2). Most striking is the decline of the population below 19 years. Whereas in 1990 almost a quarter of the population belonged to this category, by 2001 the share went down to 18.5 per cent. Both the elderly aged 65 or more and the people between 45-64 years have remained stable in terms of numbers, but with increasing proportionate importance. This overall tendency worries many experts, particularly since the loss of the active population threatens both the income of the city and its economic strength⁵.

Table 3.2 Age structure of the population in Budapest

Age group	Number of people in 1990	Percentage in 1990	Number of people in 2001	Percentage in 2001
0-19	493,897	24.4%	328,866	18.5%
20-44	713,862	35.4%	640,430	36%
45-64	492,918	24.5%	495,085	27.8%
65-	316,097	15.7%	313,540	17.7%

Source: Népszámlálás 2001 (Census of 2001)

None of the other major cities in Hungary, such as Debrecen, Miskolc, Pécs, Szeged, Székesfehérvár, Győr or Nyíregyháza, have suffered a population loss comparable to that of the capital. Sometimes they have even gained population, however modestly. Although in most cases a suburban ring has been created in the past 15 years, it is often to be found within the city limits. Larger scale population loss was only apparent in the former industrial and mining centres where, after the closures of the early 1990s, many people felt compelled to leave the city in search of other sources of income.

With regard to the whole territory of Hungary, as stated in the introduction, most of the population lives in urban areas. That is not to say that urban type high-rise apartment blocks would predominate in the housing sector. From the altogether 3,723,509 housing units in 2001, approximately a third (1,399,079) was situated in the zone of family houses⁶ and another 809,105 in the zone of cottages⁷: these two categories made up more than 50 per cent of the housing stock. There was a relatively smaller segment in traditional inner city neighbourhoods of 553,929 units and on the large housing estates there were another 772,118 units. A miscellany of summer resorts, industrial units, and so forth made up the remaining 189,270. Most people owned their homes: in 2001, the share of the rental units countrywide was approximately 8 per cent (Central Statistical Office, 2002b).

⁴ During the second half of the 1990s this loss could amount to 15-18,000 persons each.

⁵ Under current legislation the municipal budget gets 10 per cent of the personal income tax paid by their inhabitants. Of course, another facet of the problem - which affects not only the cities, but also the whole country - is the diminishing active population that has to support a growing number of retired people.

⁶ The zone is usually defined as situated in the outskirts of cities and towns - sometimes even in villages - built mostly with 1-2 storey family houses.

⁷ This zone is usually situated in the older neighbourhoods in the villages, where houses are built according to more traditional styles.

Economic Position of Budapest and the Other Cities

In Budapest, the restructuring of the economy speeded up dramatically in the second half of the 1980s. The capital's traditional industries entered a deep crisis: between 1983 and 1993 the number of jobs in industry fell from 347,000 to 128,000. There was a consequent decrease in the job opportunities: between 1990 and 1992 the number of people commuting to Budapest decreased by 13-15 per cent. However, mainly as a result of the influx of foreign investments (the most important driving force for economic change), there was a rapid recovery from this crisis. Together with privatisation, and partly related to that, by October 1999 about USD 20.5 billion of FDI came into Hungary, more than half of it to Budapest. A substantial part of this investment in Budapest came as machinery, contributing to the fact that the efficiency of this region is higher than any other in Hungary (Barta, 2000).

As a result of this quick restructuring, Budapest kept its position as the major economic centre of the country. In 2001 the GDP per capita here was the highest in Hungary - 2,977,000 forints (EUR 11,674) - with one of the lower unemployment rates in the country: 4.2 per cent⁸. Much smaller, but nevertheless economically strong are the cities of Győr and Székesfehérvár. Both of these are situated in Western Hungary. These are the only cities in the country to rival Budapest. Győr belongs to the region around Vienna in a functional, but not in an administrative sense, whereas Székesfehérvár has its own region of interest. Both cities are medium-sized: Győr had 129,000 inhabitants in 2003, while Székesfehérvár was a little smaller and had 102,600.

The city benefiting most from the countryside development policies of the last decade was Debrecen. As a consequence of these policies, it became culturally, if not economically, the second most important place in Hungary, hosting festivals, concerts, and major sports events. Debrecen's appearance has also changed: the inner city has been renovated and has regained its original flair. The city's economic strength is also beyond question, although not comparable with the cities previously mentioned. In 2001, the GDP per capita - together with its surrounding county - was 1,085,000 forints (EUR 4,254) and the unemployment rate 6.5 per cent⁹. Unfortunately, the situation is not as positive in Pécs and Szeged, which lie close to the southern border, since their development was hindered by the South Slav wars. But it is the cities of North-Eastern Hungary, such as Nyíregyháza, and especially the previous heavy industry centre Miskolc, which are in the most difficult economical situation (Tables 3.3 and 3.4).

The economic development of some of these cities has been further hindered by a highly centralized system of highways and train connections, all of which lead to Budapest¹⁰. There are four highways running through Hungary, but only one (to Vienna) actually reaches the national border. Apart from the capital, only Győr (MI) and Székesfehérvár (M7) have a direct highway connection with the cities listed above. The extension of all the remaining three highways is on the agenda, however, and is being carried out in small steps. Szeged will have a direct connection by the end of 2005 (MS), and Miskolc and Nyíregyháza (M3) probably by the end of 2006 or 2007.

⁸ The official unemployment rate is tricky, since it only counts those who are registered as unemployed. Some experts estimate the 'real' unemployment rate to be approximately two percentage points more, and others put it even as high as double the registered rate.

