

centrope Regional Development Report 2010 Returning to Growth

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Content

Introduction: centrope Regional Development Monitoring	02
A European gateway region marked by significant socio-economic disparities	03
The centrope countries and the crisis: trailblazers in growth, decline and recovery	06
The centrope region: outperforming the EU-27 average	07
centrope regions: return to growth?	09
Common policy challenges in recovery	15

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Introduction: centrope Regional Development Monitoring – a tool for policy-making in a transnational setting

For many years, **centrope** has been one of the most dynamic, transnational economic areas of the European Union. Located at the interface between the economic centres of the “old EU” and the growth areas of Eastern and South-eastern Europe, **centrope** shows a considerable potential of developing into a significant Central European hub. However, the recent international economic and financial crisis undoubtedly has left its mark on the **centrope** economy as well. All the more, joint cross-border efforts and increasingly harmonised labour-market and economic policies will be necessary to overcome existing challenges and position **centrope** as an internationally competitive business location for high-quality products and services.

The current **centrope** Regional Development Report 2010 shall provide a valuable basis for transnational policy-making. The report presents the first results of a continuous monitoring process conducted by a

multilateral team of experts as part of the **centrope capacity** project. Regional Development Reports will be published on an annual basis so that the relevant regional business agencies, enterprises, chambers and federations as well as policy-makers and administrations can monitor the economic development in the transnational economic area of **centrope** and are able to elaborate concerted labour-market and employment-policy actions. In addition, Thematic Focus Reports will highlight developments and policy options in specific fields that seem particularly relevant for the future economic performance of **centrope**.

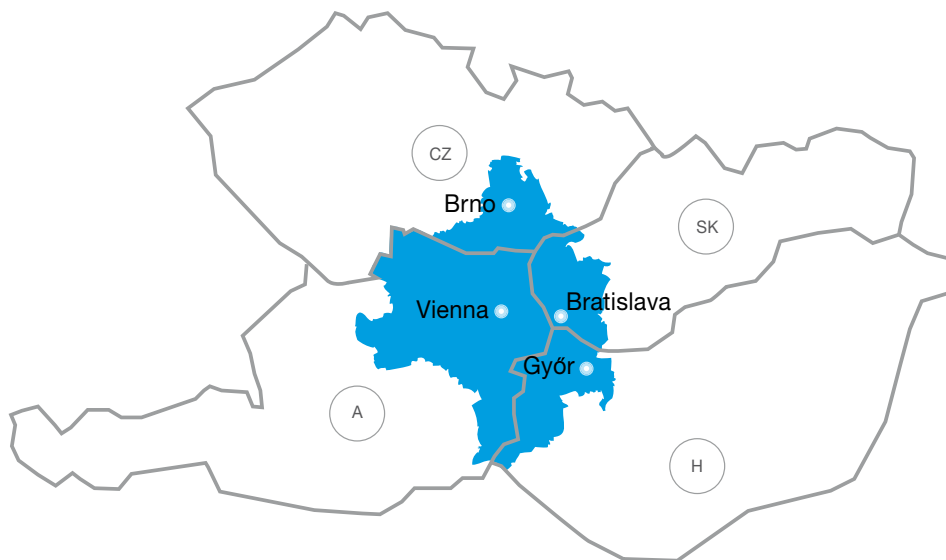
The brochure at hand provides a summary of the findings of the Regional Development Report 2010. The full version of the Report can be downloaded free of charge from the website

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A European gateway region marked by significant socio-economic disparities



The centrope region represents a unique trans-national economic area located at the intersection of Austria, the Czech Republic, Hungary and Slovakia. In spite of the fact that all centrope countries are members of the European Union, we can still find and observe significant disparities in their economic structures and performance. These mainly result from the past historical, political and economic development of the four states. Whereas Austria is an economically highly developed country, the Czech Republic, Hungary and Slovakia are still converging to the economic level (e.g. measured in GDP per capita) of the “old” EU Member States.



A European gateway region marked by significant socio-economic disparities



The centrope region

centrope basically consists of eight regions. The Austrian part is composed of the capital city Vienna with the highest GDP per capita in **centrope**, as well as the Federal Provinces of Lower Austria and Burgenland. South Moravia is the only region of the Czech part. The Hungarian part includes the Counties of Győr-Moson-Sopron and Vas. The Slovak part of **centrope** is composed of the Bratislava and Trnava Regions. According to this definition, **centrope** is a territory that covers 44,500 sq km and has around 6.6 million inhabitants. The demographic differences between the **centrope** regions already point to a rather varied socio-economic structure. In particular in terms of population density, an obvious divergence arises between urban centres such as Vienna and the Bratislava Region and more rural-peripheral regions (e.g. Burgenland), while national differences dominate over regional ones with respect to age structure. Slovak **centrope** has an above-average population share aged 15-64 years (i.e. of the active aged) at the expense of low shares of young people (up to 15 years of age) and older citizens (64 and older). By contrast, Austrian **centrope** is characterised by low shares of the active aged and high shares of older citizens, while the Hungarian and Czech **centrope** regions fall somewhere in-between.

centrope comprises two capital cities and a number of further major cities (such as Brno and Győr). It is a unique economic area where the impact of cross-border policies as well as natural convergence processes can be observed. The industrial agglomerations around the main cities, the large number of universities and research institutions, the accessibility provided by international airports and railway corridors as well as the region's geographic location in the common European market provide substantial potential for its long-term economic growth and prosperity.



