

Policy Paper

Economic prosperity of the Danube Region

Key Facts

- ▶ Danube Region's GDP per capita still lies below the average of EU-27 and OECD.
- ▶ Income distributions vary considerably across the Member States of the Danube Region.
- ▶ High GDP per capita growth rates underline first successes in the Danube Region's catch-up process.
- ▶ Most countries exhibit an industrial value-added share above the levels of EU-27 and OECD.
- ▶ The private consumption rate is rather high in Member States Area 3 as well as in Neighbouring and Accession Countries.
- ▶ With exception of the Accession Countries, the Danube Region's share of investments relative to GDP exceeds the values of EU-27 and OECD.

Introduction

The Danube Region exhibits very wide socio-economic disparities. It covers some of the most successful but also some of the poorest regions in the EU. In order to take this heterogeneity into account, we define and assess the following subregions: Member States Area 1 (Bavaria, Baden-

**Wide disparities in
the Danube Region**

About the project

Coordinator of Priority Area 8 ("To support the competitiveness of enterprises") of the EU Strategy for the Danube Region (EUSDR), the Ministry of Finance and Economics Baden-Wuerttemberg, has commissioned a study on the socio-economic assessment of the Danube Region with financial support from the Directorate-General for Regional and Urban Policy of the European Commission. The aim of the study is to document the socio-economic development of the Danube Region with respect to the goals of the EUSDR and the overall objectives of the EU growth strategy "Europe 2020" and to identify strengths and weaknesses, to propose areas of activity and to provide recommendations for the future strategic orientation of the EUSDR. In a first step, extensive data has been collected on the competitiveness, entrepreneurship and SMEs and cooperation in the Danube Region and a set of preliminary recommendations has been formulated. In the second part, these recommendations will be developed further with the help of expert interviews and focus groups in order to provide a strategic contribution of a programme strategy for the Danube Region. The study is conducted by the Centre for European Economic Research (ZEW), Mannheim in cooperation with the Institute for Applied Economic Research (IAW), Tübingen, and the Vienna Institute for International Economic Studies (wiiw)



Wuerttemberg, and Austria), Member States Area 2 (Hungary, the Czech Republic, Slovakia, and Slovenia), Member States Area 3 (Romania, Bulgaria, and Croatia), the Accession Countries (Serbia, Bosnia and Herzegovina, and Montenegro) and the Neighbouring Countries Ukraine and Moldova. Furthermore we compare the Danube Region with other regional aggregates, namely the OECD and the EU-27, in order to benchmark the Danube Region's economic prosperity.

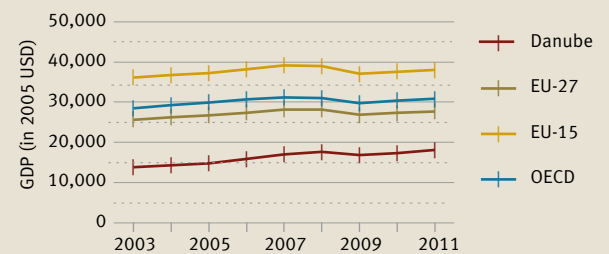
Regardless of any differences enhancing the economic prosperity is a key objective of all countries within the Danube Region. It is therefore of vital importance to assess the current state of the region and thereby identify challenges and opportunities regarding the region's prosperity and future development. This is realized below by using appropriate socio-economic indicators.

Welfare according to GDP per capita

**GDP per capita:
Danube Region
lags behind**

The Danube Region's GDP per capita, an indicator which is commonly used as a proxy to measure welfare, reached around two-thirds (65.3%) of the level of the EU-27 member states and 58.7% of the level of the OECD countries in 2011. The relative backwardness of the Danube Region in terms of average GDP per capita is due to the less developed country groups. Whereas GDP per capita in Member States Area 1 was more than two times higher than the regional average, in Member States Area 3 it was only 80%, in the Accession Countries 50%, and in the Neighbourhood Countries less than 40%. These differences are even higher on the intra-state level. One of the Danube Region's major challenges is to reach a higher level of prosperity by an increase in GDP per capita.

Figure 1: GDP per capita (PPP adjusted *)



Note: * PPP adjusted: measured in purchasing power parities (PPP) in order to make numbers comparable. Source: OECD, Penn World Tables, World Bank, GENESIS online Datenbank. Calculation and illustration: IAW.

Income distribution

**Income distribution
varies across
countries**

As mentioned above, GDP per capita works only as a proxy for the overall economic wellbeing because it neglects the distribution of income among the population. Therefore, the income distribution is considered here using the Gini coefficient. High values of the Gini coefficient indicate high income inequality among private households, while low coefficient values represent low inequality. Compared to the EU-15 (with a Gini coefficient of 30.7 in 2012) and the EU-27 (30.6), the countries of Member States Area 1 and 2 exhibit income inequalities below average, whereas Member States Area 3 countries' income inequality lies above. Furthermore, the Gini coefficients of Member States Area 3 countries, especially those of Bulgaria (33.6) and Romania (33.2), indicate the highest income inequality. This group is followed by Member States Area 1, where a convergence between Germany and Austria can be observed in the past few years. Member States Area 2 overall displays the lowest level of income inequality, with only small deviations between the countries. The smallest inequality of all Member States exhibits Slovakia (23.7).

