Part 1 — Cohesion, competitiveness, employment and growth – Situation and trends

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Economic and social cohesion

Introduction

Disparities in income and employment in the European Union have narrowed over the past decade and, most especially, since the mid-1990s. This is the case in terms of disparities both between countries and between regions. At the same time, productivity in the least prosperous parts of the Union has risen relatively to that elsewhere, implying an improvement in their competitiveness. Large differences in relative levels of prosperity and economic performance, however, remain, reflecting continuing structural weaknesses despite the improvements made as a result of Structural Fund support.

Disparities in both income and employment will widen much further when the new Member States join the EU in May, 2004, both across countries and across regions. These countries have, in nearly all cases, experienced significantly higher growth than the EU15 since the mid-1990s after the turmoil of the initial transition years, but have a much lower level of GDP per head and, in most cases, of employment than the EU15 average.

Sustained growth well above the rate in the present Union will be necessary for a prolonged period if these countries are to attain income levels close to the EU average. To achieve this high growth with high levels of employment, the new Member States will need substantial help to tackle wide-ranging structural problems and to realise their economic potential. Just as in the existing parts of the Union where economic performance is lagging, overcoming the structural weaknesses in the new Member States would not only raise living standards there, but it would also strengthen the competitiveness and increase the growth of the EU economy as a whole.

These are the main points to emerge from the analysis presented below. This examines, first, the growth of GDP and employment in the Cohesion countries over recent years relative to that in the rest of the EU; secondly, the extent of disparities between regions in the EU15 and how this has changed over the past decade or so, with particular focus on the Objective 1 regions receiving Structural Fund support; thirdly, economic developments in the accession countries over the recent past and the way that economic performance has varied across regions within these countries; fourthly, the growth rates they require to converge towards the income levels in the present EU within a reasonable period of time; and fifthly, the implications of an ageing population. It then goes on to consider two aspects of social cohesion, unemployment and low income levels across the EU.

Economic cohesion

Convergence of GDP per head in the cohesion countries

In all four Cohesion countries, Greece, Spain, Ireland and Portugal, growth was well above the EU average between 1994 and 2001. Since, apart from Ireland, their growth of population, was only slightly higher than the average, this was translated into significant growth in GDP per head relative to that in the rest of the EU.

In Ireland, where population rose by over 1% a year, GDP per head increased in real terms by almost four times the EU average rate (8% a year as against just over 2% a year). As a result, in 2001, GDP per head in Ireland in terms of purchasing power standards (PPS) was over 17% above the EU15 average, whereas it had been 25% below average at the beginning of the 1990s. The Irish example demonstrates forcibly the effectiveness of Structural Funds support if combined with growth-oriented national policies.

In the other three Cohesion countries, growth in real GDP per head has been more modest but still higher than in the rest of the EU since the mid-1990s. From the end of recession in 1994 to the recent slowdown, growth of real GDP per head in Greece, Portugal and Spain was consistently above the EU average, whereas during the recession years, it was consistently below average (Graph 1.1).
Between 1991 and 1994, therefore, GDP per head fell in both Greece and Portugal, while in Spain it grew more slowly than the EU average. From 1994 to 2001, growth of GDP per head in each of the three countries was similar, over 3% a year in Spain and Portugal, and just under in Greece, as compared with an EU average of just over 2% a year. Over these 7 years of economic recovery in the Union, therefore, GDP per head in these three countries together grew in real terms by almost 1 percentage point a year above the EU average (see Methodological notes at the end of the section).

As a consequence, GDP per head in the three Cohesion countries taken together increased to 79% of the EU15 average in 2001 and to 81% in 2002, in terms of PPS to adjust for different price levels. In Spain, GDP per head in these three countries together grew in real terms by almost 1 percentage point a year above the EU average. In Greece, however, the deficiency was still large despite the convergence from the mid-1990s on. In both countries, GDP per head was still only 71% of the EU average in 2002.

Convergence of employment

The number in employment has also risen markedly in the Cohesion countries since the mid-1990s. Between 1996 and 2002, the proportion of people of working age (15 to 64) in jobs in the EU15 — the employment rate — increased by just over 4 percentage points over these 6 years, despite economic growth well above average. The employment rate in 2002 (57%) was, therefore, even further below the EU15 average than in the mid-1990s, with only Italy having a lower rate. In consequence, increasing employment in parts of the Union where it is well below average remains a major objective of EU policy.

Growing productivity

In Spain and, to a lesser extent, Portugal, increases in employment have contributed significantly to GDP growth, as they have in Ireland, where the number employed rose by around 5% a year between 1996 and 2002. In Ireland, employment growth was accompanied by growth of labour productivity of just under 4% a year, over three times the EU average rate. In Portugal, productivity growth was also higher than the EU average, while in Spain, where employment increased markedly, it was only around half the average.

In Greece, on the other hand, labour productivity growth was close to 3% a year between 1996 and 2002.
2002, well over twice the EU average rate, and was the predominant source of GDP growth. In Greece and Portugal, which contain the least prosperous regions in the Union, the productive base, therefore, seems to have been strengthened since the mid-1990s, increasing the potential for continued convergence in income in future years.

Recent slowdown of the EU economy

Economic growth in the EU has slowed appreciably over the three years since the publication of the last Cohesion Report. This slowdown has inevitably affected cohesion, not least because it has led to a renewed rise in unemployment in many parts (see below), but also because it has created an unfavourable climate for the continued reduction in regional disparities in both income and employment. Economic growth in the Union remained disappointing in 2003 for the third year running (at under 1%). Growth of GDP may rise to 2% in 2004 and approach 2.5% in 2005.

The slowdown has affected nearly all Member States. Even in Ireland, growth is estimated to have fallen to 1½% in 2003 and is forecast still to be below 4% in 2004. Portugal has been particularly affected, GDP falling by almost 1% in 2003 after growing by under ½% in 2002 and being forecast to increase by only 1% in 2004. If this forecast is realised, then much of the convergence towards the EU average in the second half of the 1990s will have been reversed in the three years 2001 to 2004.

The two other Cohesion countries have fared better. In Spain, GDP seems to have grown by an average of just over 2% a year in 2002 and 2003 and growth is forecast to rise to almost 3% in 2004, while Greece appears to have been affected least of all. Here growth was around 4% in both 2002 and 2003 and the same is forecast for 2004, much higher than in the rest of the EU. In these two countries, therefore, support from the Structural Funds may have helped to maintain economic growth.