⁹ These data must be treated with care, since these figures are not city level, but reflect the income level and the unemployment rate in the whole county in which Debrecen is situated, which significantly worsens the picture.

¹⁰ This centrality of the capital has partly historic reasons: the railway lines were mostly laid down during the period of the Austro-Hungarian Monarchy, when Budapest was developed to be the eastern centre of the whole Monarchy.

Table 3.3 GDP per capita in the most important Hungarian cities with their surrounding counties in 2001

2001	Budapest	Budapest and Pest County	Debrecen and Hajdú-Bihar County	Szeged and Csongrád County	Nyíregyháza and Szabolcs-Szatmár-Bereg County	Győr and Győr-Moson-Sopron County	Miskolc and Borsod-Abaúj-Zemplén County	Székesfehérvár and Fejér County	Pécs and Baranya Country
forints.	2,977,000	2,304,000	1,085,000	1,180,000	826,000	1,750,000	936,000	1,497,000	1,102,000
euro	11,674	9,035	4,254	4,627	3,239	6,862	3,670	5,870	4,321

Sources: Magyarország statisztikai évkönyve 2002 (Statistical Yearbook of Hungary 2002).

Table 3.4 Official unemployment rates in Budapest and the most important Hungarian cities with their surrounding counties

	Budapest	Debrecen and Hajdú-Bihar County	Szeged and Csongrád County	Nyíregyháza and Szabolcs-Szatmár-Bereg County	Győr and Győr-Moson-Sopron County	Miskolc and Borsod-Abaúj-Zemplén County	Székesfehérvár and Fejér County	Pécs and Baranya Country
1990	1.3%	1.4%	1%	2%	0.7%	1.5%	1%	1.3%
1994	6.3%	17.3%	12.2%	20.6%	8.8%	21.1%	12.5%	12.6%
1998	5.5%	9.6%	5.5%	11.6%	5.2%	13.5%	6.1%	7.9%
2001	4.2%	6.5%	5.5%	9.1%	3.9%	10.5%	6.1%	7.2%

Sources: Statistical Yearbooks of Budapest, Hajdú-Bihar County, Csongrád County, Szabolcs-Szatmár-Bereg County, Győr-Moson-Sopron County, Borsod-Abaúj-Zemplén, Fejér County and Baranya County of the years 1990, 1994, 1998 and 2002.

Urban Problems in Hungary

Physical Problems

Most Hungarian cities are struggling with deep physical problems. Given its size, Budapest struggles with the best of them. . Probably the most urgent problem to be resolved is that of renovating an outdated housing stock together with rehabilitating the large, run-down areas where they are situated. In Budapest the condition of this old housing stock is still troubling, although much has been renovated by the cities in the rest of the country. Statistical data shows that slightly more than 22 per cent of the capital's housing stock was built before 1919. The capital's 67,229 sub-standard units - roughly nine per cent of its stock - are for the most part the dwellings constructed before the end of the First World War¹¹. Most of them can be found in a wide ring encircling the downtown and central business district of Pest. Adding to the difficulty of the problem, sociological research has revealed that the people living in the area are the urban poor: they are considerably less educated and have incomes below the Budapest average (Bakos et al., 1999). It is also no coincidence that a large percentage of the capital's Roma lives in this area.¹²

Besides the deterioration of some older neighbourhoods, it is the large housing estates that present the biggest physical problem. This - unlike the previous problem - seems to be common in all the cities throughout the country. Clearly, something needs to be done about these estates built between the middle of the 1960s and the end of the 1980s. They account for about 21 per cent of the Hungarian housing stock and they house about two million people. The figures are even more striking in the case of Budapest. In the capital approximately 33 per cent of the housing stock is in the housing estates. The problems are accumulating, since these pre-fabricated houses have passed the time when the first major renovations should be due. Immediate large-scale renovation is needed, with the same immediacy with which they were built.

Unfortunately, acknowledgement of the problems of the housing estates has been rather slow at both national and local levels. The first, somewhat tentative policies targeting the large housing estates have only appeared during the last couple of years, in parallel with the growing state involvement in condominium renewals and urban rehabilitation issues. One of the biggest problems is the fact that most of the apartments in these estates have been privatized. Many of the people who bought the apartments they had been renting from their local councils¹³ are not financially capable of maintaining either the apartments or the buildings (running costs are high) and certainly not of renovating them. These pre-fabricated buildings ~ despite the relatively high technical level they represented when they were built - are in need of urgent renovation, which, because of the particular construction techniques, would be expensive.

The contradiction of the housing estates - that relatively low-income families have to live as owners in relatively expensive-to-run buildings - has resulted in a massive increase of arrears. Debts in district heating and other utility payments became very high in the 1990s. By 2001 the level of arrears had reached approximately EUR 177 million countrywide, affecting every fifth household in Hungary. Arrears for the district heating companies amounted to EUR 32 million (a sum which largely concerned the housing estates, where most of the units with district heating are concentrated) while arrears in other utility costs amounted to another EUR 30 million.¹⁴

¹¹ The sum of sub-standard units is made up of different apartment categories. Altogether 25,847 units are of 'half amenity level', meaning that they have either a bathroom or a toilet. Heating is not necessarily installed, but there is running water and electricity and a room that is at least 12m² in size. Another 18,774 units are without any amenities, and have a toilet only in a building outside the apartments, and access to running water that is not necessarily in the apartment. The remaining 22,608 units do not meet any standards at all and are unfit for human habitation (Central Statistical Office, 2002b).

¹² Typically, the Roma population used to live in the run-down areas adjacent to the city centre both in Budapest and in the cities in the countryside. However, in most major cities of the countryside, their deliberate expulsion from these areas was carried out in the first half of the 1990s.

