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On the Tenth Report on economic, social and territorial cohesion

Chapter 1.3 Territorial cohesion

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Chapter 1.3
Territorial cohesion

Territorial cohesion is one of the three pillars of EU cohesion policy, alongside economic and social cohesion. Its core objective – enshrined in the Treaties – is to promote balanced and harmonious development across all EU territories. This means not only reducing disparities in income and productivity between regions but also addressing the specific structural disadvantages that geography and demography impose on certain territories.

The 2026 European Semester spring Communication (European Commission, 2026a) notes notes that "*persistent challenges, such as the still unequal access to infrastructures and services, further deepen economic and social disparities across regions and between urban and rural areas*". It also announces that "*the specific challenges and pressures affecting livelihoods and the socio-economic fabric in outermost regions, as well as islands and coastal areas will be further addressed in dedicated strategies and supported by the European Ocean Pact*" (see e.g. (Durán et al., 2026)).

The territories covered in this chapter have in common that they experience some form of bottlenecks to economic integration and the provision of public goods resulting in higher costs of service delivery and barriers to investment. This affects the competitiveness of local industry and therefore the quality of life of the inhabitants of these territories.

This chapter will focus on territories that face particularly significant challenges. Article 174 of the TFEU highlights the needs of rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps. These include: northern sparsely populated areas (NSPA), islands, cross-border regions, and mountain regions. Furthermore, urban areas, as centres of innovation and economic dynamism, but also places where disadvantage is geographical concentrated, also present specific challenges for EU regional policy. The Eastern border regions, heavily impacted by the Russian war of aggression against Ukraine, face their own specific challenges. This chapter provides a brief overview of the challenges affecting these territories ([44]).

1.3.1. Rural areas

Rural areas face significant challenges but also have distinctive assets. Many are experiencing demographic decline as well as structural economic challenges such as low diversification and service gaps. At the same time, some rural areas host significant productive activities in manufacturing, agri-food, energy, and the bioeconomy. They also benefit from place-specific advantages, which can attract firms and support innovation and experimentation. This diversity highlights why EU cohesion strategies must adapt to varied territorial contexts.

Rural regions are losing population and ageing faster than cities. Nearly half of those near small urban areas and 40% of remote regions ([45]) are already shrinking, with elderly dependency ratios now higher than those of metropolitan areas almost everywhere. Their economies also lags behind, with rural GDP growing at 1.8% annually vs. 2.3% in metropolitan areas, though this aggregate gap masks more dynamic rural trajectories. Pockets of genuine rural growth exist in countries such as Germany, Portugal, and Switzerland ([46]). Moreover, recent evidence shows that, between 2001 and 2021, in seven EU countries, more than half of rural regions grew faster than the national average in GDP per capita ([47]). This growth can be attrtibuted to productivity gains largely driven by automation and workforce shrinkage in some rural

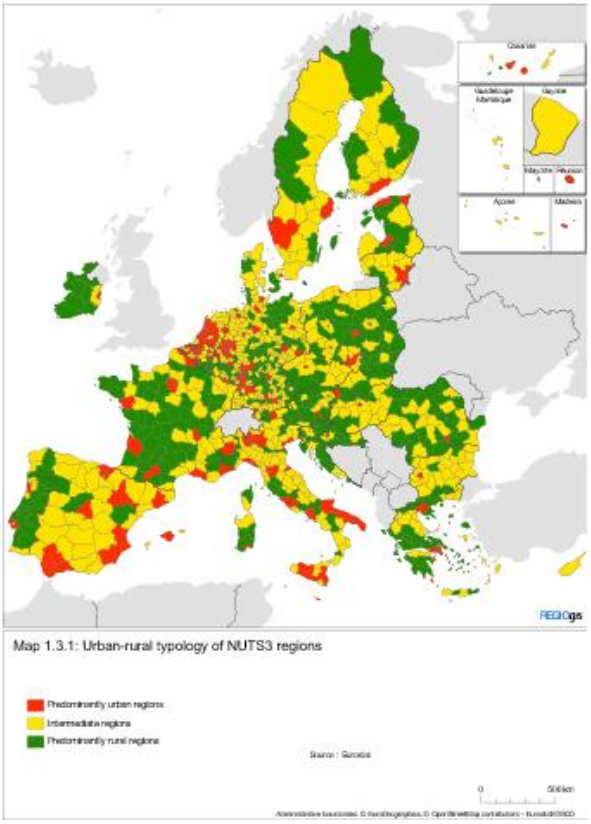
([44]) The exceptions are areas affected by industrial transition, covered in Chapter 2.1, and urban areas, analysed briefly in Chapter 2.4 and in-depth in the State of European Cities Report (European Commission, 2026d).