The slowdown in growth affected employment only with a relatively lengthy lag, in part perhaps because of an initial expectation among employers that it would be more short-lived. In 2003, however, it depressed the rate of employment growth in Ireland, which is estimated at under 1%, implying a fall in the employment rate (given the relatively high growth of working-age population). It also had a depressing effect in Spain, though here the rise in the number employed was still around 1½% in 2003, implying a further increase in the employment rate (by around 1 percentage point). In Greece, estimates suggest that there was a similar rise in the employment rate. In Portugal, on the other hand, the number employed is estimated to have fallen by 1% in 2003 and is forecast to remain broadly unchanged in 2004, implying a significant reduction in the employment rate.

Elsewhere in the Union, Germany and Italy have continued to perform poorly. In Germany, there was virtually no growth at all in GDP in 2002 and 2003 and in Italy, growth was less than ½% in both years. In France, where growth of GDP was similar to the EU average before 2001, only marginal growth is estimated to have occurred in 2003. In the Netherlands, where growth had previously been well above average, GDP increased only slightly in 2002 and is estimated to have fallen in 2003.

Regional disparities in GDP per head have also narrowed

Up until the recent slowdown in growth in 2001, the gap in GDP per head between the least prosperous regions in the Union — those which have been the main focus of EU cohesion policy — and the others has also narrowed over recent years. It is as yet not possible to say, however, what has happened since 2001. It should be noted that the regional figures referred to in this section and the rest of the report relate to the growth of GDP per head in real terms. They are based for the first time on regional indicators derived from a new database specially constructed to be consistent over time for all EU NUTS 2 regions. They differ from the data typically used in previous empirical studies and analyses which relate to GDP in PPS terms over time, which is inappropriate to use for this...
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1.1 GDP per head (PPS), 2001

Index, EU25 = 100

- < 50
- 50 - 75
- 75 - 90
- 90 - 100
- 100 - 125
- >= 125

Source: Eurostat

FR(DOM): 2000

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purpose (see Methodological notes at the end of this section).

Regions granted Objective 1 status because their GDP per head was less than 75% of the EU average, in PPS terms, experienced a higher rate of growth than other parts of the Union between 1988, when the Structural Funds were reformed, and 2001. As implied by the above analysis, growth has been particularly high in the regions in the Cohesion countries (which account for over half of Objective 1 regions and over half of the population living in these).

In Objective 1 regions taken together, GDP per head increased by almost 3% a year in real terms between 1994 and 2001 (the last year for which regional data are available and covering the previous programming period and the first two years of the present one) as compared with just over 2% a year in the rest of the EU. This followed growth of under 2% a year over the preceding 6 years, 1988 to 1994, though this was still above growth elsewhere in the Union (just over 1% a year). Since 1988 when the Structural Funds were reformed and expanded, therefore, GDP per head in Objective 1 regions taken together has converged consistently towards the EU average.

**But the rate of convergence has varied between regions**

The growth rates experienced by Objective 1 regions, however, have varied substantially between them. Convergence, therefore, has not occurred at the same rate across the Union but has been much more significant in the Cohesion countries than elsewhere, perhaps because of a combination of relatively large amounts of structural assistance and growth-oriented policies at national level (Table A1.2).

In Objective 1 regions in the four Cohesion countries, growth of GDP per head was well above the EU average over the period from the mid-1990s, as described above. This was as true for Objective 1 regions in Spain, where around 40% of the population live outside of Objective 1 regions, as in the other three countries where all the regions are eligible for support. (In Spain, growth of GDP per head in Objective 1 regions averaged 3% a year between 1994 and 2001, only slightly less than in other Spanish regions.)

Outside the Cohesion countries, growth in Objective 1 regions has been less impressive, seemingly depressed, at least in part, by slow growth at the national level. In particular, in the German new Länder, where GDP increased markedly in the early 1990s after unification, growth of GDP per head was much the same as the EU average over the 7 years 1994 to 2001 (under 2½% a year). This was, however, still well above the rate in the rest of Germany (under 1½% a year). In Italy growth in the Mezzogiorno (2% a year) was similar to that in the rest of the country and equally below the EU average.

In Objective 1 regions elsewhere in the Union, which account for only a very small proportion of national population, growth of GDP per head was in line with the EU average over this period (see Methodological note).

Despite the overall convergence of GDP per head in lagging regions towards the EU average, the gap remains wide. In 29 regions, which are home to 13% of EU15 population, GDP per head in PPS terms in 2001 was under two-thirds of the average. These are predominantly in Greece, Portugal, southern Spain and southern Italy, though they include six east German regions (Chemnitz, Dessau, Mecklenburg-Vorpommern, Magdeburg, Brandenburg-Nordost and Thüringen), Cornwall in the UK and three of the four French DOMs (Map 1.1).

**Employment rates and productivity have also converged across regions**

Convergence of GDP per head has been accompanied by a narrowing of disparities in employment rates across regions. While employment has increased significantly in the EU since the mid-1990s, the increase has been larger in Objective 1 regions than elsewhere. Between 1994 and 2001, the number
employed in these regions rose by just under 1½% a year, slightly more than the EU average, and in 2002, the employment rate was over 5 percentage points higher than 6 years earlier as against a rise of 4 percentage points in the rest of the Union.

Growth in labour productivity was also higher in Objective 1 regions than in other parts, averaging over 1½% a year over the period 1994 to 2001 as opposed to around 1% a year in the EU as a whole. Indeed, productivity growth contributed more to the rise in GDP than the increase in employment.

The increase in employment, however, varied markedly between Objective 1 regions. Whereas it was slightly above the EU average in Portugal and well below it in Greece, as noted above, the number employed rose markedly in Objective 1 regions in Spain (by around 3% a year) — more than in the rest of the country — and by even more in Ireland (by 5% a year). The corollary of this in the Spanish regions was low growth of labour productivity (½% a year).

By contrast, in Objective 1 regions in Germany — the new Länder — the number employed fell over this period (by almost ½% a year) but labour productivity grew by more than in other parts of the country or, indeed, in the Union as a whole (by 2% a year). Similarly, in the Italian Objective 1 regions — in the Mezzogiorno — employment increased by relatively little (by under ½% a year), while productivity growth was also above average, if by less so (over 1½% a year as against 1% in the rest of Italy).