¹³ Apartments were sold to their sitting tenants at symbolic prices on a mass scale from 1991 onwards. Prior to this, only a limited number of state owned units had been privatised.

¹⁴ Estimates by the Metropolitan Research Institute.

Social Problems

In all the major cities, a strong social polarization has taken place in the last 10-15 years. An ever-widening stratum now finds itself in a desperate position, where even the most basic needs can hardly be met. The depth and the extension of poverty in Hungary is difficult to document with statistical data, since the most vulnerable and poorest groups are likely to evade any kind of survey. In 2002, approximately one-third of all Hungarians lived on a subsistence level. They were the people who had been hit especially hard by the housing costs and surging utility prices growing rapidly from the beginning of the 1990s. Some studies have indicated that, in 2002, after paying all housing-related costs, about 400,000 families - approximately 1.1 million people - had 3,400 forints (EUR 14) left per capita for all their other expenses, whereas another one million people were left with 13,000 forints (EUR 54) for the rest of the month (Bass et al., 2003).

As the processes of polarization have speeded up, a growing spatial segregation has appeared in the bigger cities. In Budapest:

- The difference in life-expectancy between the 'best' and the 'worst' districts has become six years, meaning that the inhabitants of district II in Buda are on a level with Belgium, while the inhabitants of district X in Pest are on a level with Syria.
- There is a threefold difference between the group of 'better' and the group of 'worse' districts in the capital in the share of families receiving long-term social benefit, and a fourfold difference in the share of families receiving unemployment benefit (Budapest Főváros Önkormányzata, 2003).

Although there may not be any actual ghettos in Budapest, some really bad neighbourhoods have emerged. In these, several disadvantages are present simultaneously: a high unemployment rate, a very low level of education among the inhabitants, a high share of people on social benefits, and typically many substandard apartments. In a situation where the share of municipally owned apartments is approximately 8 per cent in the capital as a whole, in these neighbourhoods 30-40 per cent of the housing stock may be municipally owned. Petty crime, typically robbery and theft, are widespread in these areas, although as yet it is not dangerous to walk there alone. The high concentration of poverty coincides mostly with a relatively high share of the Roma population; with the exception of some Vietnamese and Chinese families, there is no immigrant population living in these areas which makes their status especially fragile and prone to the process of ghettoization.

Safety and high levels of criminality, although of growing concern, are still not the highest priority problems in the capital: the safety situation is not critical, and certain other physical and social problems are so serious, they suppress the safety issue.

A serious problem that concerns Budapest more than any other city in the country is that of homelessness. Precisely how many homeless people are living in Hungary has been discussed for years, with varying answers given. Current opinion of the estimated number of street dwellers seems to have stabilized at around 20,000-30,000, with approximately half of them living in the capital, but nobody knows exactly (Erdősi et al., 2003).

Finally, a problem that affects most cities in Hungary is that of the exclusion of the Roma population. Their presence is not confined to the urban areas, however, as they are present in both villages and cities. Apart from Budapest, the highest proportions of Roma are mostly found in the poorer Northern areas together with Pécs and its surroundings in the south of the country. The tension between the Roma and the non-Roma personifies one of the deepest frictions in Hungarian society. The strong anti-Roma feelings bring about a situation of clear-cut social exclusion (Stewart, 2001).

The issue of the Roma is an old one. Socialism tried to integrate them into Hungarian society, forcing them to find a permanent settlement. They were always employed - since unemployment was virtually unknown in socialist societies - but they occupied the lowest segment of the occupational hierarchy, often as unskilled workers. The move from socialism to capitalism hit them the hardest, especially in the industrial areas, where the majority of them lost their jobs. No political party has been willing to put their problem on its agenda, leaving them to struggle alone against the strong anti-Roma feelings of other Hungarians. Since the 1970s - in parallel with the partial destruction of their shanty towns in the countryside - they have moved to

Budapest en masse, occupying the sub-standard apartments in the ring of run-down houses, creating situations where often ten or more of them live in 30m (Ladányi and Szelényi, 2000). Despite this immigration, the Roma population is still not overrepresented in Budapest.

Their exact number is not clear; the census of 2001 found that 190,000 1.86 per cent¹⁵ - of the Hungarian population had a Roma background, although experts estimate that, in reality, they make up 5-6 per cent (Janky and Kemény, 2003). They are clearly discriminated against in almost all instances of life. With the possible exception of music, where their talents are commonly accepted and appreciated, they are invariably regarded as lazy and prone to criminality. These prejudices are often further strengthened by the Hungarian media (Bernáth, 2003).

As is often the case with suppressed ethnic minorities, so it is among the Roma that the criminality rates, the percentage of junior delinquents, and delinquency levels in general are much higher than in the non-Roma segment of the Hungarian society.

Contrary to the experiences of many countries from the European Union, immigration is still not a major phenomenon in any Hungarian city. Officially there were 115,888 foreigners living in Hungary in 2002, the majority of them coming from Europe, especially Rumania (these people were mostly Hungarian nationals from Transylvania). Although their real numbers might be much higher, no serious social problems have appeared as yet that could be linked to immigration.

Environmental Problems

Residents in the capital often complain about the environmental problems that have hit Budapest hard in the past 15 years. It is the dirt, the noise, the lack of greenery, and the level of the traffic that they criticize. This sentiment is partly the reason behind the mass suburbanization movement towards nearby villages and towns.