A European gateway region marked by significant socio-economic disparities

Area, population and population structure of **centrope** in 2009

	Population (in thousands)		Shares by age (in %)			Area (in sq km)	
	Absolute	% of centrope	15 or less	15 to 64	65 or more	Absolute	% of centrope
South Moravia	1,147.1	17.4	13.8	70.6	15.5	7,195.6	16.2
Győr-Moson-Sopron	447.0	6.8	14.6	70.0	15.5	4,208.3	9.5
Vas	261.0	3.9	13.9	69.6	16.5	3,336.1	7.5
Burgenland	283.1	4.3	13.7	66.7	19.6	3,961.8	8.9
Lower Austria	1,605.1	24.3	15.3	66.3	18.4	19,186.3	43.1
Vienna	1,687.3	25.5	14.3	69.0	16.7	414.6	0.9
Bratislava Region	616.6	9.3	12.9	74.5	12.6	2,053.0	4.6
Trnava Region	559.9	8.5	14.1	73.7	12.2	4,147.0	9.3
centrope	6,607.2		14.3	69.5	16.2	44,502.7	
EU 27	499,703.3		15.6	67.2	17.2	4,403,357.0	

Source: Eurostat, regional database. Population on 1 January 2009

The centrope countries and the crisis: trailblazers in growth, decline and recovery

Before the financial and economic crisis, centrope was one of the fastest-growing areas of the EU in terms of GDP, although the individual performance of countries tended to differ significantly. While Slovakia and the Czech Republic had very high GDP growth attaining 7.7% and 5.9%, respectively (measured as average growth in constant prices in 2004-2007), Austria's performance (3.1%) was weaker if compared to the **centrope** average (5.0%). However, when compared to the EU-27 average of 2.7%, Austria also performed above average. Hungary suffered in the pre-crisis period from a restrictive fiscal policy, and its growth rates amounting to 3.3% were lower than in Slovakia and the Czech Republic, but higher than in Austria. Over a longer time horizon, the average growth performance in **centrope** tended to improve from 2004 onwards, with the exception of Hungary. Thus growth rates in the 2004-2007 period, i.e. after the EU accession of ten new Member States (NMS), were higher than in the years before, not only in the Czech Republic and Slovakia, but also in Austria. FDI inflows, structural changes in the labour market and also EU accession aspects (including net EU transfers and the adoption of the Euro in the Slovak Republic) were among the main driving forces of growth.

The pre-crisis experience has shown that improving the employment situation in the new EU Member States of **centrope** depended heavily on high economic growth.

The economic crisis of 2009 impacted heavily on the centrope countries

However, since the end of 2008 the economic development of the **centrope** countries has been affected by the international economic and financial crisis. In general, the GDP decline was more pronounced than in other EU countries, given the notable dependence of **centrope** on foreign trade and the manufacturing industry. At the same time, this dependence is also the source of a relatively strong recovery, as global trade grew markedly in 2010. The effects of this on the **centrope** countries were, however, of a more indirect nature, as Germany benefited in the first place and other countries (like the **centrope** countries) benefited through German spillovers. While this may certainly be considered a positive aspect of the integration of **centrope** into the EU, it also raises the issue whether **centrope** wants to be more or less dependent on the developments and economic policy in one single country.

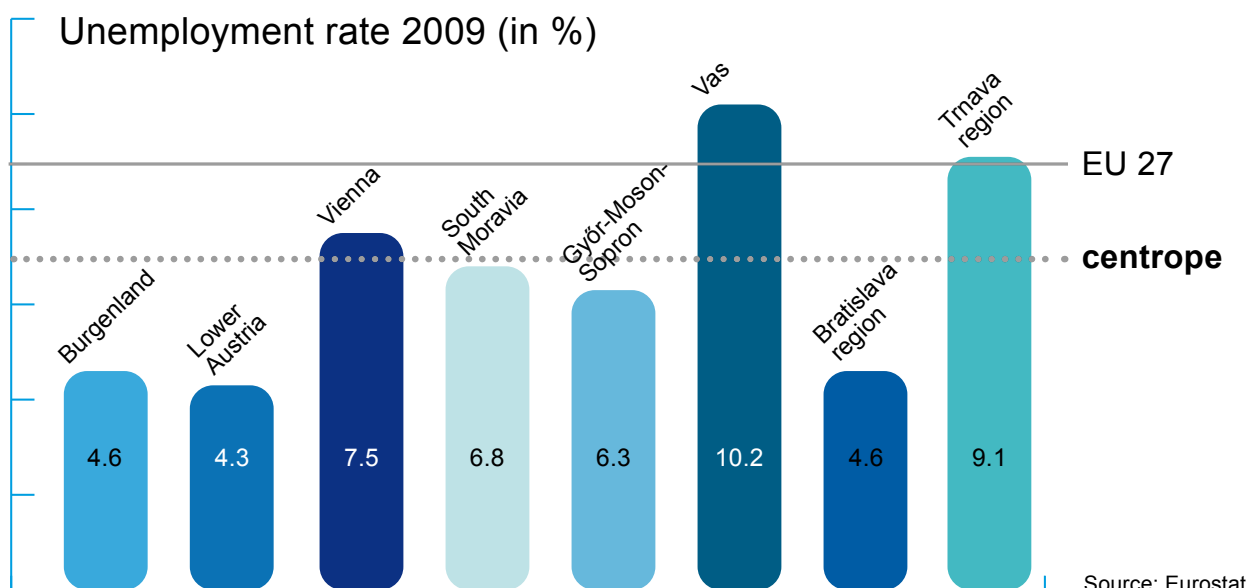
Together with overall GDP, productivity and employment indicators also declined during the crisis. The pre-crisis experience has shown that improving the employment situation in the new EU Member States of **centrope** depended heavily on high economic growth. Only with high GDP growth rates employment levels tended to increase and unemployment levels tended to decline, while most of the growth was generated through advances in productivity. Thus a fundamental question regarding the labour market situation is whether the **centrope** countries can return to pre-crisis growth levels or not. If this is not the case, employment prospects, especially for those with low or even medium-level education might be worse than before the crisis, at least in the medium term.