([45]) Broadly speaking, a remote area is a place far away from a city. Under the formal definition, a predominantly rural or intermediate NUTS3 region is considered remote if fewer than half of its residents can drive to the centre of a city of at least 50,000 inhabitants within 45 minutes.

([46]) See chapter 3, "Cohesion and territorial diversity", in the 9th Cohesion Report (European Commission, 2024).

([47]) (OECD, 2025b)

agricultural areas, but also by manufacturing., Rural areas near cities are often manufacturing hubs, accounting for 5% of all EU manufacturing jobs. This shows that rural areas are not only – and in most cases not even mainly – agricultural economies and that support and investment needs differ sharply across rural territories.



Map 1.3.1: Urban-rural typology of NUTS3 regions

However, the productivity gap between rural and urban areas persists and is closely linked to low population density and limited economic opportunities, particularly in remote areas far from cities ([48]). Rural areas face structurally higher per-capita costs for delivering services – primary education costs are about 15% higher in remote regions than in large metropolitan areas, and healthcare access is significantly lower than in urban areas ([49]). These higher costs translate into higher structural expenditures and add to the financial burden of regions with already limited fiscal capacity because of their lower ability to raise revenues ([50]).

.As populations shrink and age, these fixed costs are spread over fewer people, making services increasingly expensive. Poor access to tertiary education and training drives youth outmigration, leading to a brain drain from these areas. Young rural entrepreneurs are 8.6% less likely to start a business than urban peers- Training rates among rural entrepreneurs are also less than half those among entrepreneurs in cities (26% vs. 57%), directly suppressing local innovation and business dynamism. Resilient growth paired with a shrinking population suggests that rural productivity growth largely stems from substituting capital for increasingly scarce labour ([51]). Output holds steady or grows modestly in rural areas, but employment and the economic base hollow out, particularly in remote areas.

On the upside, the closing of the digital gap – and more generally the uptake of digital technologies – and better access to services should help increase the attractiveness of rural areas for both people and businesses. The 2026 European Semester has put a significant emphasis on those challenges, stressing that "*improving access to and affordability of healthcare and long-term care remains a priority in, for example, Czechia, Estonia and Romania and in depopulating and rural regions of some Member States*", with connectivity playing an important role in ensuring access to such services. It also states that "*reducing the urban-rural divide also demands better access to public services, for example in Ireland and Lithuania, as well as improved connectivity of remote regions (e.g. Bulgaria)*" (European Commission, 2026a). The urban-rural productivity gap reflects a divide in innovation capability and performance. New experimental estimates from the European Commission (Sasso, Perpiña Castillo and Napolitano, 2026) show that urban regions invest around 2.4% of GDP in R&D compared to 1.6% in rural regions. They record roughly 510 patent applications per 100,000 inhabitants compared to 180 in rural areas and hold on average 346 EU trademarks and 156 registered designs per 100,000 inhabitants, compared with 101 and 56 respectively in rural regions ([52]). Rural regions receive only 12% of total EU R&D investment despite accounting for 21% of the EU population; moreover, around 82%

([48]) See the discussion on chapter 2.3 on the Right to Stay.

