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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

Eighth progress report on economic, social and territorial cohesion

The regional and urban dimension of the crisis
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1. INTRODUCTION

In 2014, the Cohesion Policy programming period will start in the aftermath of the worst recession of the last fifty years. The crisis has reversed the process of convergence of regional GDP per head and unemployment within the EU. The challenge now is to ensure a prompt return to a strong growth path, especially in the less developed regions and cities.

To support the forthcoming programme negotiations, this report highlights the crisis-induced changes that will affect the context and priorities of the new programmes. The report first sets the scene with an overview of the main developments at national level. It then looks at the impact of the crisis on regions and cities and the growing disparities. Finally, it outlines how the changed economic environment will affect the future Cohesion programmes and underlines the need for a strong thematic concentration.

This report follows the 7th progress report, published in 2011, and will be followed by the publication of the 6th Cohesion Report in 2014. The 6th Cohesion report will also cover issues such innovation, climate and environment, which could not be included here.

2. SETTING THE SCENE

2.1. Contraction of GDP and employment

The EU entered a recession in the second quarter of 2008, which lasted five quarters. Since the recession, overall growth in terms of GDP has been sluggish. The EU's GDP contracted again in the last quarter of 2011 and the first two and the last quarter of 2012. If GDP also contracts in the first quarter of 2013 it will have become a triple-dip recession.

The overall impact of the crisis on GDP and employment between 2007 and 2011 has been highest in the three Baltic States, Ireland, Greece and Spain (see COM Staff Working Document, Figure 1). The Baltic States and Ireland started growing again in 2010 or 2011 and are forecast to continue to grow until 2014.

Spain and Greece, however, have not returned to a consistent growth path. Spain started growing in 2011, but its GDP contracted in 2012. Provisional GDP growth rates for Greece show a continuation and strengthening of the recession. Its GDP declined by around 7 % in 2011 and 2012 and may only start to grow in 2014.

In addition, Cyprus was confronted with a financial crisis in 2012 which led to a harsh reduction of GDP and employment which is expected to continue until 2014.

In contrast, nine Member States experienced a relatively mild recession or, in the case of Poland, merely a slowing down of growth.

2.2. Deteriorating national and sub-national finance

The economic and financial crisis has led to significant increases in total government debt (see Factsheet 1) in four ways. First, several national governments supported the financial sector through bank recapitalisation and assets transfers. Second, the slowing down of economic activity reduced tax receipts and increased social spending (e.g. unemployment benefits). Third, governments adopted stimulus packages to boost demand. Fourth, the debt-to-GDP ratio is also driven upwards by low GDP growth.

As a result, the government debt-to-GDP ratio in the EU jumped between the first quarter of 2008 and the fourth quarter of 2012 from 59 % to 85 %. National increases were highest in Ireland (90 percentage points), Portugal (56 pp), Greece and Spain (both 49 pp). Member States that bought out failing banks may be able to reduce their debt by selling the banks remaining assets, but their value remains uncertain.

High government debt can raise concerns about a government's ability to service its debt in the long run. This may lead to higher interest rates and payments. The higher taxes required to service the debt may act as a brake on growth.

In the 2011-2013 period, many Member States have embarked on fiscal consolidation by primarily cutting expenditure (-1.5 % of EU GDP in 2011 compared to 2010). Mainly growth-friendly expenditure was cut. Consequently, public investment (here: Gross Fixed Capital Formation) as a share of GDP will be lower in 18 Member States in 2013 than in 2011. These cuts may affect medium-term growth.

Public debt does not affect all countries equally. Estonia's public debt is only 10 % of its GDP. Only 13 Member States have a public debt below 60 % of their GDP: the three Nordic Member States, Luxembourg and nine of the ten Central and Eastern Member States. The crisis affects sub-national governments in two ways. First, the crisis has led to a decrease of tax revenues and to tax cuts to stimulate growth. Second, the crisis has increased local demand for public services and social protection, triggering higher public expenditure.

Fiscal consolidation is putting pressure on sub-national governments' budgets. They still face higher levels of social expenditure and have to reduce expenditure and increase revenues. Their financial difficulties may affect delivery of public services.

Growth-friendly fiscal consolidation should ensure that reductions in central government debt are not offset by an increase in sub-national government debt. This co-ordinated debt reduction should also ensure that growth-enhancing public investments, including those co-financed by Cohesion Policy, are maintained.

2.3. Construction and manufacturing most affected by the recession

Although the crisis started in the financial and insurance sector, this sector accounted for roughly the same amount of gross value added (GVA) and employment in the EU in 2011 as it did in 2007. In the six Member States most affected by the crisis, however, this sector's employment dropped by 1 % and its GVA by 1.8 % a year between 2007 and 2011 (see COM Staff Working Document, Figure 2).

Between 2007 and 2011, both GVA and employment in construction declined by 3 % a year in the Union. In the six countries where the impact of the recession was greatest, the decline was even between 10 and 20 % a year for employment and between 6 % and 20 % for GVA.

