Investing in Europe’s Future: A regional development strategy for 2020

The 5th Report on Economic, social and territorial cohesion

Statistical analysis and research methods

Presented by Zuzana Gáková

Directorate General for Regional Policy
Unit for Economic and Quantitative Analysis, Additionality
What is the 5\textsuperscript{th} Cohesion Report?

- Article 175 of the Treaty on the Functioning of the European Union provides that \textit{the Commission shall submit a report to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, every three years, on the progress made towards achieving economic and social cohesion}.

- The first report on economic and social cohesion was adopted in 1996, the second report was adopted in January 2001, the third report in February 2004 and the fourth in May 2007.
The context of the report

**Crisis**
- High unemployment
- High public deficits
- Growing government debt
- Higher household debt
- Need for fiscal consolidation
- Need for structural reforms

**Europe 2020**
- Smart growth
  - Innovate
  - Educate
  - Employ
- Inclusive growth
  - Reduce deprivation
  - Reduce poverty
  - Reduce joblessness
- Sustainable growth
  - Increase energy efficiency
  - Increase renewable energy
  - Reduce GHG emissions
5th Cohesion Report…

- **Chapter 1**: Situation and trends in the EU
- **Chapter 2**: Contribution of national policies to cohesion
- **Chapter 3**: Contribution of EU policies to cohesion
- **Chapter 4**: Evaluation of the impact of Cohesion Policy
<table>
<thead>
<tr>
<th>Competitiveness</th>
<th>Smart growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well-being</td>
<td>Inclusive growth</td>
</tr>
<tr>
<td>Climate Change</td>
<td>Sustainable growth</td>
</tr>
</tbody>
</table>
## Novelties in the 5th Report

<table>
<thead>
<tr>
<th>Economic</th>
<th>Social</th>
<th>Territorial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of Europe 2020 on regional economic growth</td>
<td>New objective measures on health</td>
<td>Access to services by degree of urbanisation</td>
</tr>
<tr>
<td>Analysis of the impact of restructuring</td>
<td>Subjective measures of well-being</td>
<td>More on environmental issues</td>
</tr>
<tr>
<td>Regional Competitiveness</td>
<td>Regional indicators on poverty and deprivation</td>
<td>Functional and flexible geographies</td>
</tr>
</tbody>
</table>
Large economic disparities remain…

• Regional disparities are smaller in the US, but bigger in NAFTA
• Brazil, Russia, India and China have bigger disparities
• Reducing disparities requires investments in
  – infrastructure
  – innovation
  – institutions
...but convergence is taking place (1)

Less developed countries are growing faster and are likely to recover faster from the crisis

Less developed regions in the EU are growing faster, reducing regional economic disparities
…but convergence is taking place (2)

Disparities in economic development have narrowed across the EU but increased in a number of Member States, in particular, in the EU-12
Convergence in different types of regions (2000 – 2007)

In the EU-12, urban regions grew faster than rural regions due to the agglomeration effects.

In the EU-15, economic activity spread to less developed regions, often rural region.

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Intermediate</th>
<th>Rural</th>
<th>TOTAL</th>
<th>Urban</th>
<th>Intermediate</th>
<th>Rural</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU-12</strong></td>
<td>20.4</td>
<td>10.0</td>
<td>6.9</td>
<td>10.9</td>
<td>4.6</td>
<td>-0.3</td>
<td>-2.6</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>EU-15</strong></td>
<td>-4.5</td>
<td>-4.1</td>
<td>-1.6</td>
<td>-3.7</td>
<td>-0.2</td>
<td>-0.7</td>
<td>1.2</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td>-1.6</td>
<td>-0.3</td>
<td>2.1</td>
<td>0.0</td>
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<td>2.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Productivity - main source of growth

80% of growth in GDP per head came from labour productivity

Contribution of the change in the share of working age population already negative in the more developed regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Change in GDP per head</th>
<th>Change in productivity</th>
<th>Change in employment rate</th>
<th>Change in the share of working age population</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-27</td>
<td>1.79</td>
<td>1.40</td>
<td>0.40</td>
<td>0.00</td>
</tr>
<tr>
<td>CONV</td>
<td>3.03</td>
<td>2.54</td>
<td>0.21</td>
<td>0.26</td>
</tr>
<tr>
<td>TRANS</td>
<td>2.26</td>
<td>1.00</td>
<td>1.26</td>
<td>0.00</td>
</tr>
<tr>
<td>RCE</td>
<td>1.39</td>
<td>1.10</td>
<td>0.38</td>
<td>-0.10</td>
</tr>
</tbody>
</table>
Analysis of the impact of restructuring

In less developed regions, increases in productivity happen mainly through restructuring.