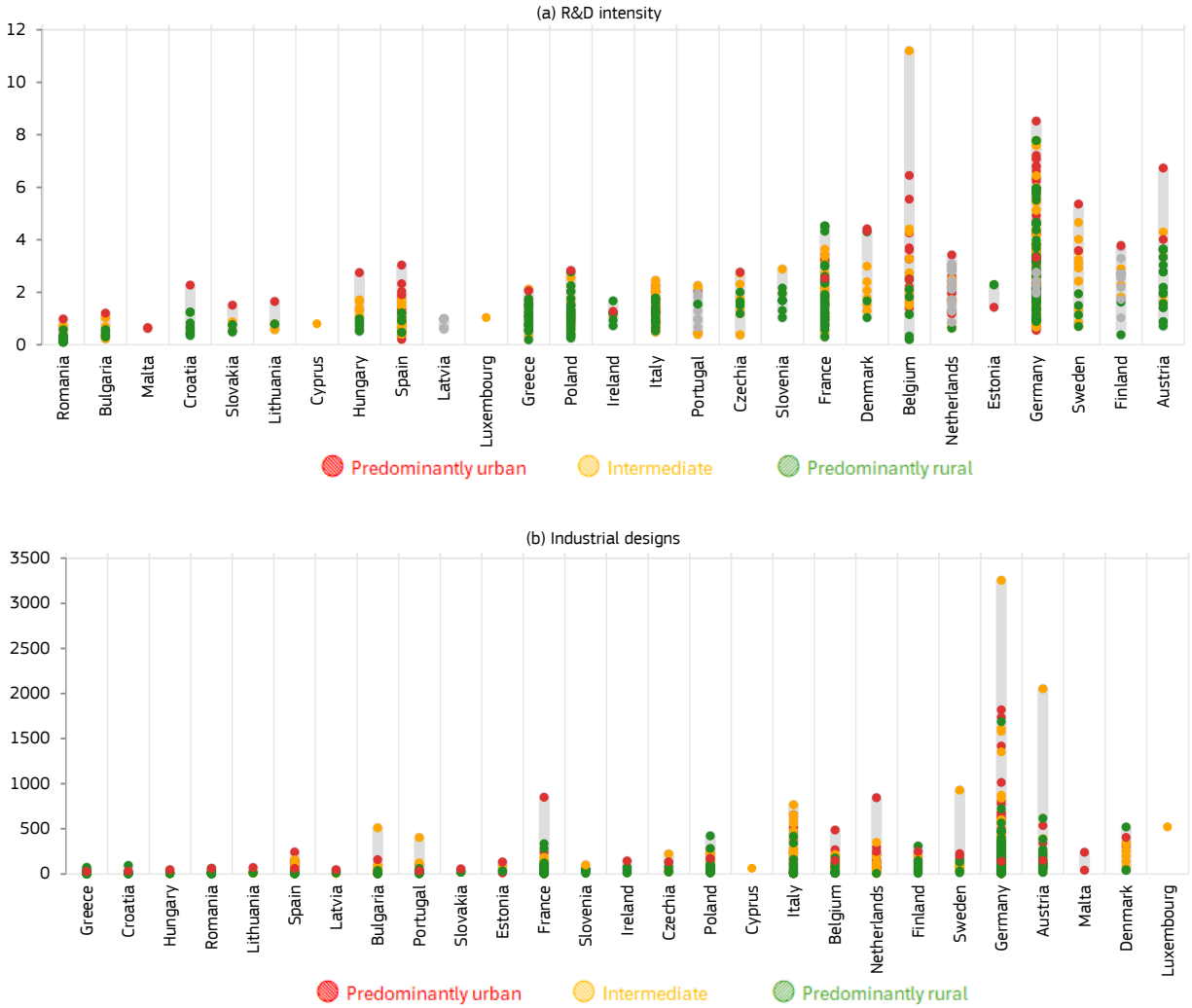
([49]) See chapter 3 in the 9th Cohesion Report.

([50]) For a general discussion about subnational finances, see chapter 3.2.

([51]) (OECD, 2025b) .

([52]) See also Table 1.3.2 below in the discussion on islands.

Figure 1.3.1: Innovation in EU urban and regions



Notes: (1) R&D intensity is expenditure as % of GDP. Values refer to 2022 and are JRC estimates at NUTS3 level downscaling NUTS2 data using sectoral weights in gross value added, while ensuring consistency with NUTS2 totals. (2) Industrial designs per 100 000 inhabitants and refer to stocks of valid registered EU designs (REUDs) held by EU-based applicants, as of June 2025. National filings are excluded. The JRC analysis is based on European Union Intellectual Property Office (EUIPO) and Eurostat data.