Although competitiveness may have improved slightly in these two areas, therefore, the lack of jobs remains a major problem. This is particularly the case in southern Italy, where only 43% of working-age population were in jobs in 2002, well below the proportion in other Objective 1 regions — or indeed anywhere else in the Union. The average employment rate in Objective 1 regions as a whole was still over 10 percentage points less than in other parts of the EU (56% as opposed to 66½%) (Map 1.2). Increasing the employment rate in lagging regions, therefore, remains a central part of EU cohesion policy.

**Problem regions not confined to those with the lowest GDP per head**

Weak economic performance in the EU, and the structural problems that underlie this, is not confined to regions with the lowest levels of GDP per head. Problem regions, both at NUTS 2 and, even more numerous, at NUTS 3 level, are spread across the Union. The problems affecting these regions stem from a number of different sources, including the decline of traditional industries, geographical features which constrain development, falling employment and population and a decline in essential services or a lack of innovative capacity and the necessary support structures. All of these, either individually or in combination, tend to discourage investment and deter new business development. These problems are described in later sections (see the sections on territorial cohesion and on competitiveness factors). If not tackled, they are liable to worsen over time leading to a progressive deterioration in economic performance.

For example, there are 11 NUTS 2 regions with comparatively low levels of GDP per head in which real growth of GDP between 1994 and 2001 was around half the EU average rate or less over the period. All of these regions had a level of GDP per head in PPS terms significantly below the EU average but above the 75% threshold for eligibility for Objective 1 status.

These 11 regions are spread across the north-east of England, in several parts of Germany (Koblenz and Münster, for example) as well as in Sweden. In each case, they had low growth of productivity, this increasing on average by only ½% a year over the period — only slightly over a third of the EU average — as well as low growth of employment (just over ½% a year as against an EU average of almost 1½% a year).

Taken together, their GDP per head in PPS terms in 2001 was around 85% of the EU average, but nearly all of them contain areas in which there has been little
1.2 Employment rates, 2002

Employed 15-64 as % of population 15-64

- < 56.0
- 56.0 - 60.2
- 60.2 - 64.4
- 64.4 - 68.6
- >= 68.6
- no data

EU27 = 62.4
Standard deviation = 8.4

Sources: Eurostat and National Statistical Offices
growth at all over the past 10 years or more and GDP per head was below 75% of the EU average.

If economic growth in these regions continues to be depressed, then GDP per head before too long will fall below the 75% level, at which time they might become eligible for Objective 1 assistance. By then, however, the structural problems which need to be overcome are likely to have deteriorated further, requiring more drastic action. This raises the question of how far cohesion policy should anticipate such a worsening and intervene at an earlier stage to try to arrest decline and to do so with a lower level of expenditure.

**Growth of GDP in the accession countries**

In the new Member States, growth of GDP averaged just over 4% a year between 1994 and 2001 in all except Hungary (just below) and the Czech Republic. In the latter, growth was only just over 2% a year, while in Bulgaria and Romania (the two accession countries not due to join the EU in 2004), GDP increased barely at all. Since, however, population changed in different ways across the countries — increasing significantly in Cyprus and Malta, declining by around 1% a year in the three Baltic States as well as in Bulgaria and changing relatively little elsewhere — growth in GDP per head varied by slightly more than growth in GDP.

Overall, growth of GDP per head in real terms in the new Member States was around 1½% a year above the EU15 average over this period.

Since 2001, growth has slowed in these countries taken together, in part because of the fall-off in growth in the EU, their major export market. Overall, growth was just under 2½% in both 2001 and 2002 and is estimated to be 3% in 2003. The slowdown was particularly marked in Poland, where growth averaged only just over 1% in 2001 and 2002 and it was even lower in Malta because of a fall-off in tourism from the EU.

**But little growth in employment as restructuring continues**

Even before the recent slowdown, growth did little to ease the employment problems which emerged in the transition countries in the early 1990s. In all of the countries with high growth rates, except Hungary and Slovenia, labour productivity increased markedly and employment either rose by only a little (Latvia) or fell (in all the other cases), reflecting the ongoing restructuring of their economies which in most cases is far from complete.

Growth in the accession countries during the transition has, therefore, come predominantly from increases in output per person employed rather than from higher employment. In most countries, this has remained the case over the most recent years, especially in the countries with the lowest levels of GDP per head. (‘Accession countries’ is used throughout this report to denote the 10 new Member States plus Bulgaria and Romania.)

Between 1998 (when data became available for most of the countries) and 2002, the employment rate fell by over 7 percentage points in Poland, as well as in...
Romania, by almost 4 percentage points in Estonia and by 2 percentage points in the Czech Republic, Slovakia and Lithuania. On the other hand, the employment rate increased in Slovenia, though by less than 1 percentage point, Latvia and Hungary (by over 3 percentage points in the last), though as noted below the level remains well below the EU15 average (Graph 1.2).

The slowdown has led to a further fall in employment, especially in Poland, where the number in work declined by over 2% in 2002 and is estimated to fall further in 2003. In the latter year, growth of employment of more than ½% is estimated only in two countries, Lithuania and Slovakia.

**Employment rates therefore remain low in the accession countries**

As a consequence of the depressed growth of employment, the proportion of working-age population in jobs in the accession countries has declined steadily since the transition began while, in the EU15 the proportion has risen. In 2002, this proportion — the employment rate — averaged just 56% in the 10 new Member States, much lower than the EU15 average (just over 64%) though similar to that in present Objective 1 regions. This similarity, however, disguises the fact that, as noted above, employment rates in Objective 1 regions were tending to increase significantly up until the recent slowdown, whereas in the new Member States, they were tending to decline.

In all of the accession countries, except Cyprus, the employment rate was below the targets for the EU set at the Lisbon summit of 67% in 2005 and 70% in 2010. While it was relatively close to the 67% target in the Czech Republic (65½%) and was the same as the EU average in Slovenia, elsewhere the gap was substantial. In Hungary and Slovakia, the rate was around 56%, similar to that in Greece and slightly higher than the average for Italy, and in Poland, it was just under 52%, lower than in any of the present Member States.

**Wide disparities in GDP per head between regions in accession countries**

Growth in the accession countries has been far from regionally balanced. In all the transition countries, it has been disproportionately concentrated in a few regions, particularly in capital cities and surrounding areas. As a result, regional disparities in GDP per head have widened significantly.

In both the Czech Republic and Slovakia, the 20% of the population living in the most prosperous regions have a GDP per head which is just over twice as high as the 20% living in the least prosperous regions. This is similar to the gap in Italy or Germany. In Hungary, the level of GDP per head in the regions with the most prosperous 20% of population is some 2.4 times the level in the least prosperous, more than in any of the existing EU Member States.