The centrope region: outperforming the EU-27 average

On a regional level, however, the **centrope** economy as a whole has a history of outperforming the European Union average in terms of GDP growth. Due to faster economic growth in **centrope**, the GDP per capita of this region surpassed the EU 27 average already at the beginning of this decade. In 2008, the GDP per capita of **centrope** was by 13.1% above the EU average. Annual productivity growth rates, too, were higher than in the pre-crisis EU and its labour market situation is also more favourable than in the EU average. In 2009 the average unemployment rate of **centrope** was by 2.1 percentage points

and the Bratislava Region – as large urban agglomerations – are clearly above the EU average.

Aside from high aggregate growth, **centrope** has thus also experienced substantial internal convergence over the last decade. This tendency existed already before enlargement but has gained in force since then, following the rapid economic growth of the Slovak **centrope** regions. In the pre-accession period, the growth rate of the fastest-growing NMS region of **centrope** exceeded that of the fastest-growing Austrian region by 4 to 7 percentage points.



below the EU 27 average (see Figure 2). Only one NUTS2 region (West Transdanubia) in **centrope** had substantially lower employment rates than the EU average in 2009.

However, there also exist large disparities among the regions of **centrope**. These are closely linked to urban/rural divisions, but also to still existing national division lines. Six regions of **centrope** do not attain the EU average of GDP per capita, and only Vienna

In the period since 2004, average annual growth rates in the Slovak regions outstripped those of Austrian **centrope** by between 9 to 12 percentage points. Those of South Moravia exceeded the performance of Austrian regions by at least 3 percentage points, and only West Transdanubian regions of **centrope** grew more slowly than the fastest-growing Austrian regions, the latter due to the increasing economic problems of Hungary. Thus the difference between the poorest and the richest region in **centrope** decreased significantly.

The centrope region: outperforming the EU-27 average

The division between Austrian and NMS regions, which was and still is one of the main dividers in **centrope**, is therefore becoming increasingly blurred. The dividing line between large urban agglomerations, industrial regions and rural-peripheral regions in **centrope** is meanwhile growing in importance. For example, in 2000 the difference in GDP levels between the Bratislava Region, as the prime example of an urban agglomeration in the NMS, and the City of Vienna was € 14,500 while the difference between the richest and the poorest NMS region amounted to € 10,700. By 2008 this relationship had changed fundamentally. The GDP per capita in the Bratislava Region was the highest in all of **centrope** and by € 900 higher than in Vienna and by over € 27,000 higher than in the poorest NMS region.

Convergence challenges comparative advantages of the region

This process of convergence, which is also expected to continue in the future, has important repercussions for the development of comparative advantages of the region. To some degree, it can still be argued that low wage costs and a predominantly medium-skilled labour force are important elements of the comparative advantage of **centrope**, at least in the NMS parts. The differences in income levels between the Austrian and NMS parts of **centrope** currently combine in the unique economic advantage of

low-cost, high-growth locations being situated at very short distances from some of the most highly developed regions of the EU. As convergence progresses, however, this statement is likely to lose validity. Thus issues that shape much of the policy debate in other border regions (such as generating critical masses in education, research and innovation to foster joint development) will probably become much more seminal in the policy arena.

This underlines the importance of growth-oriented cross-border policies in the fields of innovation, R&D as well as human capital development for the future of the region, an approach that seems to be even more important as the available evidence suggests that individual regions within **centrope** have a substantial innovation potential. Yet despite improvements with respect to certain factors shaping these more “modern” competitive advantages, **centrope** is still a below-average region relative to the EU in terms of education structure and R&D expenditure. In addition, the process of convergence is likely to change the spatial configuration of the region. As convergence progresses, other locations may become attractive for individual sectors as well as residents. This could give rise to suburbanisation (even across national borders) and change the specialisation of regions. Regions are increasingly becoming interdependent.