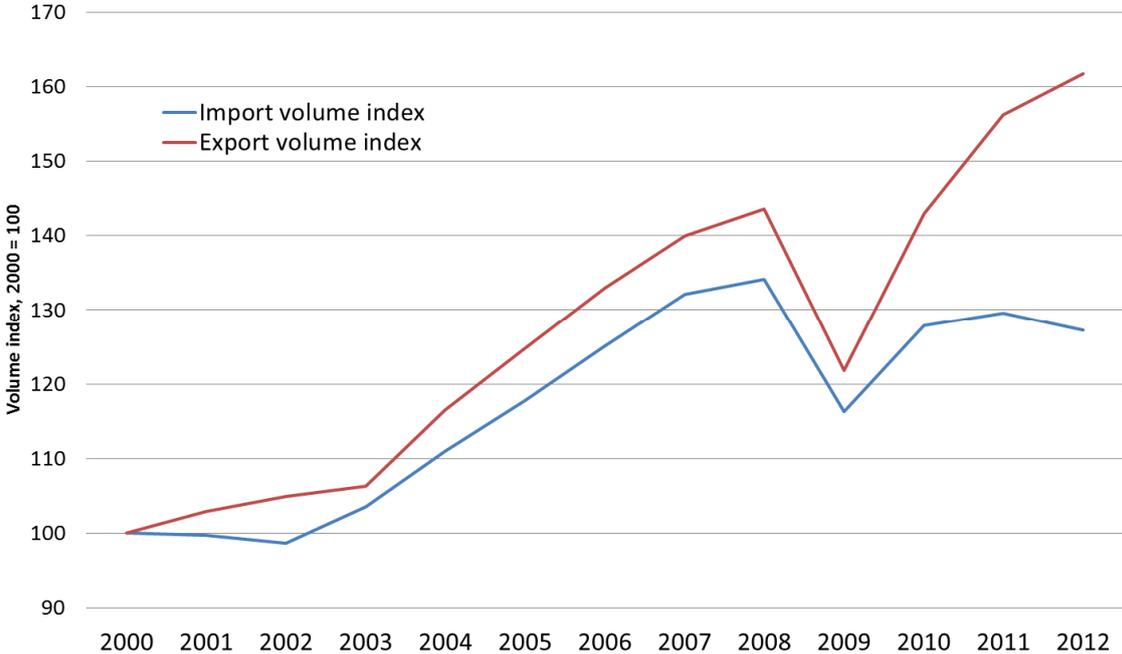
These dramatic declines in the construction sector are linked to the real estate bubble and the ensuing collapse of real estate prices in several Member States. Between 2007 and 2012, real estate prices dropped by between 30 % and 50 % in Ireland¹, Latvia and Estonia (see Factsheet 2). In Portugal, they have declined by -9 % so far. In Greece, Eurostat figures indicate moderate increase between 2007 and 2010, but other sources² indicate that prices have started to fall since 2010. Overall, more decreases cannot be excluded.

The manufacturing sector took a hit with a decrease of more than 2% a year between 2007 and 2011. In the six most affected Member State, the annual average contraction was almost 5 %. The decrease in GVA was more moderate at 0.9 %. The changes of GVA were more variable with the biggest reductions over the period occurring in Greece (-6 %) and Finland (-5 %) and the biggest increases in Slovakia (8 %) and Ireland (4 %) (see COM Staff Working Document, Figure 3). The contraction of manufacturing was closely tied to the contraction in trade.

2.4. Exports recovering

In the wake of the crisis, credit became scarce, which reduced investments and consumption. This reduced trade in goods and caused the recession to spread quickly to important trading partners, leading to further income and/or job losses. Although the 2004 enlargement gave a boost to EU trade, the crisis caused an abrupt drop (see Figure 1).

Figure 1: Changes in EU trade volume, 2000-2011



Source: Eurostat

¹ 2007-2010
² Economist Housing Index

Exports were still growing in 2008, albeit at a much slower rate, whereas the growth in import volumes was close to zero. In 2009, exports and imports dropped by 15 % to a level comparable to that of 2005.

The Central and Eastern Member States suffered the highest drop in imports (see Factsheet 3). Most of the countries that joined the EU after 2004 were enjoying a period of high economic growth fuelled by high investments and consumption, before the crisis hit them.

In western Member States, exports dropped more than imports because, at least initially, domestic consumption and investments were less affected by the crisis. The global drop in demand led to a reduction in exports, causing production to fall in the manufacturing sector. Exports, fortunately, recovered quickly with similar volumes in 2010 as in 2007. However, the consequences of the abrupt fall in exports continue to be felt in the labour market.