**Enlargement will increase the disparity in GDP per head across the EU markedly**

The 10 new Member States will add much more to EU population (just under 20%) than to its GDP (around 5% in terms of Euros). Bulgaria and Romania together would add a further 8% to EU population but under 1% to GDP. Even taking account of lower costs of living, all the countries are much less prosperous than the existing EU Member States, if to widely varying degrees. The impending enlargement to 25 Member States, and subsequently to 27 or more, will, therefore, fundamentally change the scale of disparities across the EU. Cohesion policy — and other EU policies — will need to adapt in response to this.

Although the new Member States have grown faster than the EU15 since the mid-1990s, as noted above, the gap in GDP per head remains pronounced. Only Malta, Cyprus, the Czech Republic and Slovenia had a GDP per head in PPS terms above 60% of the EU15 average in 2002. In Poland, Estonia and Lithuania, it was only around 40% of the average and in Latvia, just 35% of average. In Bulgaria and Romania, it was only around 26–27% of the average.
Once enlargement occurs, therefore, there will be a major widening of the income gap between the most and least prosperous Member States. Even though average GDP per head in an enlarged EU will be lower than in the EU15, only Cyprus has a level above 80% of the average in an EU of 25 Member States. In Latvia, the level is 38% of the EU25 average, less than half the level in Greece or Portugal (77-78%), while in Romania and Bulgaria, it is under 30% of the average (Graph 1.3).

In other words, whereas the gap between the average GDP per head in the EU15 and the level in the least prosperous Member States is currently just under 30% (ie Greece and Portugal have levels almost 30% below average), the gap will double when the new Member States join in 2004 (ie Latvia has a GDP per head which is over 60% below the EU25 average) and is likely to widen even more once Bulgaria and Romania enter.

In an enlarged EU, countries can be divided into three groups according to GDP per head in PPS terms. For the first group consisting of 12 of the present 15 Member States, GDP per head is well above the EU25 average (10% or more). In the second group of
7 countries, comprising the remaining three present Member States, Spain, Portugal and Greece, plus Cyprus, the Czech Republic, Slovenia and Malta, GDP per head is between 68% and 94% of the EU25 average. In the third group of 8 countries (including Bulgaria and Romania), all of which are new or prospective Members, it is under 60% of the average (Graph 1.4).

**Disparities between regions will widen even further with enlargement**

Enlargement will have an even greater effect on disparities between regions than between countries. Whereas around 73 million people, some 19% of the EU15 population, live in regions where average GDP per head in the years 1999 to 2001 was below 75% of the EU average, according to the latest estimates, almost as many, some 69 million of the 74.5 million who will become EU citizens in 2004 (92% of the total), live in regions with GDP per head below 75% of the EU25 average in the new Member States.

This does not mean, however, as discussed further below, that these 69 million people will simply add to those at present living in regions with GDP per head below 75% of the EU average, since this average itself will be reduced (from an average covering 15 Member States to one covering 25) as a result of enlargement. This will have the effect of reducing the number of people living in such regions in the present EU15 by around 19 million. The net result of enlargement will, therefore, be to increase the number living in regions with GDP per head below 75% of the average to 123 million in the EU of 25. Once Bulgaria and Romania join, this total will rise further to over 153 million or to almost 32% of the EU27 population, i.e. to more than double the number now living in such regions.

In an EU of 27 Member States, two-thirds of those in regions with GDP per head of below 75% of the EU25 average would live in the new Member States. Around one in six people would live in regions where GDP per head is below half the EU average. None of the 38 regions concerned is in the present EU15.

**The statistical effect**

Enlargement will add very much more to EU population than to GDP, reducing average GDP per head significantly. Average GDP per head in the EU of 25 Member States will be around 12½% less than the average in the EU of 15. For 17 regions, it will mean that their income per head is no longer below the 75% threshold given that this is now lower than it was before. It will also be above 75% in Malta where it is now below 75% of the EU15 average.

As noted above, estimates suggest that almost 19 million people live in such regions, most of which at present have Objective 1 status under the Structural Funds (with a further 400 thousand in Malta). If the criterion for determining Objective 1 status remains unchanged, the regions concerned will lose their eligibility for structural assistance, even though their GDP per head will be precisely the same after enlargement as before, as will the structural problems which underlie its relatively low level and which prompted the structural assistance initially. On the present estimates, four of these regions, for example, are in the eastern part of Germany, four are in the UK, four are in Spain, one is in Greece and one in Portugal (Table A1.3).

**Employment disparities between regions will be equally wide**

Employment rates in most regions in the accession countries are lower than the present EU15 average, though in none are they as low as in the south of Italy. Only in four regions — Cyprus and Střední Čechy, Jihozápad and Praha in the Czech Republic — did the rate exceed the 67% Lisbon target for 2005 and only in Praha was it over 70%, the Lisbon target for 2010. By contrast, there were 53 (NUTS 2) regions in the current Member States in which the rate was above this, most of these being in the Nordic countries, the UK and the Netherlands.

In an enlarged EU of 25 Member States, there will, therefore, be 14 regions in which the employment rate...
is under 50%, 6 in southern Italy, one in Spain (Ceuta y Melilla) and one in France (Corse) in the present EU15 and five in Poland and one in Hungary (Észak-Alföld) in the new Member States. (In Bulgaria, there are another three regions with rates below this level.)

These low employment regions for the most part have relatively low levels of GDP per head, to a large extent because of the failure to employ large numbers of people in productive activities. However, the association between employment rates and relative levels of GDP per head is far from being uniform. In some of the accession countries, Poland, in particular, though also Romania, the employment rate is more closely associated with the size of the agricultural sector, which in some sense provides jobs of last resort, than with GDP per head. This reflects the continued persistence of subsistence farming and contrasts with the position in the present EU, where employment rates tend to be low in agricultural regions.

It suggests that, in these regions especially, economic development is likely to be accompanied by substantial restructuring and shifts of employment between sectors, though the need for restructuring is by no means confined to these regions.

**Sectoral composition suggests significant restructuring is likely in the accession countries...**

An insight into possible future changes in the structure of employment as economic development takes place can be obtained by comparing the way that employment is divided between sectors of activity in the accession countries and in the present EU15, and within the latter, in existing Objective 1 regions and others (Map A1.1). Such a comparison is most instructive if an explicit adjustment is made for differences in the overall employment rate between different areas — in other words, by examining the proportion of people of working-age population employed in different sectors — rather than by simply comparing the shares of various sectors in total employment. This then gives a guide to the possible way in which those finding jobs will be divided between sectors as the numbers employed in the less developed countries and regions increase.

