



**SEMINÁRIO INTERNACIONAL** | INTERNATIONAL SEMINAR

**CONVERGÊNCIA ECONÓMICA E  
POLÍTICAS DE DESENVOLVIMENTO REGIONAL**

**ECONOMIC CONVERGENCE AND  
REGIONAL DEVELOPMENT POLICIES**

3 Abril | April 2017 | Fundação de Serralves, Porto

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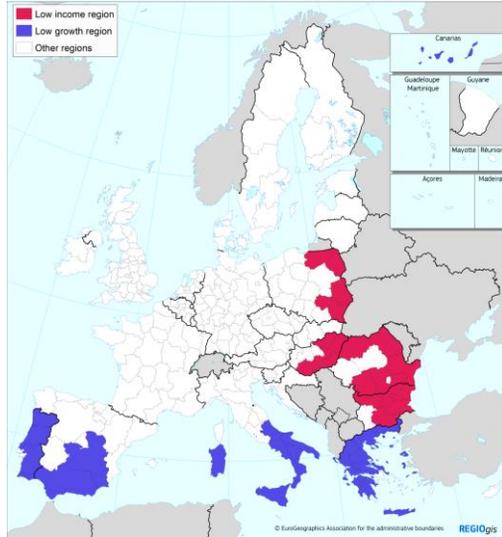
## Performance of low income and low growth regions in Europe

**Eric Von Breska**

Director of the policy division, Directorate for  
Regional and Urban Policy, European Commission,



Lagging Regions

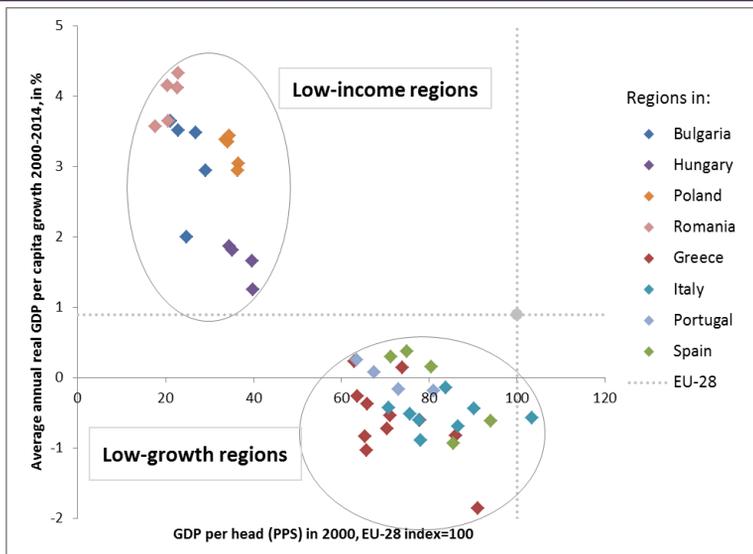


Initiative focuses on two groups of 'lagging' regions:

- **'Low growth regions' (blue):** persistent lack of growth over the last decade or more
- **'Low income regions' (red):** GDP on the rise, but remain very poor



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## Basic indicators in low growth and low income regions

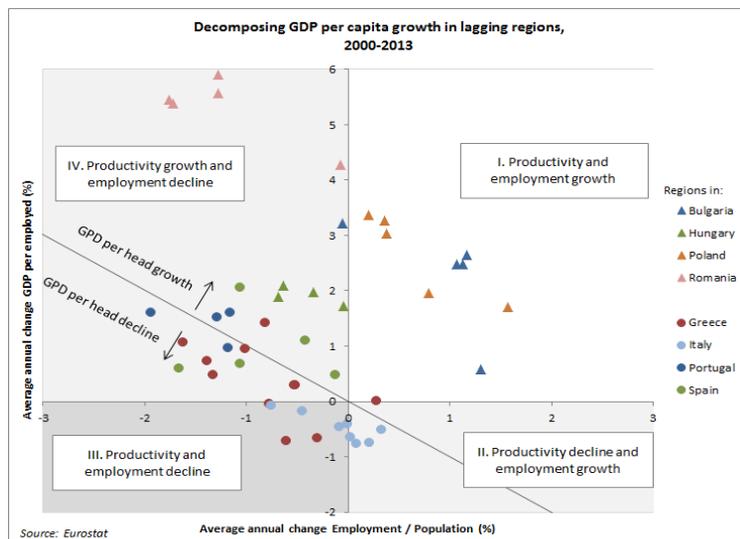
Indicator	Year	Low-income regions	Low-growth regions	EU-28
Employment rate 20-64 in %	2015	66	53	70
Unemployment rate in %	2015	9	22	9
Low educational attainment in %	2015	22	49	24
Tertiary education attainment in %	2015	19	21	30
R&D as a % of GDP	2015	0.5	0.9	2
Employment in agriculture in %	2013	25	13	5
Life expectancy, in years	2014	76	82	81
Quality of Government index	2013	29	34	49
Regional competitiveness index	2016	15	22	55
Social Progress index	2016	49	58	66