2.5. Foreign direct investments slowing down

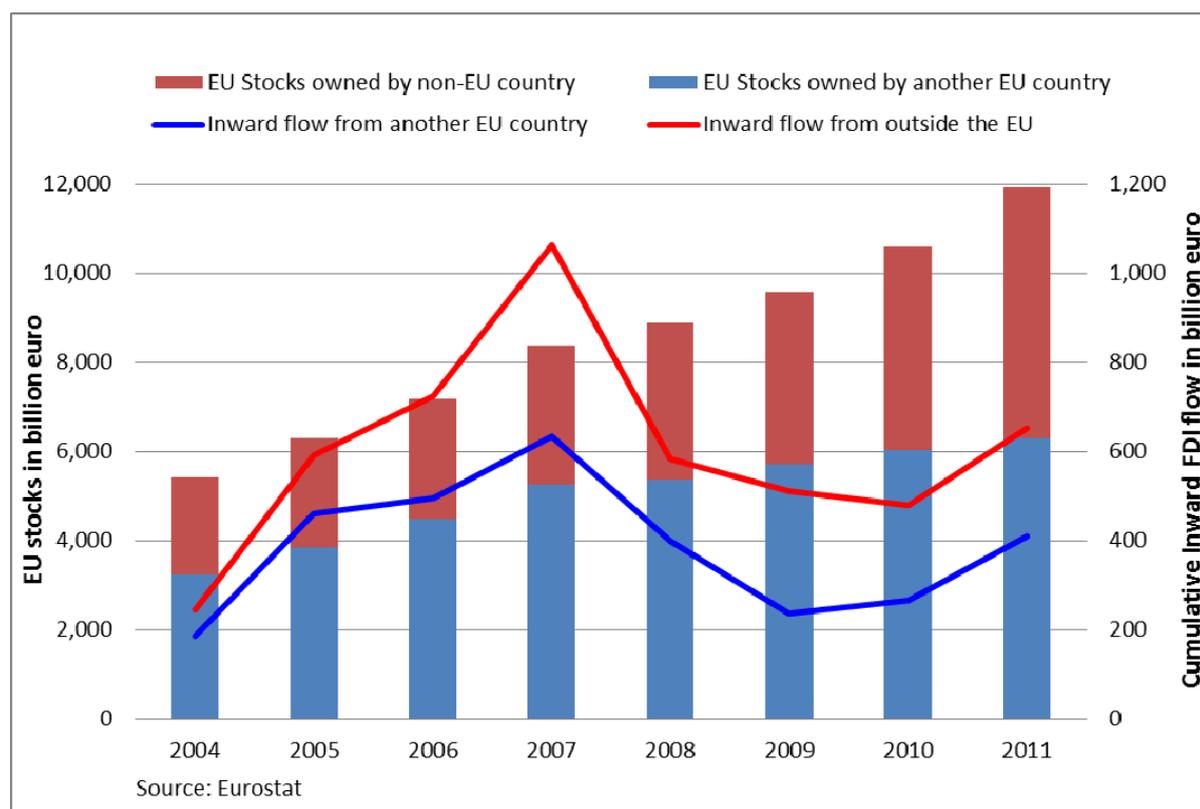
As a result of the crisis, foreign direct investment (FDI) dropped rapidly. Many foreign investors directed available resources back to 'mother' companies. Joining the EU made it easier for the Central and Eastern Member States to access FDI thanks to the single market and the incorporation of the EU *acquis*. FDI can contribute to efficiency gains, transfer of innovative technologies and higher productivity in the receiving countries. Hence, FDI inflows play an important role in the less developed Member States for employment creation and modernisation of their economies.

Foreign direct inward investment flows from other Member States and from outside the Union grew rapidly between 2004 and 2007. Inward investments flows quadrupled between 2004 and 2007 (see Figure 2). Inward investment flows fell in 2008 and 2009 when the global credit situation deteriorated. The lowest point, in 2010, corresponded to the level of 2004. In 2011 the flows grew again.

Foreign direct investment flows do not show the stock of foreign investment. Stocks held in other countries increased by almost 60 % between 2004 and 2007. This rise was never reversed. By 2011, foreign-owned stocks were more than twice as high than in 2004.

In some EU countries, FDI inflows are a major source of capital and investments. For example, average FDI net inflows as proportion of GDP between 2005 and 2007 were between 15 % and 23 % in Bulgaria, Malta, Belgium and Estonia. The crisis led to a rapid reduction of FDI inflows in ten Central and Eastern Member States. It dropped by between 1.5 % and 6 % of their GDP between the periods 2005-07 and 2008-10, with the exception of Bulgaria, where it dropped by 12 % of its GDP (see Factsheet 4).

Figure 2: Foreign Direct Investment in the EU, 2004-2011



2.6. Increasing risk of poverty and exclusion

At EU level, the crisis increased the population at risk of poverty or social exclusion. Between 2009 and 2011, the share increased by one percentage point. All three components (at-risk-of-poverty rate, severe material deprivation and very low work intensity) are also on the rise, in particular very low work intensity (see Figure 3). This impact is likely to be felt more in the future as the crisis is not over yet and the effect takes time to filter through.

The impact on the risk of poverty or exclusion was the highest in the six most affected Member States, but the impact in Italy and Bulgaria was also significant. Several of the large Member States, however, had only small increases, such as Germany and the UK, or even a slight reduction of the risk of poverty or exclusion, such as Poland and Romania.