The overall employment rate in the accession countries, despite falling over recent years, was still slightly higher than in existing Objective 1 regions in 2002. This is largely due to much larger numbers employed in agriculture and manufacturing, especially in textiles and clothing and other basic industries, which is offset in large part by lower employment in services as well as in construction (Table A1.4).

The relatively low employment in services in the accession countries is much more apparent in comparison with non-Objective 1 regions in the EU, which have much larger numbers employed in this sector than Objective 1 regions. The shortfall is large in all service activities. It is particularly pronounced in advanced and communal services (business and financial services and education, health and social services) where the difference between Objective 1 and other regions is most evident.

While, therefore, the structure of employment in the accession countries has tended to move towards that in the EU during the transition years, the rate of change has been slow. The substantial job losses in agriculture and basic industries have not as yet in most regions been offset by sufficient growth of jobs in services. And further substantial job losses in agriculture in particular can be expected in future years.

**... particularly towards the service sector in which job growth in the EU has been concentrated**

On the experience of existing Member States, future job growth in services in the accession countries — as well as in present Objective 1 regions — is likely to be concentrated in advanced and communal services, though significant expansion can also be expected in basic services (the distributive trades, hotels and restaurants, transport, communications and personal and community services) in which the level of employment is still well below that in the EU15.
Over the 6-year period, 1996 to 2002 when the overall employment rate in the EU15 increased by just over 4 percentage points, virtually all the growth in jobs was in services, with advanced services accounting for some 40% of the net increase in employment and communal services for another 26% (Graph 1.5). Between them, therefore, these two sectors were responsible for twice the number of net additional jobs created as in basic services which was slightly larger in terms of the total number employed.

By contrast, jobs in agriculture, basic manufacturing industries and public utilities declined in relation to working-age population, while there were small increases in employment in the chemical and engineering industries and a larger rise in construction, which tends to be affected more than other sectors by the economic cycle. The continued trend towards advanced service activities as well as communal services underlines the need to raise educational attainment levels given their demand for highly qualified workers, which is likely to continue to rise in future years.

The challenge facing accession countries, which is mirrored in Objective 1 regions, is to strengthen competitiveness over the long-term in order to sustain high rates of economic growth while at the same time increasing employment rates. Strengthening competitiveness means achieving continuing gains in productivity which remains substantially below the level in the EU15 and even further below the level in the more prosperous regions.

Although it is important to stress that there is no conflict in the long-term between this objective and raising employment — indeed, the creation of long-term, stable jobs is dependent on increasing competitiveness — this is not necessarily the case in the short-term. Shifts of employment out of low productivity sectors, particularly agriculture, into higher productivity ones are essential if competitiveness is to be increased. At the same time, there is an ongoing need to increase productivity within sectors of activity and to continue the process of rationalisation and reduction in over-manning which has occurred over the transition period (Map A1.2).

The challenge of convergence in the accession countries

The structural problems in the acceding countries which underlie their low GDP per head and low level of employment are both substantial and wide-ranging. The challenge for cohesion policy is to help them bring their infrastructure up to date, modernise their education and training systems and create a business environment favourable to investment so that they can sustain the high rates of growth required for them to converge towards employment and income levels in the EU at an acceptable pace. For this to occur implies growth rates for most of the countries of at least 5–6% a year for a prolonged period (see Box on catch-up scenarios).

This is not impossible, as the experience of Ireland demonstrates forcibly, but it will require effective support from the EU to ensure that structural problems in these countries are overcome and that their
employment levels and competitiveness can be increased substantially, as well as an efficient mix of internal policies.

The contribution of cohesion policy to EU growth

Achieving high rates of growth by improving productivity performance and raising employment in the accession countries is not only important for raising living standards there and for generating the resources required to finance improvements in infrastructure, communal services and so on, it is also important for existing Member States. Given the increasing interdependencies which exist in trade and investment, the economic development of the new Member States can potentially provide the dynamic to initiate and sustain higher rates of growth throughout the EU.

Structural deficiencies in endowment of infrastructure and human capital mean that these countries, as well as many lagging and problem regions in the EU15, are not able to contribute as much as they might to the competitiveness of the EU as a whole.

The result is lower levels of income and employment in the EU than can potentially be achieved and lower growth potential to the detriment of all, not just those directly affected. Reducing existing disparities would, therefore, strengthen the competitiveness of the EU economy and its capacity for sustained development. It would also reduce the risk of bottlenecks and inflationary pressure occurring in the stronger regions as growth takes place, so bringing it to a premature end.

In the case of the accession countries, it would enable them to increase their rate of economic growth and, accordingly, to expand their imports from existing EU Member States. At present, imports amount to over half of GDP in these countries — much more than in the Cohesion countries (in Greece and Spain, imports are only around 30% of GDP and in Portugal, 38%) — and have tended to rise by much more than GDP when growth occurs. This is likely to continue to be the case for some time to come, as countries buy in the manufactures, particularly machinery and equipment, not produced domestically which are required for their continued development.

Any increase in GDP, therefore, goes disproportionately on purchasing goods from abroad, most especially from existing EU Member States, which account for some 60% of total imports, and in particular from Germany (which accounts for around 25% alone) and Italy (almost 10%).

The gains to Germany and Italy, in particular, of stimulating growth in the new Member States are, therefore, substantial, though all existing EU countries stand to benefit from this and from the higher growth of the EU market which it will give rise to, in much the same way that they benefit from growth of the Cohesion countries and Objective 1 regions (see Part 4, section on the Structural Funds as a means for economic integration).

Population in decline across Europe

Population in the EU15 has grown only slowly for many years. Since the mid-1990s, growth has averaged only 0.3% a year, most of this being a result of net inward migration. In several Member States — Germany, Italy and Sweden, in particular — population would have fallen without this. Natural population growth is projected to fall further in the future and with similar rates of migration as in the past, population will begin to decline in most Member States over the next 20 years.

Falling population was already a feature of many regions in the second half of the 1990s (in 55 of the 211 NUTS 2 regions in the EU15). In the accession countries, population fell in most regions over this period (in 35 of the 55 NUTS 2 regions), due to a natural fall as much as outward migration.

And is set to fall further in future years

According to the latest demographic projections, population will continue to grow slowly in all EU15
How long will it take the accession countries to catch up?