Approximately 200,000 commuters (19 per cent more than in the early 1990s) travel to Budapest every day from the surrounding settlements, contributing substantially to the traffic congestion. Public transportation in the capital - as in other bigger cities elsewhere in the country- has been on the defensive (the modal split decreased from 85 per cent to 60 per cent in the course of the 1990s), as car use grew very quickly (from 235 to over 300 per 1000 residents). In Hungary, public transportation companies, usually chronically under-financed, are often on the verge of bankruptcy. However, the situation is particularly tense in Budapest where, despite the setbacks, 60 per cent of the population still uses the trams, buses, trolleys, and metro lines that are in such urgent need of repair.¹⁶

Also belonging to the category of environmental problems is the use, or rather the lack of use, of the brownfield areas. Now situated in the middle of Budapest's territory - they used to be on the outskirts of the capital, prior to the annexation of the settlements around Budapest in 1950 - these areas were once home to a wide variety of industrial production, a large share of which was terminated after 1990 (which actually brought about a temporary amelioration of the air quality in the capital before the rising use of cars again polluted the streets). Located between the inner city and the suburbs, the brownfield areas present an obstacle to the creation of a unified city texture, occupying 13 per cent of Budapest's administrative territory. The seriously polluted soil together with the lack of major thoroughfares makes their reuse very difficult. Some areas especially those in the Northern part of the city - have been successfully transformed, whereas others - such as those in the Southern part - are still in the need of fundamental restructuring. Their economic importance is demonstrated by the fact that they house 2,300 enterprises, employing 180,000 people, almost one-quarter of the working population of the capital. Of these enterprises, 74 per cent arrived in the period of restructuring after 1990 (Barta and Lócsei, 2003).

¹⁵ The census defines a person as Roma on the basis of self-declaration as such.

¹⁶ This is all the more problematic since public transportation causes only 10 per cent of traffic-related air pollution in the city and is only responsible for 3 per cent of the accidents, while cars are responsible for 90 per cent of the pollution and 97 per cent of the accidents.

Economic Problems

The Hungarian economy has to struggle with several difficulties, but they are not city-specific. On the contrary, as stated above, the cities usually stand out against their respective surroundings, creating employment opportunities for many who do not live there. The problems they contend with are largely related to the regions where they are situated. Consequently, it is mostly in the north-eastern region where problems accumulate, with the lowest GDP per capita and the highest unemployment rates. Cities situated in this area are not competitive on a larger country-wide or European scale. At the same time important cities in the western and central regions - Budapest, Győr or Székesfehérvár - have already encountered different problems: the lack of skilled workers on the one hand and a surplus of college and university graduates with consequent graduate unemployment on the other.

Urban Policies in Hungary

However surprising it may sound, there is no national urban policy in Hungary. There used to be, prior to 1989, but it was washed away by the political and economic changes: neither the institutional system nor the planning-regulating power has been kept at the central level. Prior to 1990 there was a special ministry dedicated to urban issues: the Ministry for Building and Urban Development (Építésügyi és Városfejlesztési Minisztérium). This has been dissolved, leaving no place in the government for urban questions. The change in approach can be exemplified by the creation of a new ministry dealing with 'agriculture and rural development' and by the fact that Budapest is almost automatically excluded from all territorial subsidy schemes. Today, after many disputes about the issues, a Housing and Building Office (Lakás-és Építésügyi Hivatal) has been set up, and there are even talks about creating a Ministry of Housing and Local Government a step which could signal a change in the way in which urban policy is handled.

Having created a very decentralized situation with the Local Government Act in 1990, the various central governments delegated all planning competencies to the local level- although with little money attached. Local governments face not only the problem of having a very constrained financial basis compared with their broad compulsory tasks, but also that of the unpredictable changes in the taxation and other financing systems.

In the 1990s, having all the planning and decision-making competencies but no financial stability and no regional control, local governments opted for short-term thinking instead of developing longer-term strategies. It is little wonder that, under such circumstances, private investors gained influence on an unprecedented scale on the local level, often determining the way in which a settlement would be developed and - capitalizing on the fragmented system of local government authorities. Despite the negative consequences, many local governments are satisfied with the situation: it gives them considerable freedom and decision making competency. On the other hand, if stronger central control and planning directives were to be accompanied by financial support, then curbing the local autonomy would be feasible. , However, even with the lack of a coherent policy, one can discern a line of preferences of the different governments after 1990 regarding urban settlements by looking at the different subsidy systems.

Development Policy for Smaller Settlements (1990-1994)

The first freely elected, conservative, rightwing government carried out a policy favouring the smaller settlements. In this period, the number of local government authorities doubled; many of the small settlements which had previously been forced to operate joint councils with other settlements became independent and could establish their own local authority. The main subsidy programmes of the national government helped the smaller settlements build their public buildings and schools and develop their infrastructure. The first government period did not favour bigger settlements at all.

Starting Re-centralization (1994-1998)

The second, leftwing, socialist-liberal coalition government gave self-government status to the 19 county government authorities and introduced the direct election of their members. This, however, did not lead to the strengthening of the middle level of governance, since their roles and financing remained insignificant. The subsidization of the smallest settlements did not continue in the same way: the policy became more balanced. In this period, the tendency of the re-centralization of financial resources started, as each year a lower proportion of the Personal Income Tax (PIT) revenues were left at the place of origination (this share decreased from 100 per cent to 50 and then to 35 per cent), and the government reallocated the centralized part according to its own priorities.

Continuing Re-centralization, Strong Countryside Development Policy (1998-2002)

The third, rightwing government continued the policy of re-centralization; the share of PIT left with local government decreased first to 15 per cent and then dropped as low as five per cent. With regard to the approaching EU membership, seven planning-statistical regions were set up, without, however, giving any real function to this level. This time, the development of the countryside was put at the centre of the government's policy, so that Budapest suffered serious budgetary cuts.