Figure 3: Poverty and social exclusion in the EU, 2005-2011

Share of EU population in	2005	2006	2007	2008	2009	2010	2011
At risk of poverty or exclusion	25.6	25.2	24.4	23.5	23.1	23.4	24.2
At risk of poverty	16.4	16.5	16.5	16.4	16.3	16.4	16.9
Very low work intensity*	10.3	10.5	9.6	9.0	9.0	10.0	10.0
Severe Material deprivation	10.7	9.8	9.1	8.4	8.1	8.1	8.8
* population aged 0-59							
Source: Eurostat							

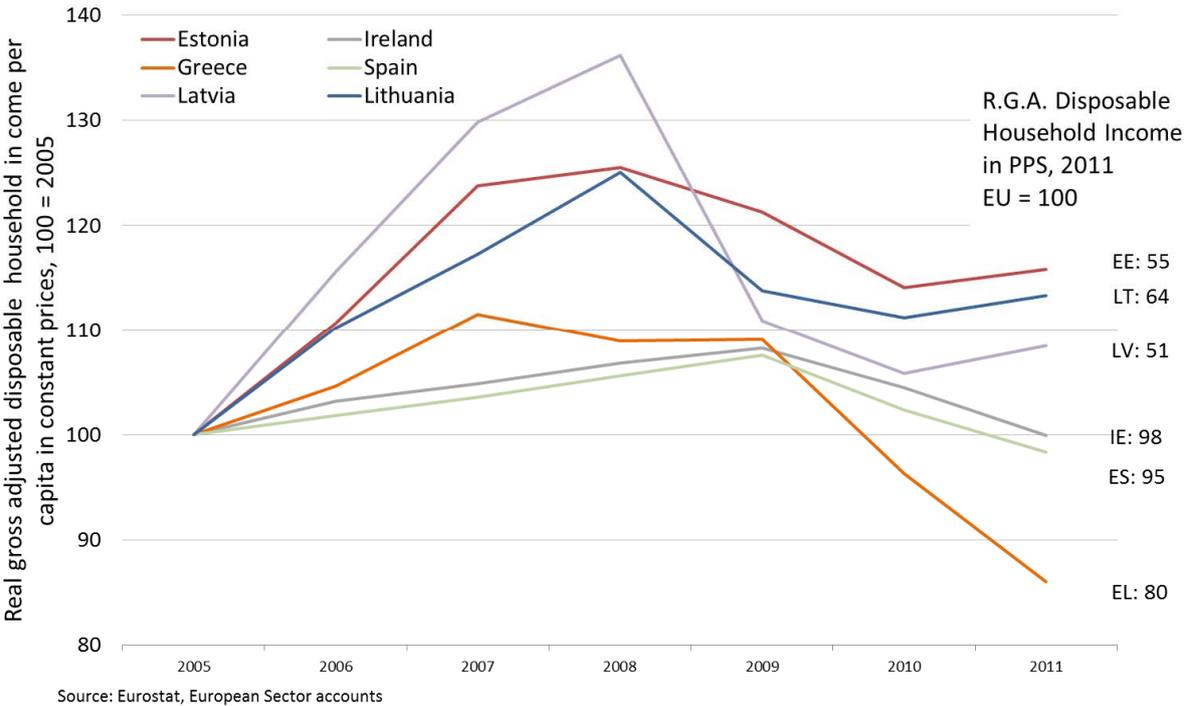
In the wake of the crisis, many people were faced with a lower income due to job losses or reductions in hours and wages. In the six most affected MS countries, real gross adjusted disposable income dropped substantially after the crisis (see Figure 4).

In the Baltic States real adjusted disposable household income per capita grew rapidly between 2005 and 2008 and then experienced a sharp drop. In Latvia, disposable income shrank by nearly a fifth in 2009. Since 2010 disposable income has been growing again in all three Member States, but none have reached the pre-crisis level.

In Greece, Spain and Ireland, which have considerably higher levels of disposable income than the Baltic states, the picture is more mixed. In Spain and Ireland, the effect of the crisis only started to be felt in 2009. Since then, both countries have lost around 8 % of their disposable income, returning them to 2005 levels. In Greece, the decline in disposable income started slowly in 2007. In 2009 and 2010 it took a very sharp downturn. As a result, Greek disposable income in 2011 was well below its 2005 level.