As convergence progresses, issues such as education, research and innovation will become much more seminal in the policy arena.

centrope regions: return to growth?



centrope region hit less strongly by the crisis than the centrope countries per se

Given this background, the main interest of the first **centrope** Regional Development Report focuses on the potential long- and short-term impact of the recent financial and economic crisis on the individual regions of **centrope**. Here results imply that most **centrope** regions have recovered from the crisis more rapidly than originally expected. While the **centrope** countries were hit harder than the EU 27, evidence available from forecasts of regional GVA (gross value added) and employment growth for 2009 suggests that **centrope** as such was not. In

aggregate, GVA is expected to have declined by less than on the EU average and is also expected to resume growth more quickly. According to preliminary data provided by Cambridge Econometrics, a return of **centrope** to a growth of 1.8% (as opposed to a decline of 3.5% in 2009) can be determined for 2010. Both indicators show a better performance than the EU average for these years. This suggests that the impact of the crisis on the aggregate growth performance of **centrope** was of limited duration, that recovery has been speedier than expected and that the processes of both above-average growth and internal convergence found to apply since 2004 are likely to continue in the future.

Forecast of GVA growth

2009-2014

GVA Growth (in %)			
	2009	2010	2011-14*
EU 27	-4.4	1.1	2.3
centrope	-3.5	1.8	2.4
South Moravia	-4.1	0.7	3.4
Győr-Moson-Sopron	-9.3	1.2	3.5
Vas	-10.0	-1.4	0.8
Burgenland	-3.5	1.2	1.5
Lower Austria	-3.8	2.0	2.1
Wien	-2.5	1.7	2.2
Bratislava region	-4.0	3.6	4.0
Trnava region	-8.2	2.9	4.3

* average annual growth rate.

Source: Cambridge Econometrics, annual average, GVA = gross value added.

centrope regions: return to growth?



Austrian centrope: Economic structure determined impact of the crisis

Yet at the same time, there was also some important variation across the regions of **centrope**. In particular, the business cycle of Austrian **centrope** both during the phase of growth until 2008 and the recession since 2009 was primarily driven by sectoral differences in individual regional economies. Highly export-dependent industrial regions of Austrian **centrope** (such as Lower Austria) showed a noticeably better development in the upswing – but also a noticeably worse development in the recession – than regions more strongly dependent on internal demand. This in turn implied that Austrian **centrope**, in which both the City of Vienna as well as the more rural Burgenland traditionally have a low share of export-intensive industrial production, lagged behind Austrian development in the upswing but performed better than the Austrian average during the downturn.

The preliminary results for 2009 suggest that Vienna's GDP declined least of all Austrian regions (-2.5%) and that unemployment also increased by the lowest percentage (+9.9%). By contrast, the industrial region of Lower Austria was much more strongly affected, with GDP declining (-5.5%) and unemployment rising by almost a quarter (+24.5%) in 2009. Finally, due to its low share of export-oriented manufacturing in total GVA, Burgenland was also slightly less affected by the crisis than the Austrian average.

Its GDP declined by 3.5%, and unemployment increased by 14.9%.

The results for the first two quarters of 2010, however, indicate a certain recovery of the Austrian economy, with a return to recession becoming increasingly unlikely as the year progresses. In the first half of 2010, Vienna's GDP according to preliminary estimates grew by 1.8% and unemployment rose by 2.0% relative to the previous year. In Burgenland, GVA rose by 1.6% and unemployment even decreased (by 4.5%), while Lower Austria on account of an export structure less strongly focused on Germany than that of other industrial provinces in Austria grew by only 1.0%, while unemployment increased by 1.9%.

Despite this, it is foreseeable that in the near future the Austrian economy will not return to the high growth rates recorded in the boom years preceding the crisis, since a number of downside risks exist with respect to the impact of budget consolidation plans and a potential reduction of export dynamics in the event of further currency crises in the Euro area. Current expectations are that Austria will enter a protracted period of rather sluggish economic development. The combination of high export growth and government budget cuts suggests that in particular Vienna, where a substantial part of employment as well as internal demand is accounted for by the non-market service sector, and Burgenland, which is also highly dependent on internal demand, will face

centrope regions: return to growth?



modest GDP growth rates. It is questionable whether the growth rates of these federal provinces will suffice to reduce the historically high unemployment rates.

For Lower Austria, by contrast, the outlook is slightly brighter. While this federal province has not benefited as strongly from the recovery as other industrial areas in Austria, this is primarily due to a different export structure that focuses slightly less on Germany and more on the neighbouring new EU Member States. As these countries emerge from the crisis, one may expect above-average growth to resume.

Czech centrope: Slightly stronger and more protracted impact of the crisis

The Czech part of **centrope**, South Moravia, is a rather heterogeneous region formed by two main areas: the Brno agglomeration and the southern rural border area. Like the Czech Republic as a whole, this region was increasingly affected by the economic crisis as of 2008. Following the preceding boom years 2005 to 2007 with growth rates of over 6%, the Czech economy slowed down to a 2.5% GDP growth in 2008. In 2009, the Czech economy went through the deepest GDP decline (-4.1%) since 1991.

This adverse macroeconomic situation is also reflected in development at the regional level. Between 2005 and 2007, South Moravia experienced a strong boom that peaked in 2006, when its GDP grew by

8.1%. In 2008, the South Moravian economy faced a perceptible downturn as the growth rate dropped to 2%, whereas the unemployment rate still decreased by 1.2 percentage points to 6.2%. In 2009, the impact of the crisis fully influenced economic activity in the Czech Republic as well as in South Moravia. The regional unemployment rate increased to 8.9%. Furthermore, the influence of the crisis is reflected in a significant decline of the manufacturing and construction industries. Industrial production decreased by 19% in terms of revenue from market sales and by 16% in terms of total number of employees. Basic construction output declined by 11%. In addition, the number of visiting tourists decreased by 12%.