Although this plan to foster the countryside was not coherent or well enough developed, the positive consequence of this period was that it allowed some middle-sized towns - like Debrecen - to become stronger and gain momentum both in an administrative and an economic sense.

2002 - Present Day

Budapest achieved a better position with the inauguration of the new government this time leftwing. (During all the periods analysed, the City Council had a liberal~ leftwing orientation and the same mayor was repeatedly re-elected). Key investments - such as the building of a new sub way line - started to receive more government support. However, with the EU accession and the opening up of the Structural Funds, it has become evident that the development of backward regions is preferred. Even in issues crucial to the capital such as the urban rehabilitation, the funds available for Budapest are comparatively less than its population and size would seem to justify and the logic of the Structural Funds would suggest. Another important change was that the level of PIT remaining with the local governments was raised from 5 to 10 per cent. Although double the previous amount, it is, in our opinion, still not enough for financing all the expenses local governments have. As a result many of them, having come close to bankruptcy, have remained tied to the central government's good will and aid.

It can be said that, in general, the national territorial development policy fails to take the problems of the cities into proper account. Instead of paying attention to special urban needs and problems, the emphasis is placed on larger territorial units, such as counties and regions. This is reflected by the distribution of the national regional development funds, which allocate special funds for underdeveloped micro-regions¹⁷ and regions without having any distinct focus on cities.

Even the organization of the Regional Operation Programmes (ROP) within the Structural Funds reflects a tendency to concentrate on larger territorial units. As explained in the Hungarian National Development Plan, one of the most important goals is the elimination of the huge regional differences between the East and the West within the country. Consequently, development in the north-eastern part of the country is regarded as urgently needed and will be heavily subsidized. Poorer regions such as that surrounding Nyíregyháza - Northern Great Plain Region, or around Miskolc - Northern Hungarian Region, will receive proportionately much more funding from the ROP than the Budapest-centred Central Hungarian Region, or the Győr-centred Western Transdanubian Region (National Development Office, 2003). From a territorial point of view this is understandable, since in a comparison of the GDPs of the different regions and taking the national average as 100 per cent, by far the highest would be that of the Central Hungarian with 158 per cent, whereas the two lowest would be Northern Hungary and the Northern Great Plain, with 66 per cent each. At the same time this allocation does little to help the 'locomotive cities' to develop further and become competitive on the European market.

¹⁷ Micro-regions are largely defined as developmental and statistical units of geographically connected settlements - that are supposed to work as entities to elaborate development plans and help them to be realized. There are 168 of them countrywide.

The Organization of Urban Policy

Although there is no national urban policy, there is of course urban planning: every settlement from a village to a city has its own established spatial regulatory plan, and cities increasingly have their own complex, strategic development plans.

Planning is mostly delegated to the lowest level, namely to that of the local authorities: their rights and duties are spelt out in the Local Government Act.

Despite their serious financial difficulties, local government authorities are autonomous entities with - regardless of their size - the same rights *de jure* (which often means different powers *de facto*).

In 1990, the Local Government Act created 3,139 local government authorities: these are dispersed in a highly hierarchical system among villages, cities, and Budapest districts. According to the Act, the local government authorities are not only the administrative representatives of the state in any given locality; they also have multiple responsibilities regarding most local affairs: basic educational provision, healthcare and social services, maintenance of roads and public spaces in their territory, spatial planning, and local housing policies. In this sense, in the case of a city or a town, the execution of a local urban policy is the duty of their local authorities.

With regard to spatial planning (which is mandatory), both the methods by which it is devised and its contents are regulated. Even some sort of citizens' participation is ensured, since the plan has to be put into the public domain twice before its final acceptance, during which time anyone may officially raise an objection to it. On the other hand, with regard to sectoral and strategic planning, there are no official constraints. Neither of them is compulsory, but both are now undertaken more frequently, especially in bigger settlements. How strategic planning is carried out depends entirely on the local government authorities. There are several models; some cities undertake the bulk of the job themselves, and others - such as Budapest - have commissioned a group of experts. It can be stated that the process of strategic planning has in most cases opened a crack between the closed doors of the local authority and allowed both the civil society and the experts to bring more influence to bear. However, what is still clearly lacking from the whole process is the participation of residents. Even in a case of urban renewal, where the residents are directly affected, resident groups find it difficult to make their voice heard.

With regard to the matter of finance, the main sources of income of the local government authorities are as follows: state subsidies (both normative and exceptional); own revenues (from local taxes, sales, and operation incomes); delegated revenues (from the state); revenues from credit operations, accumulation and capital-type revenues. Their relative share depends on the type of the local government. In Budapest, if financial resources are counted together with those of the districts (which function as separate local government authorities, as explained below), and we consider only the most important sources of income, the shares for the year 2001 were: state subsidies, 13.5 per cent; own revenues, 42.1 per cent; delegated revenues, 8.1 per cent; revenues from credit operations, 11.7 per cent; accumulation and capital-type revenues, 9.9 per cent (Central Statistical Office, 2002a).

Planning Difficulties in Budapest

Regarding successful urban planning, cities have managed the transition with different skills: some have created a strategic plan and gathered reasonable political support to carry it out, while others have become entangled in political tussles, or decided that intervening in the economy was not their role. Budapest exemplifies the last two cases. The city has some very good features: its geographical position clearly favours its economic development. Four 'Helsinki corridors' are planned to cross here - the highest number in Europe - but above all, the city's proximity to the Balkan region, Rumania, and the Ukraine, together with a railway and a motorway system that had been developed in a highly concentric way could help Budapest become a regional centre and the 'South-Eastern Gate' of the European Union.