Innovation can increase productivity at any stage of economic development.

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth of productivity</th>
<th>Growth of productivity within sectors</th>
<th>Employment shifts between sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-27</td>
<td>1.4</td>
<td>=</td>
<td>1.0</td>
</tr>
<tr>
<td>CONV</td>
<td>2.5</td>
<td>=</td>
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Innovation can increase productivity at any stage of economic development.
IT Infrastructure: Broadband Access

- Broadband use has grown in all Member States and in all types of areas from densely to thinly populated.

- Public support only where market will not reach.
Motorways: incomplete network

• Dense network in EU-15 little need for additional capacity. Focus should be demand side (congestion pricing)

• In Poland, Romania and Bulgaria, network is almost entirely missing.

• Investment in core network important in the East
Innovation

• Generators should promote global cutting edge research

• Weak diffusers should invest in access to knowledge and technology

• Weak absorbers need to improve secondary and tertiary educations (both quality and quantity)
Investing in human capital increases productivity

Potential increase in GDP per head after raising the share of tertiary educated people 25-34 to 40%, 2007
Institutions: Macro-economic stability

**Issues**
- Budget deficit & debt
- Currency fluctuations
- Inflation
- Ultimately, the confidence of the market in a country
- Highlighted by the crisis

**Policy response**
- Stability growth pact
- Euro-zone and exchange rate mechanism
- European and national central banks
- Strength of an economy and its government
- Structural reforms and budgetary discipline
Competitive European Regions

The focus should be

• In less developed regions on:
  – Institutions
  – Quality of basic education
  – Basic infrastructure and
  – Health

• In highly developed regions on:
  – Business sophistication
  – Technology and innovation

• In all regions on:
  – Higher education & training
  – Labour market efficiency
  – Equal opportunities
  – Access to markets
Competitiveness leads to increases in employment and GDP

Potential increase in GDP per head after raising the employment rate of population aged 20-64 to 75%, 2007
People’s Well-being

**Objective measures**
- Life expectancy
- Mortality rates
- Poverty
- Crime
- Income
- Un-/employment
- Education
- Gender balance
- Working hours

**Subjective measures**
- Health perception
- Access to services
- Material deprivation
- Safety and trust
- Life satisfaction
- Happiness
- Capabilities
- Equal opportunities
- Work life balance
Life expectancy lower in the East

- Lifestyle, income and diet
- Infant mortality
- Cancer and heart diseases
- Road fatalities
- Access to health care
- Quality of health care
Unemployment dropped in most regions until the crisis hit.
Equal opportunities: good news

Gender balance of population aged 55-64 with high educational attainment, 2008

Women / men (ages 55-64) (as %)

Gender balance of population aged 25-34 with high educational attainment, 2008

Women / men (ages 25-34) (as %)
... and some bad news
Poverty and deprivation: issues with a strong regional dimension

Material deprivation rate

At-risk-of-poverty rate after social transfers (below 60% of median)
Climate change adaptation

- More extreme weather events: storms, heat waves, heavy rains…
- More frequent floods
- More droughts
- Hotter summers leading to a less attractive tourism summer climate in the south
- Less snow in the mountains effecting water supply and winter tourism
Climate change mitigation

Solar energy resources per NUTS2 region

Wind energy potential: onshore full load hours

Number of hours
- < 1000
- 1000 - 1250
- 1250 - 1500
- > 3000
- 1500 - 2000
- No Data
Environmental quality

- EU directive on waste water treatment still requires considerable investments in some Eastern MS
- Also in some regions in the EU-15 and the outermost regions compliance has not yet been achieved
5th Cohesion Report: What happens next?

- Adoption of the report is expected in **November 2010**

  At the adoption, the European Commission will launch a **public consultation** on the conclusions of the report concerning the **future of Cohesion Policy post 2013**


The **Fifth Cohesion Forum (in Brussels, 31 January – 1 February 2011)** will provide another opportunity to discuss the orientations and options presented in the 5th Cohesion Report.
Thank you