Preliminary data for 2010 show a growth of the Czech economy by 2%. In the first half of 2010, a substantial recovery of industry and exports was observed at the national level. However, this is not the case in South Moravia. Here industrial production (measured in revenue from market sales) decreased by 1.1%, which is the fourth-worst result among all Czech regions. Employment in manufacturing declined by 15.8%, which corresponds to the sharpest decline among NUTS 3 regions in the Czech Republic. Similarly, basic construction output plummeted by nearly 36% in the first half of 2010 compared to the previous year and, despite a marked decrease in the number of employees, productivity of labour also witnessed a deep drop of 16.3%. Trends in tourism are slightly less negative. Yet the decline in tourist

centrope regions: return to growth?



arrivals to the region continued from 2009 onward, although the pace slowed down to -4.7%. Recent statistical data thus imply that South Moravia has been affected by the economic crisis more severely than the majority of Czech administrative regions. The results in 2008 and 2009 are still relatively comparable with national values, but the data for the first half of 2010 indicate a continuing recession mainly in the secondary sector, which accounts for roughly a third of total GVA in South Moravia.

Considering the medium-term perspectives of South Moravia, however, the biggest development potential rests in the knowledge economy. This is due to the position of Brno as a significant university centre characterised by the concentration of a number of scientific and research centres. Apart from a range of other activities, two projects of national significance are currently being developed in Brno; with their respective budgets totalling at approx. € 200 million, they also attempt to obtain additional funds from European sources.

Hungarian centrope: More diversified regions less strongly affected

Due to its highly export-oriented manufacturing sector, Hungarian **centrope**, which comprises the counties of Győr-Moson-Sopron and Vas, was also more strongly affected by the crisis than the Hungarian average. In particular, this region felt the decline in

industrial production of late 2008 more severely than other Hungarian regions more focused on national demand. This led to a slightly more severe decline in employment and a substantially larger increase in unemployment than the Hungarian average. In 2009, industrial production declined by 25.0% (national average: -18.6%) and unemployment increased by 48.3% (national average: +16.7%) in Hungarian **centrope**. The only positive signals in that year stemmed from an increase in the number of foreign tourists from nearby countries, who obviously took advantage of the low exchange rate of the Forint, and from the construction sector, which benefited from the implementation of several EU-financed construction projects.

However, the data also provide some indication that, as an aggregate, Hungarian **centrope** on account of the favourable development of foreign trade is also emerging from the crisis more rapidly than most other Hungarian regions. Technical-industrial production increased by 11.5% in the first half of 2010 and the announcement of major investment plans of some important producers in the vehicle and machinery industry at the beginning of 2010 suggest some increase in the dynamics of the region already in 2010 and 2011. Furthermore, the high export openness of Hungarian **centrope** also suggests that this region should be less strongly affected than other regions by the Hungarian government's budget cuts expected in the next years.

centrope regions: return to growth?



There are, however, important differences in the structural baseline conditions between the two counties of Hungarian **centrope**. In the current phase of stabilisation, Győr-Moson-Sopron in particular has a better relative position than Vas, and differences in economic indicators are growing between the two counties as well.

Slovak centrope: Regions have been fast to recover dynamics

After a protracted period of rapid growth that peaked in 2007, the Slovak part of **centrope**, which consists of the two most developed regions in Slovakia, i.e. the Bratislava Region including the capital city of Bratislava and the Trnava Region, entered recession together with the whole Slovak economy in 2009. In contrast to the other regions of **centrope**, this development – aside from the impact of the crisis – was also influenced by the adoption of the common European currency in 2009. This is expected to contribute to increasing the integration of the Slovak **centrope** regions into the EU by lowering transaction costs, exchange rate volatility and administrative and accounting costs as well as contributing to increased price comparability and lower capital borrowing costs. In 2009, however, the depreciation of neighbouring countries' currencies against the Euro temporarily rendered the Slovak economy less price-competitive. Yet as these currencies quickly re-appreciated close

to pre-crisis exchange rates, this effect faded out rather quickly.

Thus the crisis and associated decline in export demand seemed to have a more important impact on regional development in 2009 than Euro adoption. Here, similar to the Austrian case, the Slovak **centrope** regions performed better than the national average during the first complete crisis year 2009. Although unemployment rates almost doubled (reaching 4.4% in the Bratislava Region and 8.4% in the Trnava Region) in 2009, they remained substantially lower than the national unemployment rate of 12.7%. In addition, the Bratislava Region with its high share of services experienced better development than the export-dependent Trnava Region, which contributed approx. 4.1 percentage points to the increase in the region's unemployment rate and to the decline in economic activity throughout.

In 2010, the economic recovery in the main export markets contributed to real GDP growth, which is expected to attain 4.0% to 4.2% in Slovakia. This is also likely to benefit Slovak **centrope**, as the recovery of main export markets in 2010 already resulted in an increase of average nominal wages in the Bratislava Region by 5.4% and by 5.7% in the Trnava Region in the first three quarters of 2010; the sales growth in both regions along with a decrease in the number of employees in industry resulted in an

centrope regions: return to growth?

impressive increase of labour productivity by 20.1% in the Bratislava Region and by 17.9% in the Trnava Region.