Such a position is, of course, much sought after by other cities, especially by Vienna, but good geographical features are not enough. Achieving it would require meticulous planning and a proactive city policy on the part of city politicians and policy makers. Unfortunately, however, this way of thinking is only starting to take root in the city council, which is to some extent still inclined to take a laissez-fair approach. The first

steps in carrying out long-term planning - looking 20 to 30 . years ahead instead of just 7, which is the current standard in Budapest - were only taken in March 2003, when the city council adopted the Budapest Strategic Development Concept (Giffinger et al., 2003).

To be sure, another difficulty that also hinders strategic planning is the extreme decentralization of Budapest's public administration. The Local Government Act reinforced the two-tier structure in 1990, but delegated substantial powers and ample financial resources to single districts: these may, among other things, levy their own taxes. From the 23 districts, 23 local government authorities were created, each with its own mayor and assemblies, and the Municipality of Budapest as an overarching framework. Later modifications arranged for the direct election of these 23 mayors, thereby bestowing on them more powers.¹⁸ The Municipality of Budapest has responsibilities in questions that concern most inhabitants: public transportation, main roads, public parks, the sewage system, some healthcare and educational institutions, and cultural institutions.

Results

Although there is no specifically designed urban strategy in Hungary, there is a myriad of different policies - often local- that together make up a particular urban policy, like pieces of a mosaic. This model is strongly decentralized. Its shortcomings and the lack of one coherent policy are not necessarily caused by the sheer fact of decentralization, since this - if associated with adequate financial resources - could allow for great flexibility and adaptability to the particular needs of a single region/city/district/village. Rather, the problem is that local government authorities are chronically under-financed and have very limited resources available with which to finance development.

As a consequence, local government authorities usually apply to the central state for financial support for any development. This means that, in practice, the local authorities adapt their development designs to fit the central tenders in the hope of acquiring more money. The developments can be diverted, producing results for which a local government does not particularly need a special investment. But of course, as money is only available for that diverted purpose, the local authority carries it out anyway. A notorious example of this diversion of resources is the surge of school gyms during the early 1990s. Another problem is that these central tenders mostly support institutional developments that are primarily not designed to further enhance local developments, and since they have to be maintained thereafter, they take even more money away from the original purposes.

Despite all the difficulties, some local government authorities have managed to put together good strategies and urban policies that work well. As some inner city districts in Budapest show, local authorities, even under very difficult circumstances, can manage to design a well-thought-out urban policy. The biggest, and up till now the only really successful urban rehabilitation in Budapest, in the area of Középső-Ferencváros, was based on apolitical consensus and the firm decision of the local government to deal with its run-down neighbourhoods. Although - as is usually the case - resident participation has been close to zero in the realization of the plan, the local government has managed to revitalize an important part of its territory (Erdősi et al., 2002).

¹⁸ Although this two-tier system also existed under socialism, it was only hypothetical, since the lower level had virtually no power. So the strong decentralization could partly be the consequence of this 40 years long extremely centralized rule that left little room for flexibility or local planning.

Other Relevant Policies

Even where there is no central urban policy, there are several other policies primarily in the housing sector - that have influenced the development of cities in the last 15 years. We consider them briefly below.

Privatization of Housing Units

The privatization of the previously state-owned housing stock was the measure that has exerted the most profound influence on both the development of the housing sector and urban development in general. Immediately before the political and economic changes in 1990, the share of the state rental sector was 19 per cent on the national level, and around 61 per cent in Budapest. By 2001 the national proportion went down to four per cent, and to eight per cent in the capital. Although the process of mass privatization is now basically over, a slow but steady decrease of the share of municipal-owned dwellings can still be observed in Budapest.

Shortly after 1990, the ownership of the rental dwellings was transferred to the newly-elected local governments. They became responsible not only for the management of the rental stock, but also the local housing policy. Since the socialist state had been an unsatisfactory landlord, the transferred stock was generally in a very poor condition, requiring urgent, major reconstruction. It was after this period that large-scale privatization to the sitting tenants began. By 1992/93 the number of freshly privatized units had reached a considerable amount, but it was the introduction of the Right-to-Buy policy in the Housing Act of 1993 that gave the final impulse to hesitant local governments; for one and a half years it became compulsory for local authorities to sell the units to sitting tenants who wanted to own their homes.

This privatization was of a 'give away' type, where tenants paid only a fraction of the market price of the dwellings. Between 15 to 40 per cent of the market value had to be paid (depending on their condition),¹⁹ with a further reduction of 40 per cent if the whole sum was paid at once. A loan option for thirty years was also available with a down payment of ten per cent of the sum and an interest rate of three per cent on the remainder. (Housing loans offered on the market at the same time had an interest rate of between 25 and 30 per cent).

Conditions became a little less favourable after 1994, when the upper limit of the selling price was raised to 50 per cent of the market value. Thereafter more freedom was given to local government authorities concerning the decision whether to sell at all and in determining the selling price.

Behind this hasty privatization lie several reasons of both an economic and a political nature. The most important economic impetus was the incapacity of the local governments to finance the necessary renovations of these buildings and to maintain them. Their aim to privatize was coupled with the tenants' wish to buy.

Tenants wanted to buy partly because no one knew how the rental sector would change, by how much the rents would increase, and what future plans the local governments might have for the housing stock. Some were afraid that if they did not buy, sooner or later the local government would sell their apartments to a third party (this was theoretically possible, although never exercised). This 'popular will' was backed by party politics in 1993, when the government used the Housing Act as a tool to help them win the next general election. The incumbent political leaders planned to increase their popularity with the introduction of the Right-to-Buy policy.