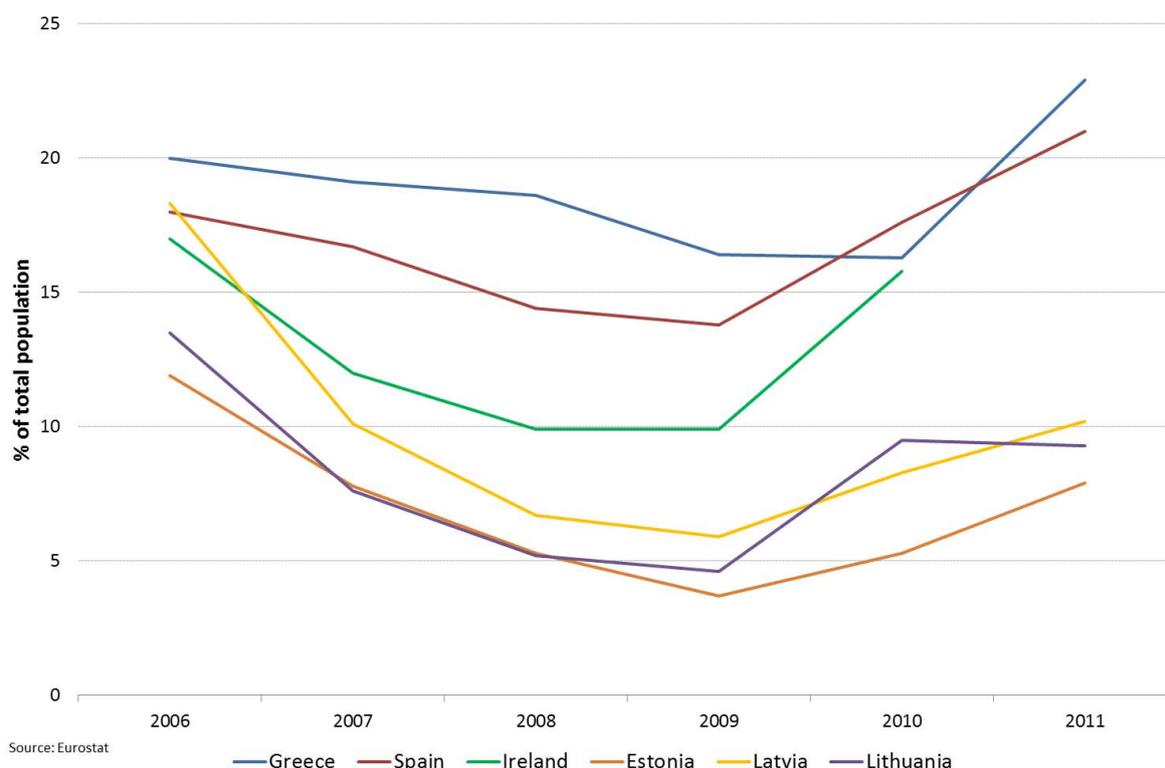
Due to reductions in the median income, and thus the poverty threshold, the at-risk-of-poverty rate often goes down during a recession. This section will use a poverty threshold fixed at the 2005 level to avoid this effect.

Figure 4: Real gross adjusted disposable household income per head, 2005-2011



In Ireland, the share of people at risk of poverty relative to the 2005 threshold increased from 10 % in 2008 to over 15 % in 2010 (see Figure 5). This share reached 20 % in Spain and 23 % in Greece. Due to the high income growth of the early part of the 2005 to 2011 period, the at-risk-of-poverty rates relative to the 2005 threshold only grew slightly post-crisis in the Baltic States, reaching 10 % or less, and did not reach the pre-crisis levels.

Figure 5: At risk-of-poverty rate with 2005 threshold, 2006-2011



The share of people at risk of poverty relative to the 2005 threshold increased slightly in Belgium, Hungary, Germany, Luxembourg, the Netherlands and the UK. In the remaining parts of the EU, it declined or remained stable.

The share of population aged 0 to 59 living in a household with a very-low-work intensity increased post crisis, but still remained below 2006 values at the EU level. In the six most affected Member States, however, this share has increased with between 4 and 9 pp between 2007 and 2011 (see Figure 6).

Figure 6: Very low work intensity, 2005-2011

Share of population aged 0 to 59 in living in very low work intensity households, 2005-2011								
	2005	2006	2007	2008	2009	2010	2011	2011-2007
Estonia	9.4	7.0	6.2	5.3	5.6	8.9	9.9	3.7
Greece	7.5	8.0	8.0	7.4	6.5	7.5	11.8	3.8
Spain	6.5	6.0	6.3	6.2	7.0	9.8	12.2	5.9
Lithuania	9.5	8.3	6.4	5.1	6.9	9.2	12.3	5.9
Latvia	8.1	7.0	6.1	5.1	6.7	12.2	12.2	6.1
Ireland	14.6	12.8	14.2	13.6	19.8	22.9	n/a	8.7

Source: Eurostat

The share of severely materially deprived population, i.e. those unable to afford 4 out of 9 basic items, decreased at the EU level from 11 % to 8 % between 2005 and 2010. The highest shares can be found in Romania and Bulgaria and both managed to reduce the share of severe materially deprived population to 31 % and 35 % in 2010. In 2011, however, the EU share increased again.