This will also lead to decreasing unemployment, especially in the Trnava Region (where unemployment attained 12.3% in the first three quarters of 2010). Here the recovery of external demand together with gross capital formation will be the main driving force behind nationwide economic growth. The planned cuts of € 1.7 billion in public spending will have a negative impact on GDP growth in both regions. However, considering the openness of Slovak **centrope** and its dependence on external

demand, these fiscal restrictions may be expected to have a relatively small impact on overall economic performance, and the Slovak regions are assumed to resume growth rapidly.

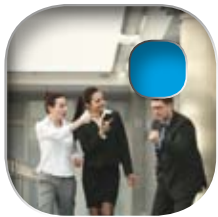
The potential long-run impact of the global recession on unemployment and manufacturing, is, however, highly dependent on the development of external demand. The economic structure (with 63.4% of overall turnover created in the manufacturing of computing, electronic and optical devices as well as of motor vehicles) and strong position of large enterprises make employment growth in particular in the Trnava Region strongly dependent on these sectors.



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Common policy challenges in recovery

In sum – despite some regional variations – the currently available information suggests that most of the regions of centrope have emerged from the economic crisis more rapidly than expected and that centrope will continue to grow faster than the European average in the post-recession period. Nevertheless, the common experience of the crisis has created a number of new policy challenges (and reinforced pre-existing ones) and highlights the necessity for co-operation in the face of increasingly scarce government funds.



Fostering knowledge economy

In particular, given the rapid convergence of the regions and the associated changes in the determinants of comparative advantage, measures to foster the knowledge economy will be an important determinant of future comparative advantages in this region. The **centrope** region disposes of some important preconditions to be a strong pole of knowledge economy development in Central Europe. The capital cities of Vienna and Bratislava and also Brno are large university cities and important hubs of knowledge and research. All told, there are 25 public universities and art academies as well as ten universities of applied sciences in the region. In addition, several hundred non-university research institutions and technology-oriented and research-focused enterprises work in **centrope**. However, there exist also some weaknesses in many **centrope** regions related to a low share of R&D expenditure and a human capital structure that is strongly focused on intermediate

skill levels. On an international scale, **centrope** is characterised by great breadth in terms of research institutions, but a rather narrow peak. It is therefore important to intensify co-operation in international research programmes within **centrope**. Available co-financing opportunities from European sources could be a strong incentive in this field; further promotion of cross-border research could be another. Moreover, policy should aim to create and improve conditions for attracting graduate and postgraduate students as well as young scientists especially of technical disciplines to the region. This could e.g. be achieved through heightened co-operation of educational institutions or by increasing researchers' mobility.



Reducing cyclical risks by diversifying the industrial structure

In addition it is an important feature of regional development – shared by almost all parts of **centrope** – in the aftermath of the economic and financial crisis that more diversified and urban regions and regions with a more knowledge-intensive industrial base have proven more resilient to the economic crisis than regions that are more strongly focused on a few industries or have a smaller technological base. Strategies focusing on providing ideal conditions for only a few industries can therefore be highly successful in times of good economic growth, but also bear an element of risk in times of recession or structural decline of this industry. A diversified economic structure in terms of either a broad sectoral and technological mix or diversified functional specialisation is thus one way to insure against such cyclical variations.

Common policy challenges in recovery



Integrating sectoral policies

Here, improved cross-border co-ordination of sectoral policies would contribute to diversifying the risk structure of **centrope**. A case in point is tourism, which contributes an important GDP share to many of the economies of **centrope** and where results suggest that, apart from the urban agglomerations, many **centrope** regions present relatively similar rural areas whose tourism development focuses on spa resorts of regional significance, wine production as well as other aspects of wellness and weekend tourism. Yet casual observation shows that co-operation between regions in developing tourism is still limited to a few cases only. Other cases in point are for instance the automobile cluster in the region, which has, however, already received attention in a number of previous studies, and the business and consulting services sector, which is of particular importance in the urban agglomerations of **centrope** and which, on account of differences in the transportability of services, is characterised by quite different internationalisation patterns than is the case for industry. Here again, existing sectoral policies in individual regions should be more closely co-ordinated.



Improving cross-border labour mobility

In addition, the preliminary results of a study conducted parallel to this project suggest that **centrope** generally is a region from which more highly skilled workers tend to emigrate rather than immigrate and which thus faces the risk of brain drain. Aside from

the still existing institutional restrictions on cross-border labour mobility in the Austrian labour market (which has caused cross-border commuting to Austria to be rather unimportant given the wage differences, but will disappear on 1 May 2011), empirical and anecdotal evidence implies that cross-border worker mobility is also hampered by difficulties of mutual skill recognition (due to different educational systems), risks of overqualified employment and difficulties in capturing information. This indicates that existing initiatives aimed at improving cross-border worker placement activities, enhancing the comparability and cross-border transferability of qualifications as well as providing information on labour market possibilities for workers should be strengthened with the aim of making **centrope** as a whole an integrated labour market in particular for the highly skilled, thereby reducing the likelihood of brain drain.



Complementing labour supply-side measures by policies focused at labour demand

Apart from these measures, it should also be noted that labour demand-side measures are an important aspect in the development of labour market policies. In this respect, there exists a close link with production structure diversification. It is one of the findings of this report that many regions in **centrope** are still characterised by low shares of services in the sectoral structure of both GVA and employment.