The scale of the cohesion challenge posed by enlargement can be illustrated by ‘catch-up scenarios’, indicating how long it will take GDP per head in the new Member States together with Bulgaria and Romania to reach the EU average on simple assumptions about their growth rates relative to the average rate in the present EU15.

Two scenarios are considered here, the first in which growth is maintained in these countries at 1½% a year above the EU15 average, which is the average achieved over 7 years 1995 to 2002, the second in which growth is sustained at 2½% above the EU15 average. Both start from the latest forecast of GDP per head in the different countries in 2004.

If growth in all the countries can be sustained into the future at 1½% above that in the rest of the EU (i.e. 4% a year if growth in the EU15 is 2½% a year in the EU15), average GDP per head in the 12 countries would remain below 60% of the enlarged EU27 average until 2017 (Graphs 1.6 and 1.7). In this year, it would exceed 75% of the average only in Slovenia, Cyprus, the Czech Republic and Hungary. If growth were to continue at this rate, Slovakia would reach 75% of the average by 2019, but it would take the next country, Estonia, a further 10 years to attain this level. In 2035 — more than 30 years from now — Poland would be approaching this threshold but it would take Latvia until 2041 to reach it. At this rate of growth, Bulgaria and Romania would still have a level of GDP per head below 75% of the average in 2050.

If growth were to be sustained at a significantly higher rate than this, at 2¼% above the EU15 average (implying growth of just over 5% a year if growth in the EU15 is 2½%), then convergence would, of course, happen within a shorter period of time. Nevertheless, the number of years involved remains considerable for many of the countries. For Poland, for example, even at this rate, it would still take 20 years or more for GDP per head to reach 75% of the EU average and many more years to converge to the EU average or close to it. For Bulgaria and Romania, it would take much longer than this. Nevertheless, at this rate of growth, the number of regions in the accession countries which require structural support because their GDP per head is below 75% of the EU average is reduced markedly quicker than if growth were to be slower. These scenarios should not be taken to imply that growth of 4% or 5% a year in these countries is the most that can be expected. First, the experience of Ireland over the past decade shows what can be achieved in terms of rapid growth. Secondly, growth potential in the new Member States will be greatly enhanced by improvements in the capital stock as a result of EU cohesion policy.

Working-age population also set to decline

More relevantly for employment, population of working age (15 to 64) is likely to begin falling earlier than the total. It is projected to decline over the remainder of the decade in the south of Europe, in particular, in Greece, Portugal and Italy but also in Germany. After 2010, decline will set in within a few years in all countries apart from Ireland and Luxembourg. In the EU15 as a whole, the number is projected to be some 4% lower in 2025 than in 2000 but in the three southern Cohesion countries, 6% lower and in Italy, over 14% lower.
In the accession countries, working-age population is projected to decline over the remainder of the decade in all except Cyprus, Malta, Poland and Slovakia. In the following few years, it will begin falling everywhere apart from Cyprus. In 2025, on the latest projections, the number of people aged 15 to 64 in the accession countries will be over 10% less than in 2000. In Bulgaria and Latvia, it will be over 20% less, in Estonia, almost 30% less (Map A1.3).

More people of working age over 50

This widespread decline in working-age population will be accompanied by a marked shift in age composition. Those aged 50 to 64, many of whom are no longer working in many present and prospective Member States, will account for a growing share and young people coming into the labour market for a declining one.

By 2025, those aged 50 to 64 will account for 35% of population of working age in the EU15 as against 26% in 2000. In Italy, the share will rise to 40% and in Germany, Austria, Greece and Spain, to 36–37%. In the accession countries, the increase is projected to be smaller but still significant, the average share rising from around 26% to some 31%, but to 34% in the Czech Republic and 36% in Slovenia.

The fall in the number of people of working-age across Europe will be accompanied by a large and continuing increase in the number aged 65 and over — the typical official age of retirement. Up to 2025, population of this age is projected to grow by around 1½% a year in both the EU15 and the accession countries. As a result, the number aged 65 and over will be 40% higher in 2025 than in 2000 in both regions. In an EU of 27, only in the three Baltic States, Bulgaria and Romania will growth be below 1% a year. In Ireland, the Netherlands and Finland as well as Cyprus, Malta and Slovenia, population of 65 and over is projected to grow by 2% a year or more (Map A1.4).

Given these trends, increasing the number of people of this age who remain in work is of major importance from both an economic and social perspective and a key part of the European Employment Strategy. To be successful, this will require changes in policies and attitudes not only towards...
early retirement but also towards the training of older people.

Rising old-age dependency rates

The implication of these divergent demographic trends is a large rise in old-age dependency rates, the number of people of 65 and over relative to those of working age. In the EU15, the population aged 65 and over amounts to almost 25% of that of working age — ie there are four people aged 15 to 64 for every one of retirement age. By 2025, the figure will rise to 36%, or less than three people of working-age for each one in retirement. In the accession countries, the rate is projected to increase from under 20% to over 30% during this period. Especially large increases are projected in Italy, Finland, Sweden and Germany, where the dependency rate is set to rise to around 40% by 2025. In the accession countries, the increase is expected to be particularly large in the Czech Republic, Malta and Slovenia, where rates of 36–38% in 2025 are projected as against under 20% in 2000.

By 2025, dependency rates are projected to exceed 40% in 42 regions; 12 of these in France, accounting for 42% of total population in the country. The lowest rates — below 25% — are forecast in several outermost regions, Açores, Madeira, Ceuta y Melilla, with small populations, though also in Ile de France (Paris) and London (Map 1.3).

And actual dependency rates?

Dependency rates calculated as above are informative but hypothetical, in the sense that they do not reveal how many people of working-age will be in employment to support those aged 65 and over in practice and not just in principle. As noted above, only 64% of those of working-age were actually in employment in the EU15 in 2002 and in the accession countries, only 56%. These figures, moreover, vary markedly between countries and regions.

For example, Italy and Sweden have similar dependency rates as measured above, but much lower employment in Italy means that its actual dependency rate is 30% higher than in Sweden. Already, therefore, there are only two people in employment in Italy to support every person of 65 and over, whereas in most other Member States, there are at least three. In Greece and Spain, however, as well as in Belgium, the number is less than 2½ (ie the actual dependency rate is over 40%). Even if the employment rate were to remain unchanged in the coming years, the actual dependency rate projected for 2025 in Denmark, the Netherlands, Portugal and the UK, as well as in
1.3 Old-age dependency rates, 2000 and 2025

**Effective rates, 2000**
- Population 65+ / tot
- EU27 = 35.7

**Hypothetical rates, 2000**
- Population 65+ / population 15-64 (%)
- EU27 = 23.2

**Forecast hypothetical rates, 2025**
- Population 65+ / population 15-64 (%)
- EU27 = 34.4

Sources: Eurostat, UN, BG, CZ, HU, PL, RO, SK: NUTS0

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Ireland and Luxembourg, would be lower than the rate in Italy now.