¹⁹ A third-party expert determined the market value, whose services were arranged and paid for by the local government's housing administration.

Housing Loans and Mortgages

The introduction of housing loans and mortgages paved the way for large-scale private condominium building. This led on the one hand to the rapid development of formerly less popular areas in the city, where the availability of ample space was coupled with good transportation connections, but also to the use of available plots in the inner city. On the other hand their effects have also been felt in the rehabilitation areas of Budapest, where the processes of gentrification were speeded up as the demand for new apartments grew.

The programme - which started in 2000 - introduced new subsidies, primarily in the owner-occupied sector. As a result, interest rates on housing loans fell significantly: by 2002, the market rate was 12-13 per cent while the subsidized interest rate was three to four per cent. The left-wing government elected in 2002 promised in the campaign to keep the subsidies in the housing sector unchanged and even promised increases in some elements of the subsidy system. The government managed to keep their promise for one year. However, with the growing budgetary crisis, some restrictions had to be implemented. In June 2003, the margins of the banks were cut in case of the subsidized loans, and the combination of different kind of subsidized loans was prohibited. In addition, the upper limit of a subsidized loan was reduced from thirty million forints (EUR 117,000) to fifteen million forints (EUR 58,500). From 22 December 2003, a further restriction was implemented; this cut the upper limit of the subsidized loans in the case of existing housing stock to 5 million forints (EUR 19,500). At the same time the subsidized interest rate went up from the three and four per cent mentioned above to six and eight per cent. As yet, the long-term effects of these drastic budget cuts remain unknown, but in January 2004 - as a result of a last minute rush before the modifications became effective - the application for housing mortgages and loans fell back by 75-80 per cent. All these changes were necessary, however, since the central national budget was unable to finance the mounting subsidies, and the subsidies themselves were not targeted, reaching mainly the middle and upper-middle class.

Programme for the Rehabilitation of the Buildings Constructed with Industrialized Technology

Given the circumstance that approximately 20 per cent of the Hungarian population are housed in buildings constructed with industrialized technology, the programme for their renewal is vital, especially with regard to the prefabricated buildings on the large housing estates. To date, this is the only important attempt to do something about their failing physical condition, although it has been limited by the budgetary cuts.

Grants are available for replacing or insulating windows, insulating the roof, the basement, and the outside walls for up to one-third of the costs; and when all this work has been completed, further subsidies are available for the renovation of the heating system, ventilation, the repair and the replacement of the elevators (as long as they will then function in a more energy-efficient way). This grant is maximized at one-third of the costs. This portion is financed by the state, while the local government and the condominium share the remaining two-thirds.

Interest Rate Subsidies for Housing Renovation

As spelt out earlier, one of the biggest problems the cities in Hungary have to contend with is the physical deterioration of the housing stock. This deterioration is especially strongly felt in Budapest, where whole neighbourhoods are in a derelict state and physical renewal is urgently needed. Interest rate subsidy is a solution for those buildings where the owners are themselves somewhat more prosperous.

This state programme offers an interest rate subsidy for any condominium or cooperative to finance the renovation of the parts of an apartment block held in mutual ownership. In the first five years 70 per cent of the interest rate is paid by the state, while in the second five years the subsidy goes down to 35 per cent.

Availability has two basic requirements: the condominium has to accumulate the renovation fund in a certain way, and it has to take out a bank loan.

Problems and Perspectives of the Policies

Given the lack of a national urban policy, urban development in Hungary is strongly influenced by the housing policies described above. Theoretically, housing privatization laid down the framework of a democratic neighbourhood planning process, since homeowners usually show a greater level of care for their neighbourhood. But a very controversial situation was created by the way in which privatization was carried out. Despite their homeowner status, the poorer residents soon got into debt and accumulated arrears and were often neither interested nor able to participate in the decision-making processes of their localities or condominiums. Their lack of a homeowner's mentality and any savings, coupled with the inexperience of the first building managers, made the transition even more difficult.

Following this massive privatization of the residential stock, the necessity rapidly arose to create a system of subsidies to make building renewal feasible for the new homeowners. The subsequent Hungarian governments reacted quite slowly to this challenge: only some very limited measures have been introduced, as listed above, for the condominiums in both the large housing estates and the inner city neighbourhoods. Thus, in the fragmented administrative system, the cities became exclusively responsible for the task of developing their policies for urban renewal (and, in a broader sense, for their urban development).

The example of the Municipality of Budapest shows clearly the potential problems of urban policies, developed exclusively locally, in the lack of any national policy for the cities. Not only is there far too little money (even in the largest Hungarian settlement) to resolve the major problems, but the money devoted to this aim is also distributed more in accordance with efficiency criteria than the resolution of social problems. In addition, as a consequence of privatization, many of the residents acquired access to the market value of their flats. This increased substantially their opportunities to choose their place of residence, so that they contributed to the acceleration of suburbanization around the large cities, especially Budapest.

Without any national policy for the cities and with no help (regulation, control) from the weaker regional level, the cities are unable to vie with the rapid development of the surrounding suburban settlements. No wonder that, despite the quite high amount of FDI, the chances for the restructuring of the brownfield areas within the city are quite low, since the bulk of investments are directed to new developments, with many of these in greenfield areas around the city. Under these circumstances, the internal differentiation between the richer and poorer districts of Budapest has increased substantially.