A number of studies have, however, shown that service industries are particularly effective in creating employment for less skilled workers. Policies directed at attracting mostly industrial FDI should therefore be augmented by cross-border strategies aiming at the development of the service sector. Indeed, aside

Common policy challenges in recovery

from aiming at the currently highly industrialised regions, such a strategy could also be of primary importance for the urban agglomerations of the region, where business services are already today a major factor in terms of employment.



Further development of existing co-operations in active labour market policy

Such a policy will have to be supported by appropriate labour market policy measures. Here employment rates among the population with completed primary education have been persistently low and even declining despite extended phases of rapid economic growth in some **centrope** regions. In addition, in many parts of the region it is expected that growth will not suffice to mitigate unemployment.

Combating unemployment and in particular long-term unemployment and thus avoiding the associated risk of de-qualification will therefore be a problem shared by many parts of **centrope**. Aside from sound macro-economic policies, which, however, can be influenced by regional policy only in a rather indirect way, efficient active labour market policy and upgrading of skills of the low- and medium-skilled segment of the labour market through policies to ensure a higher participation in lifelong learning are important elements for designing regional economic policy in a cross-border context. This is important not only from a short-term but also from a long-term perspective, since the experience of the boom years 2006-2008 shows that in many **centrope** regions labour shortages arise rather rapidly (and at quite high unemployment rates) when employment conditions are improving.



Improving the institutions and data situation for cross-border spatial planning

Finally, the process of convergence and growth in conjunction with the high population density in many parts of the region as well as the many natural sites of high environmental and also touristic value is likely to change the spatial configuration of the region and may give rise to conflicting interests with respect to land use patterns. This will make initiatives to encourage transparent and open processes to coordinate cross-border spatial planning increasingly important in the future. In this respect, one could for instance think of creating additional cross-border institutions to improve the current situation with respect to spatial planning.

Irrespective of their concrete form, these institutions would, however, face serious data constraints since the lack of reliable and comparable data on a regional and even more so at a local level is currently one of the most severe impediments to any such initiative. Currently data availability from (comparable) Eurostat sources is restricted to rather aggregate indicators that often lack the (sectoral and regional) detail necessary for spatial planning processes and certain indicators (e.g. land use patterns, housing and land prices, etc.) are available only for very few regions, and even when available suffer from a lack of comparability. Thus any initiative at creating cross-border spatial planning institutions or mechanisms should go hand in hand with data development initiatives.

Factsheet 1 **centrope** and its regions: area, population and GDP

	A		CZ		HU		SK			
	Burgen-land	Lower Austria	Vienna	South Moravia	Győr-Ménfőcsanak-Sopron	Vas	Bratislava	Trnava	centrope	EU 27
Population, Population Structure & Area										
Area (in sq km)	3,961.8	19,186.3	414.6	7,195.6	4,208.3	3,336.1	2,053.0	4,147.0	44,502.7	4,403,357.0
Population 2009 (in thousands)	283.1	1,605.1	1,687.3	1,147.1	447.0	261.0	2,053.0	559.9	6,607.2	499,703.3
Share females (in %)	51.1	51.0	52.2	51.3	51.7	52.0	52.5	51.2	51.6	51.2
Share aged 15 or less (in %)	13.7	15.3	14.3	13.8	14.6	13.9	12.9	14.1	14.3	15.6
Share aged 65+ (in %)	19.6	18.4	16.7	15.5	15.5	16.5	12.6	12.2	16.2	17.2
Population Forecast										
Population 2020* (2010=100)	101.2	104.5	107.9	101.4	99.0	99.0	102.9	99.5	102.8	102.9
Population 2030* (2010=100)	103.4	109.7	115.3	100.5	96.7	96.7	102.1	96.8	104.4	104.1
Share aged 15 and under 2030* (in %)	59.9	61.0	65.8	64.2	64.2	64.2	66.7	11.1	64.2	–
Share aged 65 and more 2030* (in %)	27.8	24.8	18.9	22.3	23.3	23.3	21.5	23.2	22.5	–
GDP, Productivity, Wage Income per Employee										
GDP per capita at PPS 2008 (in €) **	20,200	25,600	40,900	19,600	18,200	14,100	41,800	20,800	28,400	25,100
Nominal GDP growth: average annual change 2004/2008 (in %)	2.2	4.0	3.1	7.5	4.1	0.2	11.3	12.7	5.3	4.2
Productivity 2007: GDP per employed (in €)	48,860	57,939	73,144	36,936	39,471	33,567	57,811	49,287	55,709	55,691
Wage income per employee 2006: nominal* (in €)	31,910	34,034	42,636	11,336	9,934	9,934	12,398	4,465	22,131	–
Wage income per employee 2006: at PPS* (in €)	27,726	29,575	36,388	12,328	12,645	12,645	10,303	15,714	–	–
Forecast GDP and Employment Growth (in %)										
GDP Growth 2009 ¹⁾	–3.5	–3.8	–2.5	–4.1	–9.3	–10.0	–4.0	–8.2	–3.5	–4.4
GDP Growth 2010 ¹⁾	+1.2	+2.0	+1.7	+0.7	+1.2	–1.2	+3.6	+2.9	+1.8	+1.1
GDP Growth 2011/14: average annual growth rate ¹⁾	+1.5	+2.1	+2.2	+3.4	+3.5	+0.8	+4.0	+4.3	+2.4	+2.3
Employment growth 2009 ¹⁾	–0.9	–0.9	–0.5	–1.2	–3.7	–6.7	–0.3	–4.8	–1.3	–1.9
Employment growth 2010 ¹⁾	–0.6	–0.5	–0.3	–1.5	–0.6	–1.8	+0.2	–0.2	–0.6	–1.1
Employment growth 2011/2014 ¹⁾ : average annual growth rate	+0.5	+0.7	+0.9	+0.7	+1.2	+1.1	+1.9	+1.7	+1.0	+1.2