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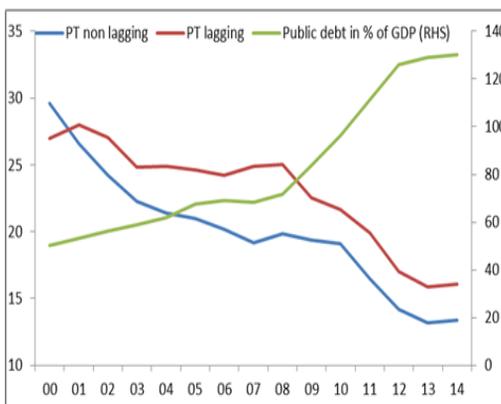


## Macroeconomic framework

Economic performance	Low-income countries	Low-growth countries
<b>Public debt</b>	18%-77% GDP	90%-175% GDP
<b>Interest paid on debt</b>	2.5% GDP	4.2% GDP
<b>Public investment</b>	4.3% GDP (increase by 8%)	2.5% GDP (decrease by 43%)
<b>Private debt</b>	60% - 125% of GDP	120%-190% of GDP
<b>Total investment (2005=100)</b>	155,9	73,0
<b>Share of world's exports, 2001-2015</b>	Significant increase in exports (from 0,2 to 0,54)	Strong contraction of exports (from 2,11 to 1,3)



## Macroeconomic environment: Portugal



Investment declined from 2000

Globalisation, EU enlargements of 2004 and 2007, but underlying productivity and competitiveness issues

Growing macroeconomic imbalances

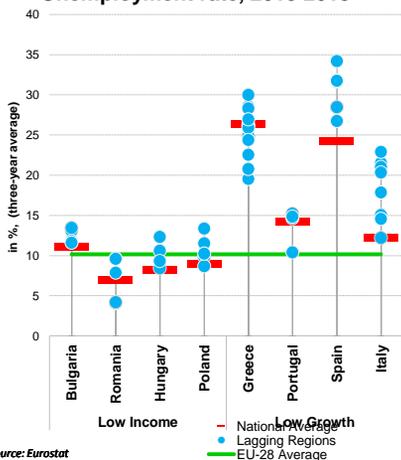
Growth of the non-tradable sector





## Labour market

Unemployment rate, 2013-2015



In general, lagging regions have:

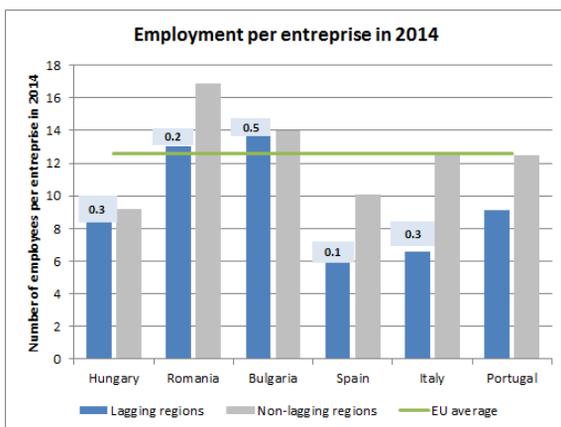
- higher unemployment rates,
- lower employment rates
- lower shares of tertiary educated

than non-lagging regions



## Business environment

Employment per enterprise in 2014



Lagging regions have:

- fewer firms per capita
- smaller firms
- lower start-up rates and
- start-ups have fewer employees

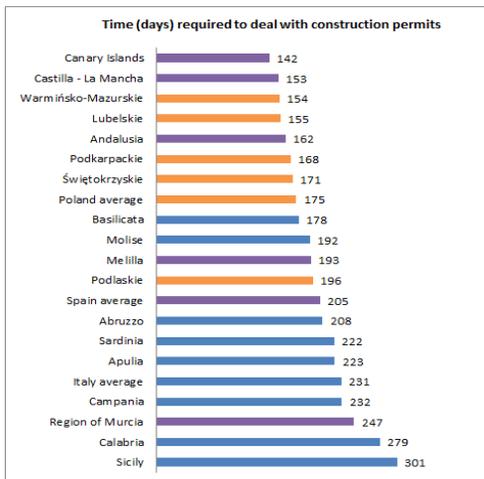
in tradable sectors compared to non-lagging regions.

Unfavorable business structure may affect capacity of firms to adapt to economic changes.