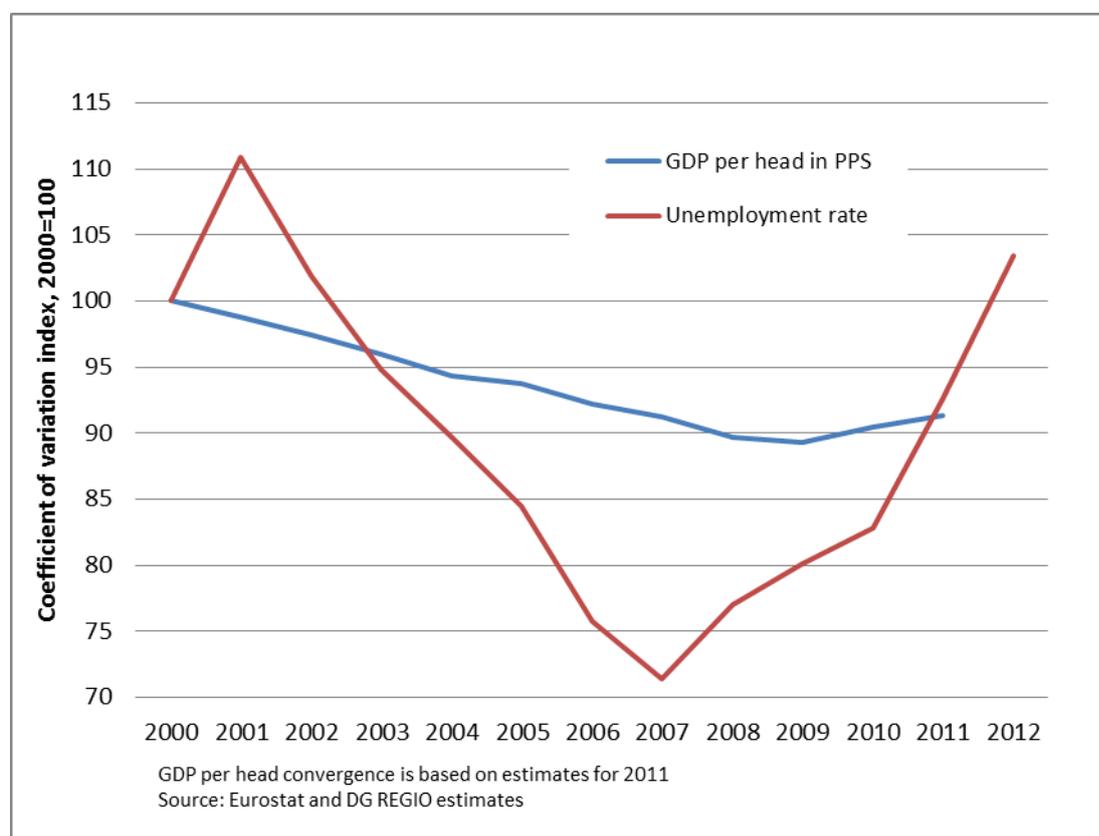
Between 2008 and 2011, severe material deprivation increased most in Latvia³ (12 pp), Lithuania (6pp), Hungary (5pp) and Greece (4pp). In 2010, Ireland's share increased by 2 pp to 7.5 %, which is high given its income levels. Spain, with a slightly lower income level, only had a rate of 4 %. Poland achieved a remarkable reduction of its share of severely materially deprived persons, from 18 % in 2008 to 13 % in 2011.

For a more detailed analysis of changes in poverty and social exclusion, including poverty depth, see Chapter 2 of the *Employment and Social Developments in Europe 2012 Report*⁴.

3. THE REGIONAL IMPACT

The crisis brought to an end a long period during which regional disparities in GDP per head and unemployment were shrinking. Between 2000 and 2008, regional disparities in GDP per head dropped every single year (see Figure 7). In 2009, those reductions in disparities came to a halt and grew in 2010 and 2011.

Figure 7: Regional convergence and the crisis



Regional unemployment rates had been converging from 2001 to 2007, but then diverged every year from 2007 until 2012. The EU-15 have also witnessed increasing disparities since 2007 for both GDP per head and regional unemployment.

³ Part of this increase may be due to a break in the series.

⁴ <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7315>

3.1. GDP and employment in the first three years of the crisis

Two thirds of the regions suffered a contraction of GDP of up to -6 % a year between 2007 and 2010. The ten regions where GDP shrank fastest between 2007 and 2010 include the three Baltic States and seven regions from seven different Member States (See Factsheet 5). GDP shrank by more than 3% a year in these regions. None of the Spanish or Greek regions appear among these regions. Spain does not appear in the top ten because it suffered a smaller GDP reduction than employment reduction. Greece does not appear in the top ten because most of the GDP contractions occurred after 2010. In 2012, Cyprus saw the start of a contraction in employment and GDP which is expected to continue into 2014.

In several Member States, the capital region has the highest growth rate, including Bulgaria, Germany, Slovakia, and Poland.

One out of two regions saw its total employment shrink over the same period. Employment dropped by more than 4 % a year in the Baltic States, three Spanish regions, the two Irish regions and one region in Bulgaria (see Factsheet 5). The contraction in Greek employment happened only after 2010, which is why they do not appear among the worst affected regions.

Overall, the link between regional GDP and employment change is weak during these years, as it takes time for reductions in output to affect employment. In addition, several policies were aimed directly at maintaining (part-time) employment during the crisis.

3.2. Unemployment increasing especially in southern regions

At EU level, unemployment rates increased from 7 % to 10 % between 2008 and 2012. Unemployment rates in the most affected Member States, however, doubled or even tripled with increases above 8 pp in five Member States and up to 17 pp in Spain (see Factsheet 6). Unemployment rates, in the five most affected Member States for this indicator, ranged from 12 % in Cyprus to 25 % in Spain⁵.

Unemployment increased significantly also in Latvia, Estonia, Slovenia, Slovakia and Denmark. On the other hand, unemployment rates actually dropped in Germany and barely changed in Luxembourg, Malta, Belgium and Austria.

Overall, more than four out of five EU regions were faced with an increase between 2008 and 2010. Most saw the biggest increase in this period. More than one third of these regions have managed to reduce unemployment since 2010.

In line with the recommendations in the European Economic Recovery Plan, several Member States set up measures to prevent excessive labour shedding, and to increasing the coverage and duration of benefits.