Source: Sasso et al. (2026)

of rural regions perform well below the EU average for industrial designs. These aggregate Figures reflect the agglomeration advantages of large urban centres – research infrastructure, labour market depth, knowledge spillovers – that rural areas structurally lack.

As mentioned above, the aggregate picture conceals a significant number of rural regions that perform well above the EU urban average (Figure 1.3.1(a)). In terms of R&D intensity, the most striking examples arise where rural regions are located close to highly specialised industrial hubs. The rural region of Helmstedt (Germany) – approximately 30 minutes from Wolfsburg – registers very high R&D intensity, likely because of supplier plants, testing facilities and knowledge spillovers from Volkswagen's headquarters. Several rural regions in Baden-Württemberg also exceed 5% of GDP in R&D, far above the EU's long-standing 3% target, sustained by a dense base of specialised technology-intensive manufacturers. Hautes-Pyrénées, the French region with the highest R&D intensity, at 4.5%, owes its performance to aerospace and defence industries around Tarbes rather than to urban agglomeration. It is also worth emphasizing the role of intermediate regions as the link between urban and rural regions. Nivelles, an intermediate region in Belgium, has the highest R&D intensity in the EU, largely due to the presence of several major players in the pharmaceutical companies

with close links to leading universities in the region ([53]).

In terms of industrial designs (Figure 1.3.1(b)), the top-performing Danish region is rural Vestjylland, with a long tradition in furniture and interior design. Finland's leading region in per capita designs is the rural Åland Islands, combining furniture and maritime equipment specialisation with a small population base that amplifies per capita ratios. In Germany, the rural region of Pirmasens – historically the centre of the country's footwear and leather processing industry – also exceeds the EU average by a wide margin.

Taken together, these cases suggest that strong sectoral specialisation, proximity to urban innovation hubs, and the presence of public or private research institutions can enable rural regions to overcome the structural innovation disadvantages associated with low population density and limited agglomeration.

These success stories highlight once again the need to adapt cohesion strategies to the regions' characteristics.