Problems and Perspectives of the Cities

The perspectives of the Hungarian cities depend to some extent on future national government policies. If the financial centralization continues, and the main aim of territorial policies remains solely the support for the regions lagging behind, then the urban perspectives look rather bleak. However, if the much discussed regional decentralization takes place, and the national government carries out the necessary changes in the municipal finance system, and the long-awaited Ministry for Local Government is established, then the cities will have new opportunities. In this case, a central level policy for urban development could be discussed – an unthinkable state of affairs so far in Hungary; the situation is, however, becoming increasingly important in the growing Europe-wide competition of the regions. There is a hope that national level decision makers will realize that competitiveness (through support for the cities as engines of regional development) is at least as important as territorial equalization (through support to areas lagging behind in development). Besides, a central policy for cities would also help ensure the sustainability of future development, especially regarding environmental and social aspects: avoiding urban sprawl and addressing the growing poverty problem of deteriorating urban areas.

It is important to note that, besides those required at the national level, change is also needed at the local level to achieve a better urban future. After almost one and a half decades of democracy, the first signs of partnership efforts are appearing between the very fragmented municipal departments of various cities, between local government authorities and other local stakeholders, and between cities and their neighbouring settlements. Although these are only the preliminary steps, they signal a positive message, since this tendency towards evolving governance is a very important 'bottom-up' aspect for better future urban development. Additionally, the development of the middle (regional) level of the government system is also urgently needed.

Furthermore, the perspectives of the Hungarian cities also depend on the success of EU accession, which opens up important new chances for the urban areas. Not only do the resources available from the Structural Funds and the Cohesion Fund count here, but also the incorporation of the EU planning system, forcing the central and local authorities towards the development of integrated and long-term strategies for development.

Last but not least, EU accession and joining the common market will hopefully speed up economic development. The experiences of the relatively poor countries joining the EU earlier (Portugal, Ireland) show that capital city regions are the most likely winners of the accelerating economic development. The example of these countries/cities, however, also draws attention to the need for creating overarching control over the development of the functional urban regions. New measures are needed to avoid the further spreading out of development, which can easily be the side effect of very strict state aid regulation (directing new investments towards poorer areas around the cities). Again, national and regional level policies are needed, in conjunctions with the EU regulations and measures, to assure the sustainability aspects of urban development.

Conclusions

The last one and a half decades have brought about fundamental changes in Hungary. At the end of the 1980s suddenly almost all forms of public control were withdrawn, and national policies on privatization and decentralization were developed. The establishment of truly independent local self-governments was the cornerstone of democratic development, while the privatization of most of the state-owned assets made it possible to establish a functioning market economy:

Besides their basic importance in underpinning the development of Hungary as a democratic and market society, these changes also had some negative consequences for urban development. Parallel to the strengthening of local government authorities, the middle level has been substantially weakened: the counties became self-governing, but without real power or financial means, and the regions were only established as planning-statistical units. Moreover, medium and long-term planning has almost totally disappeared at all levels of government.

In the emerging and highly fragmented government system, policies have become too centralized, since there was no middle level to which decentralization could be directed from above. The over-centralized administrative system has left too few financial resources at the local government level, so that as a consequence a need has arisen for almost permanent crisis management at the local level. Not wholly independent from that, national policies have favoured territorial equalization, which although justified regarding the huge regional differences, led to too little attention being paid to the special problems of the larger cities and their opportunities on the national level and in European competition.

As a consequence of all the above, the local government authorities, with their huge decision-making freedom but very limited financial means, have been obliged to exploit market opportunities and pay attention to those stakeholders who are capable of contributing financially to local development. This bias has led to the increasing influence of big investors, but also to the dominance of homeowner oriented policies in urban and housing development.

Thus the Hungarian case exemplifies a rapid transition from a politically controlled, central planning system into a democratic, privatized, liberal development model. The urban consequences of this transition are clearly demonstrated by the case of Budapest, where the transition from the socialist towards the market city was especially rapid. Market services and their related infrastructure were developed quickly, creating a kind of city development that was dominated by the market. The good overall economic performance was, however, accompanied by growing levels of segregation between the richer and poorer areas of the city, and accelerating suburbanization parallel to the deterioration of inner city residential and brownfield areas. The case of Budapest clearly shows what happens when market forces are not counterbalanced by a strong national urban policy and by partnership-oriented governance schemes.

EU-membership will improve this situation to a considerable extent. The priorities of the Structural Funds and the Cohesion Fund will ensure the development of the economic and environmental sectors, while other sectors will get even less support than previously (since national resources will be re-grouped for the co-financing of the investments receiving EU subsidies).

In order to avoid a situation in which SMEs flourish and all types of water and wastewater are clean, but housing estates and public transport are liable to collapse (since these sectors attract less, or even no, EU financing), it would seem to be important to adjust the preferences of EU policies towards the real needs of the post-socialist cities. In particular, high preference should be given to the development of urban and sub-urban public transport and for the sustainable, integrated renovation of run-down urban areas (including the large housing estates, see Tosics, 2004).

The new ideas, for the regional policy for the post-2007 period show that, in general terms, urban issues are well represented in the Structural Funds. This, however, does not seem enough to change the 'non-policy' approach of the national governments of the New Member States regarding urban development. In such a situation, a more active EU involvement is needed: the EU should oblige the national governments of the New Member States to build up a national urban policy. As with the social sector, National Action Plans (NAPs) should be prepared for urban development. Parallel to that, the EU approach should gain in flexibility, for example through allowing the limited and controlled inclusion of housing as an issue in the support systems.

For the cities of the New Member States the biggest improvement would without doubt be the establishment of a concise national urban policy (addressing the real needs of the cities), with reliable long-term goals and foreseeable, stable financing. For that to be achieved, concerted actions at the local, regional, national and EU levels are needed.

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