EU lagging regions: state of play and future challenges

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Regions across the EU diverge in terms of their socioeconomic development. For decades, the EU has been striving to reduce these disparities, in particular through its cohesion policy. In 2015, the European Commission launched the so-called **Lagging Regions Initiative** to identify and assist EU regions "whose level of development was significantly lower than the EU average". The initiative, today known as Catching-Up Regions Initiative, focused on those regions left most behind. It defined two types of catching-up or lagging regions: low-income regions, i.e. regions with a GDP per head below 50% of the EU average, mainly located in Poland, Hungary, Romania and Bulgaria; and low-growth regions, which are regions with a GDP per head below 90% of the EU average, located in Portugal, Spain, Italy and Greece, ie. on the EU's southern rim.

The study:

aims to analyse the main issues and challenges facing lagging regions in the EU and put forward recommendations to improve their future support at EU level.

Main observations

This study highlights the fact that lagging regions face significant challenges to transform their economic underperformance. Currently ongoing transitions - the energy, digital and industrial transition - as well as the COVID-19 pandemic are accentuating these challenges. This is both creating new and exacerbating existing internal divergence within the EU.

The study also stresses that current approaches to identifying lagging regions are flawed. Both the method of identifying lagging regions and the frequency of monitoring this phenomenon across the EU must be improved.

The study proposes a new typology for lagging regions:

- **internally lagging regions,** i.e. regions converging to the EU GDP per head average but diverging from their respective national average;
- **divergent regions,** i.e. relatively poorer regions not converging towards the EU average;
- **extremely low-growth regions,** i.e. regions experiencing growth that has been less than half of the EU average growth since 2000.

This new proposed typology highlights the diversity of EU regions when it comes to growth performance. This issue has to be addressed urgently in the context of the COVID-19 recovery and the post-2020 Multiannual Financial Framework. Many lagging regions should be considered as priorities for future targeted investment and support, especially since many are among the most vulnerable to the negative impacts of the COVID-19 crisis. However, the study also underlines that funding alone cannot turn around the fortunes of lagging regions, and that more comprehensive actions are needed instead.

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At a Glance note

Conclusions and policy recommendations
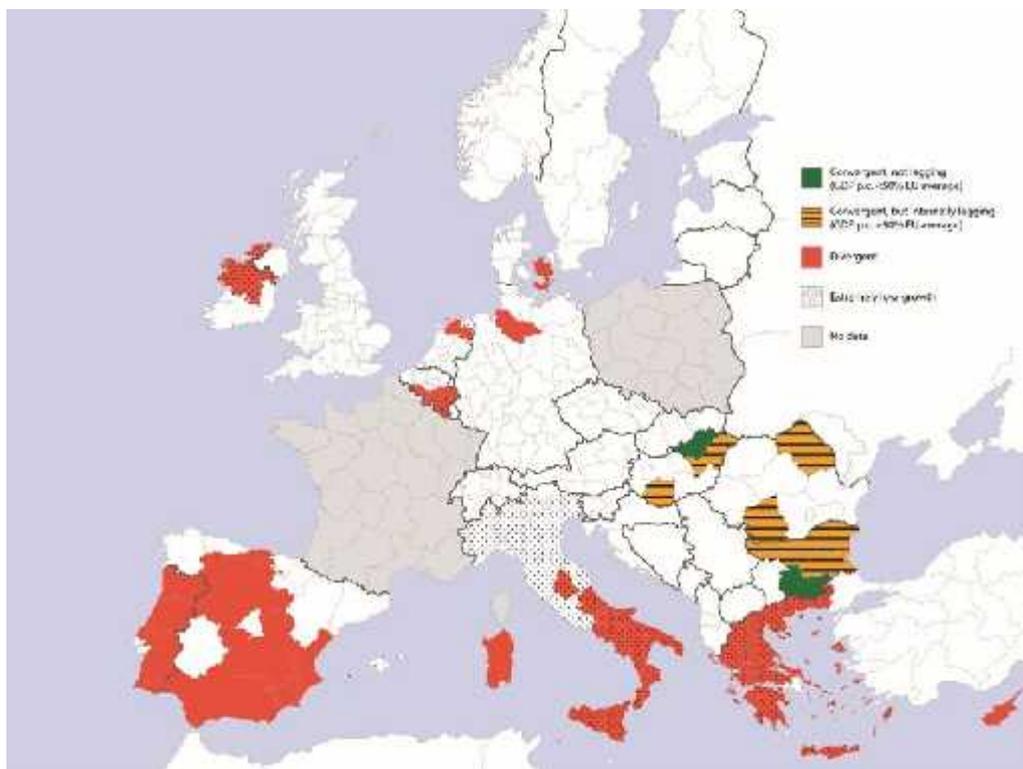
The study puts forward the following key recommendations:

) Apply a new typology of lagging regions that is supported by a rationale of better identifying and supporting regions that are falling behind.

) Launch a new initiative that targets low-growth regions which correspond to the (revised) definition of lagging the most, and which currently are not specifically targeted by an EU support programme.

) Improve the availability of and access to data at the regional level, to improve insights into the development needs and bottlenecks of lagging regions.

) Create a central repository of information for the Lagging Regions Initiative, linking together past and current activities as well as achievements.

) Carry out a comprehensive evaluation of the Lagging Regions Initiative to improve its visibility visibility and future policy development.

Key areas for EU action

Apply a new typology of lagging regions; direct comprehensive and targeted support to lagging regions to help them face multiple and complex challenges including the energy, digital and industrial transition; ensure that COVID-19 recovery measures target the EU's most vulnerable regions.

) Direct comprehensive and targeted support to lagging regions that experience multiple and complex challenges throughout their energy, digital and industrial transitions.

) Ensure that COVID-19 recovery measures target the EU's most vulnerable regions, to overcome the former's bias towards national-level data and focus, which, in turn, increases the risk of overlooking support for the EU's most vulnerable regions.

Figure :   Revised lagging regions typology based on GDP (2018)

Source:: Authors' calculations based on *Eurostat* (a).