In all the accession countries, except for Bulgaria, the actual dependency rate is below the EU average, despite the relatively small proportion of working-age population in jobs. If there is no substantial rise in employment in the coming years, however, the rate in many of the countries could rise above that in most existing EU Member States.

This emphasises the central importance of achieving a high level of employment in future years, supported by economic growth, if prospective demographic trends are not to lead to increasing social tension.

Higher employment coupled with a smaller number of people drawing pensions might occur as retirement patterns change and the health of the elderly continues to improve. In other words, it could well be the case that more people will choose to continue working beyond the present retirement age in future years. In this regard, it will become increasingly important to exploit the productive potential of older people.

There is a significant regional dimension to this insofar as demographic structure and trends vary markedly between regions as a result of differing patterns of mortality, fertility and migration. There is, therefore, a clear role for regional policy in, for example, mobilising older workers and exploiting their entrepreneurial and other skills, as well as in ensuring their access to training.

Social cohesion

Maintaining social cohesion is important not only in itself but for underpinning economic development which is liable to be threatened by discontent and political unrest if disparities within society are too wide. Access to employment is of key significance since it determines in most cases whether people are able both to enjoy a decent standard of living and contribute fully to the society in which they live. For those of working-age, having a job or being able to find one within a reasonable period of time is, therefore, invariably a precondition for social inclusion.

As indicated above, the proportion of those of working-age in employment has increased in most parts of the EU over recent years, contributing both to economic growth and to improving social cohesion. In the accession countries, by contrast, the proportion in jobs has tended to decline with the opposite effect. As described below, unemployment has, therefore, become a major problem in many of these countries. It also remains a problem in many parts of the EU15, despite the reduction which occurred from the mid-1990s up until the recent slowdown in growth.

As also described below, significant numbers of people in both the present Member States and the new ones have levels of income which put them at risk of poverty in spite of the extensive social protection system which exists in all the countries concerned.

Falling unemployment in most parts of the EU but disparities remain wide

The widespread fall in unemployment which accompanied job growth in the EU from 1994 up until the present slowdown was especially pronounced in Spain and Ireland, two Cohesion countries in which unemployment rates had been particularly high for many years. In Spain, the rate fell from 18% of the labour force in 1996 to 11½% in September 2003, the latest date for which figures are available, while in Ireland, the fall was of a similar size and reduced the rate to under 5%. Nevertheless, although unemployment is now well below the EU15 average in Ireland, in Spain, it remains well above the average (8%) and continues to be higher in Objective 1 regions in the country than elsewhere (in Extremadura and Andalucia, it was just over 19% in 2002).

In Portugal and Greece, moreover, there has been little change in unemployment. In Portugal, the rate fell from 7½% in 1996 to 5% in 2002 but it has since risen back to 7% as employment has fallen. This is still
1.4 Unemployment rates, 2002

% of labour force

- < 4.75
- 4.75 - 7.65
- 7.65 - 10.55
- 10.55 - 13.45
- >= 13.45
- no data

EU27 = 9.1
Standard deviation = 5.86

Sources: Eurostat and National Statistical Offices

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below the EU15 average. In Greece, however, the rate has remained above the average at 10%, which is much the same as in 1996, though it has fallen steadily since 1999 when it reached a peak of 12% (Table A1.5).

In Objective 1 regions elsewhere, unemployment was over 20% in 2002 in most of the new German Länder, reflecting a fall in employment since the mid-1990s, while in Italy, where job growth has been depressed, it was close to 20% in the Mezzogiorno, nearly three times higher than in the rest of the country (and almost 25% in Calabria) (Map 1.4). In southern Italy, moreover, the problem of joblessness is only partly revealed by the unemployment figures since a substantial number of people of working age, women especially, do not even join the labour market.

In regions where unemployment is high, it remains the case that young people and women are particularly affected and those becoming unemployed tend to be out of work for a long time (i.e. there is a positive relationship between the overall unemployment rate and the long-term rate — the relative number out of work for one year or more — Map 1.5).

**Unemployment a major problem in the accession countries**

The low employment rates in the accession countries which were noted above are reflected in high rates of unemployment. At the latest count, in September 2003, unemployment stood at 20% of the work force in Poland, 16% in Slovakia and 14% in Bulgaria, while in both Latvia and Lithuania, the rate was also well over 10%. By contrast, the rate was only just over 4% in Cyprus, as well as in Romania, lower than in any existing Member State except Luxembourg and the Netherlands.

At the regional level, unemployment was over 25% in four Polish regions in 2002, as well as in one Bulgarian region, and over 20% in another, as well as in two Slovakian regions.

**The risk of poverty varies between countries and household types**

Although there are no measures of the number of people across the enlarged EU who live in poverty in an absolute sense, an indication can be gained of those whose income is low enough to put them at risk of being socially disadvantaged in a relative sense.

According to the latest data (for 2000), the proportion of the population at risk of poverty, defined in terms of those living in households with income below 60% of the national average after social transfers, ranges from 21% in Ireland, and only slightly less in Greece and Portugal, to 10–11% in the Netherlands, Sweden, Germany, Denmark and Finland (Graph 1.9 and Table A1.6).

Poverty is closely linked to unemployment. Being in employment is by far the most effective way of avoiding the risk of poverty and social exclusion. Only 7% of the employed population in the EU had income below the poverty line in 2000, as against 38% of the unemployed and 25% of the inactive.
However, even if those in employment are less exposed to the risk of poverty, they represent around a quarter of the people aged 16 and over in the EU in this position.

The risk of poverty is higher for particular household types in most countries, in particular for older people living alone and lone parents. In the EU Member States taken together, some 35%, on average, of those living alone with dependent children — the vast majority of whom are women — and almost 30% of people of 65 and over living alone have income below the poverty line.

Wide variations exist across the Union as regards the nature, as well as the scale, of the problem of low income. In the southern countries, apart from Greece, the problem is related to having children, which is also the case in the Netherlands as well as in the UK for lone parents in particular. In the Nordic countries, it is mainly associated with living alone, while in Ireland and Portugal, it is a particular problem among those of 65 and over (Table A1.7).