GDP components

Besides considering the general level of GDP and its distribution among the population it makes sense to have a look at the GDP structure as well. With regard to the sectoral composition of the GDP, the Danube Region's value added share of the service sector exceeds the respective shares of the other two economic sectors, just like in the benchmark regions. Nevertheless, the Danube Region's share of services lies below the EU-27 and OECD levels. On the other hand, the Danube Region's industrial value added share is higher than in both benchmark groups. The share of the agricultural sector in the Danube Region as a whole accounts for only 2.3% of value added. In contrast, in Member States Area 3, the share of agriculture sums up to 6.2% of GDP. There are agricultural regions especially in the East of the Danube Region which have specific development needs.

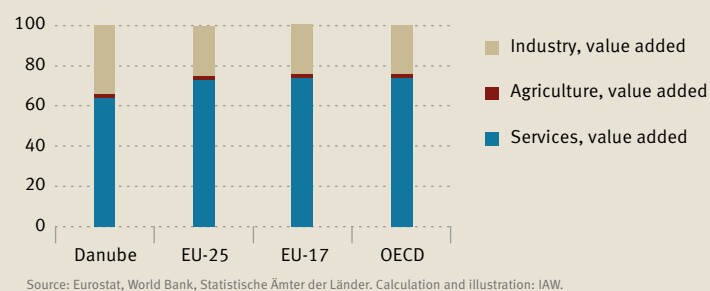
Considering now the GDP components from the demand perspective it is noticeable that the Danube Region's overall share of private consumption (2010: 56.6%) lies below the average level of OECD (62.9%) and EU-27 (58.2%) but varies significantly across the countries. Namely, Member States Area 3 (62.6%), Neighbouring (65.2%) and Accession Countries (80.8%) are positioned substantially above the EU-27 and OECD levels. With regard to the share of investments relative to GDP, the Danube Region as a whole (2010: 20.3%) exceeds the values of EU-27 (18.7%) and OECD (18.1%). Again, the picture is mixed among the subgroups: All EU member states within the Danube Region exhibit investment shares above the average of OECD and EU-27, while the Accession Countries do not reach these benchmark levels. The Neighbouring Countries' investment share ranks between OECD and EU-27. In order to continuously enlarge the endowment with physical capital and to improve the infrastructure, the Danube member states should therefore strive to raise or maintain their investment rates above the average level of the benchmarks regions. Only if these investment shares are sufficiently large, a sustainable rise in GDP per capita can follow.

Economic growth

Even though there is a considerable gap in GDP per capita compared to the EU-27 and the OECD, the Danube Region's economic growth has been much higher than in the benchmark groups within the past few years. Between 2005 and 2011, annual economic growth in the Danube Region reached on average 4.6% in real terms, whereas EU-27 countries grew only by 0.8% and OECD countries by 0.7%. Just as in Europe as a whole, the long-run upward trend of GDP was temporarily interrupted by the 2009 economic crisis, but growth was resumed in the Danube Region in 2013 while the EU-27 was close to stagnation. With regard to country groups, Member States Area 1 grew by 15% between 2003 and 2011, Member States Area 2 by 24%, and Member States Area 3 by 26% – the Accession Countries reached 31.6% and the Neighbouring Countries 28%.

Value-added share of industrial sector in the Danube Region higher than in benchmark regions

Figure 2: Contribution of sectors to GDP in 2010 (in %)



High investment shares can lead to a rise in physical capital endowment and to a better infrastructure

High growth rates: first successes become visible

Lessons to learn

In terms of GDP per capita the Danube Region has to increase its overall prosperity level. Furthermore, the less developed economies within the region need to catch up at a faster pace with the wealthier countries. Thus, policies aiming at these key objectives should consider the following recommendations:

The less developed countries need to catch up

- ▶ GDP per capita growth rates above the benchmark regions need to be maintained in order to increase prosperity. Although the current high growth rates point in the right direction it is still necessary to implement further economic growth strengthening policies on the national level to accelerate the catch-up process.
- ▶ The Danube Region should therefore strive to raise or keep its investment rates above the levels of the OECD and the EU-27 in order to enlarge physical capital endowment and to improve infrastructure. As a consequence, sufficiently large investments in these two fields will foster prosperity by an increase in GDP per capita.
- ▶ The fact that GDP per capita lies below the level of the benchmark regions also implies the necessity of deepening cooperation and specialization among the Danube member states; the latter could avoid efficiency losses and stimulate economic growth.

Further information:

Contact

Dr. Bettina Müller · e-mail bettina.mueller@zew.de · phone +49 621 1235 352

Günther Klee · e-mail guenther.klee@iaw.edu · phone +49 7071 9896 25

Dr. Gabor Hunya · e-mail hunya@wiiw.ac.at · phone +43 1 533 6610 22

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Centre for European Economic Research (ZEW) Mannheim · L 7, 1 · 68161 Mannheim
P.O. Box 10 34 43 · 68034 Mannheim · Germany · Internet: www.zew.de · www.zew.eu

Institute for Applied Economic Research (IAW) Tübingen
Ob dem Himmelreich 1 · 72074 Tübingen · Germany · Internet: www.iaw.edu

The Vienna Institute for International Economic Studies (wiiw) Vienna
Rahlgasse 3 · 1060 Vienna · Austria · Internet: www.wiiw.ac.at