Source: Eurostat, Cambridge Econometrics, own calculations * Data only available at NUTS 2 level: data for Trnava include West Slovakia, data for South Moravia include Czech Southeast, data for Győr and Vas are data for West Transdanubia. – Data not available.
¹⁾ forecasts according to Cambridge Econometrics. ** purchasing power standards, i.e. in comparable prices across countries

Factsheet 2 **centrope** and its regions: labour markets, structure, education, R&D

	A		CZ		HU		SK			
	Burgen- land	Lower Austria	Vienna	South Moravia	Győr- Mén- sopron	Vas	Bratislava	Trnava	centrope	EU 27
Labour market (in %)										
Unemployment rate, 2009	4.6	4.3	7.5	6.8	6.3	10.2	4.6	9.1	7.0	8.9
Unemployment rate males, 2009	4.4	4.6	4.3	6.2	5.5	4.4	5.4	8.1	6.9	9.0
Unemployment rate females, 2009	4.8	4.4	4.5	7.7	7.3	4.8	3.8	10.3	7.2	8.9
Unemployment rate 15–24 year olds, 2008	8.8	11.2	14.6	16.7	16.8	26.6	9.7	20.6	15.7	19.9
Employment rate 2009*	71.2	72.4	68.1	64.7	59.7	59.7	71.2	62.2	66.3	64.6
Employment rate of 55–64 year olds, 2009*	38.5	40.2	43.6	45.6	35.7	35.7	59.3	39.5	42.6	46.0
Employment rate males, 2009*	77.3	77.1	72.0	73.1	65.5	65.5	75.7	69.7	72.3	70.7
Employment rate females, 2009*	65.1	67.8	64.4	56.1	53.9	53.9	66.9	54.8	60.3	58.5
Structure of employment (in %)										
Share of agriculture, 2009*	6.7	7.3	0.4	4.6	5.4	5.4	0.7	4.3	4.0	5.1
Share of industry, 2009*	25.1	24.0	16.0	39.3	38.6	38.6	21.5	41.9	30.4	25.9
Share of services, 2009*	68.2	68.7	83.6	56.1	56.0	56.0	77.8	53.8	65.6	69.0
Share of low skilled, 2009*	16.5	15.1	16.0	4.2	11.5	11.5	3.5	4.0	9.6	23.1
Share of medium skilled, 2009*	67.4	67.3	56.3	77.0	69.5	69.5	63.3	81.5	69.9	48.9
Share of high skilled, 2009*	16.1	17.6	27.7	18.8	19.0	19.0	33.2	14.5	20.5	28.0
R&D and education (in %)										
Share of R&D expenditure in GDP, 2007*	0.6	1.2	3.6	1.2	0.6	0.6	0.8	0.4	–	1.9
Share of R&D personnel in total employment, 2007*	0.5	0.8	4.7	1.6	0.6	0.6	3.3	0.6	1.8	1.6
Share of students in tertiary education in total population, 2008*	0.6	0.7	8.5	5.0	3.0	3.0	12.5	3.2	4.7	3.8

Source: Eurostat, Cambridge Econometrics, own calculations * Data only available at NUTS 2 level: data for Trnava include West Slovakia, data for South Moravia include Czech Southeast, data for Győr and Vas are data for West Transdanubia. – Data not available.

¹⁾ Data not available on account of few observations in European Labour Force Survey (for at least one **centrope** region)

centrope partners

Austria

- Federal Province of Burgenland
- Federal Province of Lower Austria
- Federal Province and City of Vienna
- City of Eisenstadt
- City of St. Pölten

Czech Republic

- South Moravian Region
- City of Brno
- Vysočina Region (observer)

Hungary

- Győr-Moson-Sopron County
- Vas County
- City of Győr
- City of Sopron
- City of Szombathely

Slovakia

- Bratislava Self-Governing Region
- Trnava Self-Governing Region
- City of Bratislava
- City of Trnava

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This brochure presents key findings of the centrope Regional Development Report 2010 – Returning to Growth

Consortium of the centrope capacity pilot project “Regional Development Monitoring”

Austrian Institute of Economic Research

Mendel University in Brno, Faculty of Business and Economics

Slovak Academy of Sciences, Institute of Economic Research

Hungarian Academy of Sciences, West Hungarian Research Institute of the Centre for Regional Studies

The Vienna Institute for International Economic Studies

March 2011

The full report is available as download from

www.centrope.com

Imprint

Published by the centrope agency on behalf of the centrope capacity partnership.

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Edited by:

Johannes Lutter, Europaforum Wien

Layout and illustrations:

claramonti grafik, Vienna. www.claramonti.at

Printed by:

Simply More Printing, Vienna

Supported by funds of the European Union CENTRAL EUROPE

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