## Regional differences in ease of doing business



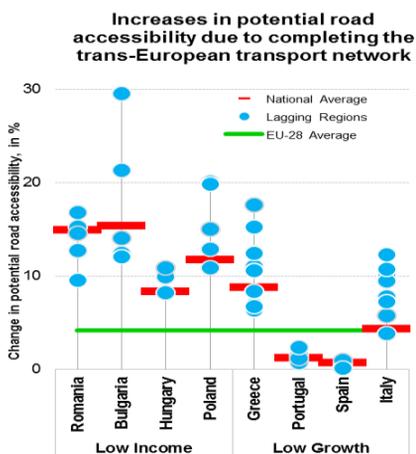
Significant variation under the same regulatory and legal framework

Different time, cost and number of procedures to start a business, register property, contract enforcement and construction permit

Differences in quality of institutions and administrative capacity important for business environment



## Growth determinants – infrastructure and accessibility



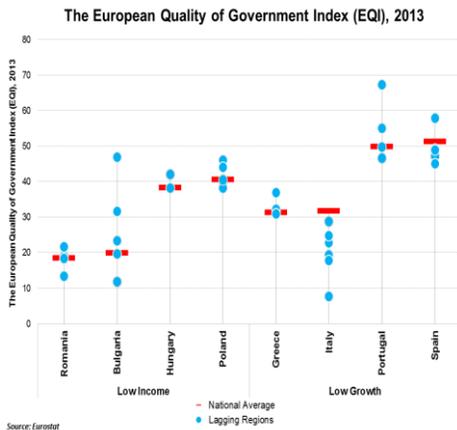
Source: Eurostat, TomTom, DG MOVE, JRC calculations

Traditional factors of growth (e.g. infrastructure investment) still contribute to economic development in low income regions

However, in low growth regions completion of TEN-T network does not really improve accessibility



## Growth determinants - quality of governance matters

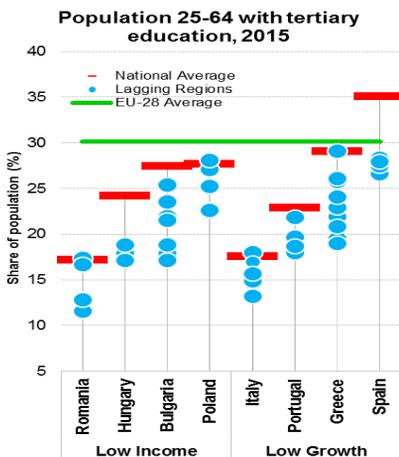


Low to moderate quality of government in both groups

Quality of government – a crucial factor of growth for the low growth regions

Low income can still exploit reserves, but with diminishing returns on investment over-time, growth will fade without improvement in governance

## Inovation and human capital in lagging regions



All lagging regions are modest to moderate innovators

R&D expenditure is low and mainly public

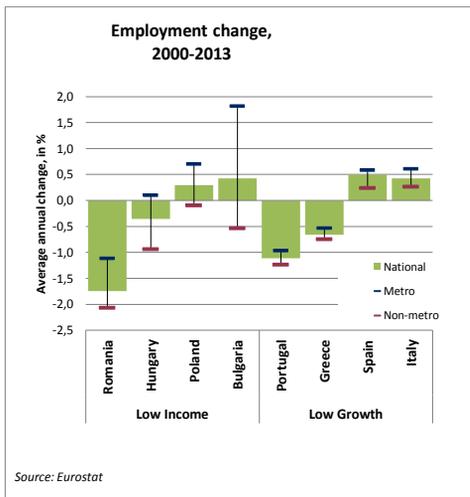
Low income regions have comparable levels of high-skilled, but lower shares of low-skilled

Skills mismatch is an important issue.

Life-long learning needs improvement



## Metro-regions do better in terms of growth and jobs

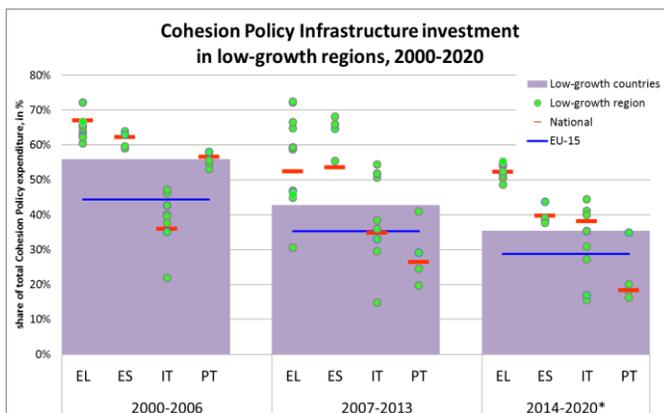


Important cities exist in some lagging regions (not all lagging regions are rural)

Important contribution of cities in low income regions to growth and jobs, smaller contribution in low growth regions.



## EU cohesion policy investment 2000-2020



Funding in infrastructure decreasing, but increasing in human capital and productive investment in low growth regions.

Infrastructure investment still dominant in low income regions.





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## Main findings

- Low-growth regions suffered from poor **macroeconomic framework**
- Need to carry out **structural reforms** and improve the quality of **governance**
- Need for a better **educated** workforce and more **export-oriented** firms
- Avoid over-investing in infrastructure and underinvesting in **innovation**
- **Metro areas** can strengthen growth in lagging regions



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