Youth unemployment increased from 16 % in 2008 to 21 % in 2011 at the EU level (see Factsheet 7). In 52 regions, one out of three economically active young people were unemployed. In 11 of those regions it was even one out of two, mostly in Spain and Greece. Also the share of people aged 15 to 24 not in employment, education or training (NEET) has risen: between 2008 and 2011 NEET rates increased in almost four out of five regions, especially in Romania, Greece and the UK (See Factsheet 8).

⁵ For a more extensive analysis, see the *Employment and Social Developments in Europe Report 2012*.
<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7315>

3.3. Migration slowing down

Between 2004 and 2008, the number of residents living outside their country of citizenship in the EU-27 increased by 1.5 million a year. As a result, the corresponding proportion of the total EU-27 population grew from 5.1 % to 6.2 %. For the years 2009 to 2011, the annual increase dropped to 0.9 million, leading to a share of 6.7 % in 2011.

Between 2004 and 2008, Ireland, Spain, and Cyprus witnessed an increase of their share of foreign population of over 4 pp, mostly from the Member States who joined in 2004 or 2007. Over that period, Italy, Portugal, Luxemburg and the UK also experienced a substantial increase of the share of foreign citizens.

The biggest effect of the crisis on migration was in regions that experienced largest inflows of labour migrants in the pre-crisis period. The slowdown in migration was strongest in Spain, Ireland, Cyprus and some regions of the UK and Italy (see Factsheet 9), but remained positive. Many regions of Spain, southern France and northern Italy still had some of the highest levels of positive net migration.

The crisis accelerated emigration in Lithuania and Latvia. In Poland, negative net migration became less negative in the border regions and positive net migration of the capital region increased. The negative net migration was shrunk in Romania due to return migration from Spain. As the crisis continues to unfold, the increasing differences in regional unemployment rates and wages may still further affect migration.

The rapid decline of employment in construction and industry contributed to the decline in net migration in Spanish regions and in Northern Italy. Net-migration tended to drop more in regions with a high share of migrants from other Member States.

4. THE URBAN IMPACT

To analyse the urban impact, this report uses two spatial approaches: metro regions and cities.

- (1) Metro regions are NUTS-3 regions that represent urban agglomerations of more than 250 000 inhabitants. This approach allows an urban interpretation of GDP and employment changes.
- (2) Cities are defined at the local level and capture the main cities in the EU. This approach provides access to data on employment and poverty aggregated for all cities in a country..

4.1. Metro regions mix resilience and vulnerability

In two out of three Member States⁶, metro regions on average increased their GDP per head in PPS relative to the country as a whole between 2007 and 2010 (see COM Staff Working Document, Figure 4). In the twelve Member States that increased their GDP per head relative to the EU, their metro regions outperformed the rest of the country. In eight of the twelve Member States that had a decline in GDP per head relative to the EU, GDP per head in metro regions declined faster than in the country as a whole.

⁶ This analysis excludes Luxembourg, Malta and Cyprus.

This pattern of faster GDP growth in growing economies and faster decline in most declining economies could mean that urban economies are more volatile and susceptible to booms and busts.

Despite the strong overall performance of metro regions, over three out of five saw their GDP per head drop between 2007 and 2010 relative to the national level. Smaller metros lost most ground with 74% of them declining relative their country. Also second-tier metros suffered with 54% losing ground. Only capital metro showed a stronger performance with only 30% losing ground.

In most Member States, employment⁷ in metro regions was more resistant to the crisis than in non-metro regions between 2007 and 2010 (see COM Staff Working Document, Figure 5). Only in Finland, Greece, Hungary and Latvia did employment in non-metro regions decline more slowly than in metro regions.

Similar to GDP per head changes, not all metro regions experienced stronger employment change than their country. Only half of the metro regions experienced a milder employment decline (or faster employment growth) than the non-metro regions in their country. Slightly more than half the second-tier metros outpaced their country. Slightly less than half of the smaller metros performed better than their country. Capital metros performed much better: nine out of ten had with a stronger employment performance. Nine capital metros even achieved employment growth despite a decline in national employment.

In the UK and Spain roughly half of the metro regions had a worse employment performance than the non-metro regions. In Greece and Hungary almost all metro regions performed worse. In the majority of the Member States, however, all or most metro regions had a better employment performance than the non-metro regions. This was particularly evident in Poland, Slovakia, the Czech Republic, Romania and Bulgaria..

In these first three years of the crisis, most metro regions showed themselves to be resilient, especially the capital city metro regions. The second-tier metros performed less well. The smaller metros proved quite vulnerable with the majority lagging behind in terms of change in GDP per head and change in employment.

4.2. Cities in crisis

Poverty and social exclusion are concentrated in cities, especially in North-western Europe. The crisis has further intensified this concentration. The at-risk-of-poverty-or-social-exclusion (ARPE) rate increased by 1 pp in cities in the EU, compared to an increase of 0.5 pp outside cities (see Figure 8).

⁷ This analysis excludes Luxembourg, Malta, Cyprus and Italy.