The risk of poverty and social exclusion is also important in the new Member States. This risk threatens to increase if unemployment remains high.

The risk of poverty affects ethnic minorities in particular who tend to be disadvantaged on the labour market. In some cases, these face cumulative handicaps in terms of access to education, social services, housing and health care. Most accession countries have significant ethnic minorities. The size of the Roma community in the EU, for instance, will double with the accession of the 10 new Member States in 2004 and will double again with the accession of Bulgaria and Romania.
Methodological notes — Measuring changes in GDP per head over time

In previous Cohesion Reports, the extent of convergence of GDP per head has been assessed by taking successive estimates of this in different countries and regions measured in terms of purchasing power standards (PPS) in order to adjust for differences in the goods and services which a given unit of GDP is capable of purchasing. The adjustment for PPS is made annually in relation to the pattern of consumption and investment prevailing at the time. The fact that these patterns may change over time is a reason for being cautious about comparing levels of GDP per head between two different years. The problem is compounded by the fact that changes have been made over time in the method used for estimating relative price levels, partly because of ongoing efforts to improve the estimates produced. As a result of these changes, GDP in terms of PPS cannot legitimately be compared between years.

According to the EU Statistical Office (Eurostat), therefore, ‘the years before 2000 …include a multitude of minor or major breaks in the time series, which negatively affect the comparability over time or even between countries within one given year’ (Statistics in Focus, Theme 2, 56/2002). In consequence, while it is legitimate to compare estimates of GDP per head in PPS terms in a recent year across countries, it is problematic to compare these levels over time. The approach used here for assessing both national and regional convergence is to measure changes in GDP per head over time in real terms (ie at constant prices), which explicitly adjusts for price changes between years.

Measuring the regional economy

As described in the Second Cohesion Report, GDP per head, expressed in terms of purchasing power standards (PPS) to adjust for differences in price levels, is the primary indicator for assessing the development of economies, whether national or regional. It is used not just in the EU to measure disparities between regions and to identify those which warrant assistance from the Structural Funds, but by other international institutions (UN, World Bank, IMF, OECD and so on), national governments, central banks and research institutes for similar assessments of economic development.

As made clear in the Second Cohesion Report, it is not a perfect measure and has a number of weaknesses. These include, in particular, the problem of commuting (the fact that commuters may contribute to GDP produced in an economy or region in addition to the people living there but are not included in the ‘heads’ to which GDP is related) and the exclusion of transfers which may add to, or subtract from, income. They also include problems of adjusting for price level differences, which are not captured by exchange rates, and for environmental degradation as well as the depletion of exhaustible resources which are left out of account entirely. Nevertheless, given the data which at present exist and the conceptual difficulties which remain to be resolved, it remains, by common consent, the best measure available.

These weaknesses, however, continue, quite rightly, to prompt economists and statisticians to seek other indicators as well as ways of improving the existing measure. Two developments since the Second Cohesion Report are considered here: first, the construction of preliminary estimates of disposable income across EU regions by statisticians at Eurostat and, secondly, the efforts made to improve the PPS adjustment.

Regional disposable income

Estimates of disposable income for NUTS 2 regions have recently been published by Eurostat, the results of a preliminary exercise undertaken with the aim of comparing regions in terms of whether they are ‘rich’ or ‘poor’. The aim, therefore, is to measure the income available in different regions for those living there to dispose of. This is somewhat different from measuring GDP or the output produced, which is perhaps a better indicator of regional economic performance. As explained in the Second Cohesion report, therefore, ‘a region which (has) a low level of production might well have a (relatively high) level of final income because of large social security transfers, but it would still be a less favoured region’. This is the reason why GDP is used by the EU to determine a region’s need for structural assistance rather than some measure of income.

A further motivation for attempting to estimate disposable income was to overcome the commuting problem.
which is a difficulty inherent in the regional statistics of GDP per head, though it is more of problem of the population data used to measure heads rather than of GDP as such. Since the focus of the exercise was on income rather than output, transfers to and from regions were also included in the measure.

In practical terms, as the Eurostat exercise makes clear, trying to measure disposable income gives rise to serious estimation problems given the data at present available. In particular, data for primary household income, which is a basic component of the indicator, do not as yet exist at NUTS 2 regional level for a number of countries. Data problems are particularly acute for the government sector and the company sector which with households make up the regional economy. In both cases, a lack of information on the way income varies between regions means that assumptions have to be made about this in order to generate overall estimates of disposable income. The assumptions adopted, that disposable income in both sectors is the same in relation to population in all regions, are the simplest ones to make but are unlikely to accord with reality. (For the government sector, the data presented on public expenditure in different regions in Part 2 of this report below indicate the significant regional variations which occur in practice.)

The results of the exercise, therefore, as acknowledged by Eurostat, need to be interpreted with caution, though they might be indicative of the differences in disposable income which exist between regions across the EU. While not a replacement for regional GDP per head, the estimates, could provide a useful complement to this, once they are more soundly based, especially as they allow for the distorting effects of commuting.

The PPS adjustment

As noted above, the PPS adjustment has been subject to change which means that the GDP per head figures expressed in these terms cannot be compared over time. While this is an inherent problem where expenditure patterns change between years, there is a further difficulty with the PPS adjustment applied to regional comparisons of GDP per head. This is that, at present, the adjustment is limited to correcting for differences in price levels between countries, whereas differences across regions within countries may be equally, if not more, important. Certain prices, therefore, especially for housing, vary markedly between regions in the same country, reflecting relative levels of prosperity, differences in market characteristics and so on. As such, taking account of regional price variations might well serve to reduce disparities in GDP in PPS terms between regions, though the extent to which this is the case must await the estimation of regional PPS figures. Despite the potential importance of this exercise, little progress has been made in developing such estimates since the publication of the Second Cohesion Report.

Changes in NUTS 2 regional classifications

In May, 2003 the European Parliament and the Council adopted a Regulation (EC) N° 1059/2003 on the establishment of a common classification of territorial units for statistics (NUTS) introducing changes in the classification of regions in Finland, Portugal, Germany, Spain and Italy, and specifying that ‘the Member States concerned shall transmit to the Commission the time series for the new regional breakdown’. Data on GDP for 2001 in the regions concerned were published by Eurostat at the beginning of 2004, but other statistical indicators at regional level are still missing.

In the present report, data on the basis of new regional breakdown are included for GDP and population but data for the other regional indicators for which data are not yet available, such as for employment, are on the basis of the old breakdown.