Figure 8: Change in the risk of poverty or social exclusion, 2008-2011

Change in the risk of poverty or social exclusion, 2008-2011				
EU27	AROPE	AROP	LWI	SMD
Cities	1.0	0.6	0.9	0.5
Other areas	0.5	0.5	1.1	0.3
EU15				
Cities	1.2	0.6	1.2	0.7
Other areas	0.9	0.3	1.4	0.9
EU12				
Cities	-0.4	0.3	-0.3	-0.7
Other areas	-1.0	0.8	0.3	-1.5
Source: Eurostat				

In 2011, people living in cities in the EU-15 were at greater risk of poverty or social exclusion than those living outside cities (see Figure 9). Also the three components of this risk are higher in cities than outside. In the EU-12, the situation tends to be the opposite. People living in cities have a considerably lower risk of poverty or social exclusion.

Figure 9: Risk of poverty or social exclusion in cities, 2011

EU27	AROPE	AROP	LWI	SMD
Cities	23.3	15.7	11.0	8.4
Other areas	25.0	18.0	9.1	9.2
EU15				
Cities	23.1	16.8	12.0	6.8
Other areas	21.9	16.6	9.2	5.3
EU12				
Cities	24.1	9.9	6.5	16.5
Other areas	34.5	22.2	8.9	20.8
Source: Eurostat				

Severe material deprivation is higher in cities in 18 Member States. Very low work intensity is more prevalent in cities in 15 Member States (see Factsheet 10). The poverty risk is higher in cities in 10 Member States.

The high share of very low work intensity households in cities with their high concentration of jobs is somewhat paradoxical. This may be due to skills mismatch, precarious jobs or the higher share of one-person households in cities. It may also be related to the higher proportion of residents born outside the EU in cities.

In 11 of the EU-15 Member States⁸, people born outside the EU were much more likely to live in a household with a very low work intensity. In 2010, the very low work intensity rate of those not born in the EU was at least six pp higher than for people born in the country they are living in. Many non-EU born persons face multiple barriers to entering the labour market, such as not speaking the local language, lack of skills, lack of recognition of their qualifications and discrimination.

⁸ The only exceptions were Italy, Greece, Portugal and Luxembourg.

As with poverty and social exclusion, cities in the more developed Member States tend to have lower employment rates and higher unemployment rates than towns, suburbs and rural areas (see Figure 10), while the opposite is the case in less developed Member States. The crisis has not altered this pattern.

Figure 10: Employment and unemployment in cities and other areas, 2008-2011

	Employment rate, 20-64		Unemployment rate	
	2011	Change 2008-2011	2011	Change 2008-2011
EU-27				
Cities	64.5	-1.8	10.1	2.6
Other areas	64.0	-1.9	9.4	2.6
EU-15				
Cities	65.0	-1.7	10.3	2.6
Other areas	66.0	-1.6	9.1	2.5
EU-12				
Cities	62.4	-1.4	9.0	3.3
Other areas	58.3	-1.8	10.3	2.9

Source: Eurostat

5. COHESION POLICY AND THE CRISIS

This report outlines a few of the key issues that cohesion programmes should consider for 2014-20 period.

The crisis has made it more difficult to reach the Europe 2020 goals due to reduced employment rates and increasing poverty and social exclusion. Moreover, widening regional disparities are undermining one of the key goals of the European Union and Cohesion Policy.

Although some Member States, such as Germany and Poland, have escaped the crisis relatively unscathed, most will face more problems and fewer public resources. These include, for many if not most Member States:

- GDP and employment levels which have not yet returned to pre-crisis levels
- Higher levels of unemployment, poverty and exclusion
- Reduced household income, which depresses consumption and imports
- Unprecedented levels of public debt and the need for fiscal consolidation

The report shows that the intensity of problems varies significantly throughout Europe. This suggests that the design of future cohesion programmes should reflect these differences to maximise impact and target problems where they are more acute.

Against this background, the future cohesion programmes will have to put particular emphasis on growth-enhancing and job creating-investments. Only a stable and strong recovery can reduce the unemployment rates.

This is why the Commission is proposing to concentrate resources on a few, important areas such as employment (particularly for young people), training and education, social inclusion, innovation and SMEs, energy efficiency and a low-carbon economy and is open to expand it to ICT infrastructures and digital growth measures

Exports and foreign direct investment constitute a major engine of growth in less developed Member States, helping to create jobs and transferring knowledge and technology. SMEs, one of the main target groups of Cohesion Policy, are particularly affected by the deteriorating the business environment. In a context of low internal demand, exporting more goods and services will help to revive growth. Investments in innovation and a smart specialisation strategy could improve the performance of this sector.

The construction sector will continue to suffer from the consequences of the banking crisis, owing to limited access to credit, the bursting of the housing bubble, and the reduced disposable household income and income security. Investing in energy efficiency of buildings could help to restore some of the jobs lost in this sector.

The risk of poverty or exclusion increased at EU level and may continue to rise due to the delayed impact of the crisis on poverty and exclusion.

Fiscal consolidation will further increase the role of Cohesion Policy as an important source of public investment in the period 2014-20. In fact, in many of the less developed Member States and regions, cohesion funding already represents more than half of their public investment. The Commission urges Member States and regions to start preparing the new programmes without delay so that no time is lost in ensuring that projects needed to revive economic activity and support social inclusion can start at the beginning of next year.