1.3.2. Border regions

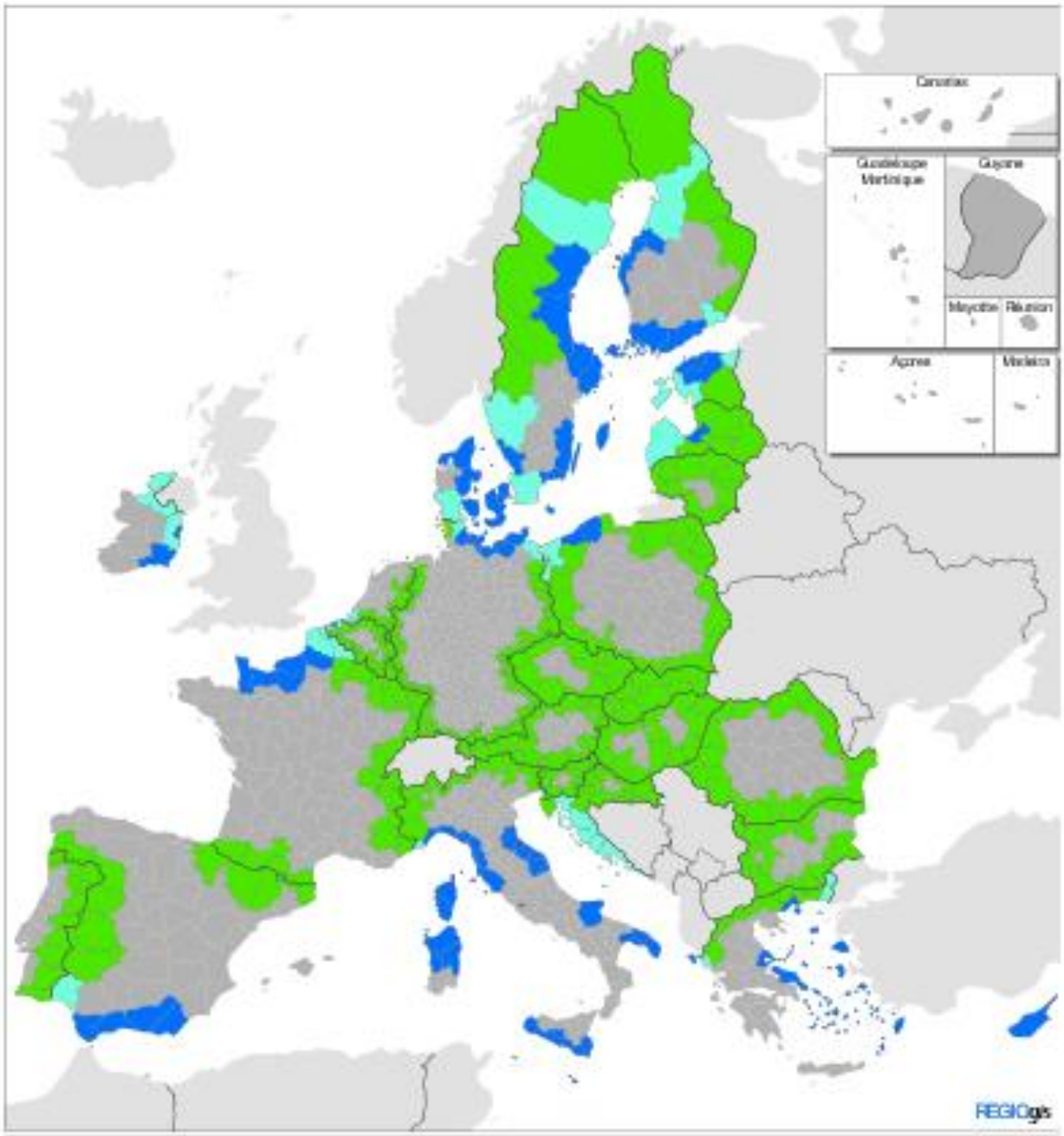
Unlike other special territories, border regions face obstacles that are entirely human-made. Their disadvantage does not arise from topographic hazards or resource scarcity, but from administrative asymmetry. Borders are not merely physical barriers; they also create regulatory discontinuity across legal frameworks, fiscal regimes, public services, and infrastructure.

For the EU, this is a major issue. Border regions are home to nearly one-third of its population and workforce. In 2024, internal land and maritime border regions collectively housed around 145 million people (31% of the EU and EFTA population) across 44% of EU territory, contributing nearly 30% of GDP and 31% of employment. Between 2007 and 2024, land border regions showed mixed dynamics: population growth lagged behind the EU average (2.1% vs. 4%), while GDP growth marginally outpaced other regions (22% vs. 19.6%).

Border regions face specific political and administrative challenges. The border creates an obstacle to market access and therefore investment and job opportunities. Differing national regulations, tax swystems and labour market rules hinder cross-border economic cooperation and productivity, which is below the EU average (see Figure 1 in (Berzi, Perpiña Castillo and Herrmann, 2025)). Cross-border governance is challenging because of the complexity of coordinating different legal and administrative systems. This has an impact on policy implementation in general and on the provision of public services (e.g. healthcare, education, or social security) in particular. Borders are also obstacles whenever environmental and infrastructure gaps require cross-border solutions (e.g. digital networks, energy grids). Finally, for regions bordering the UK (e.g. Ireland-Northern Ireland, France's Hauts-de-France), Brexit has brought new trade barriers, customs checks, and reduced EU funding. Cross-border bottlenecks are among the challenges identified in the 2026 European Semester: "*measures are also called for to simplify regulatory frameworks, reduce gold-plating, and lower administrative burdens affecting market entry and cross-border activity*" and "*regulatory restrictions on certain professions and on services markets continue to create barriers to the cross-border provision of services, for example in Luxembourg and Austria*". (European Commission, 2025a)

In recent years there has been an apparent improvement in productivity in border regions relative to non-border regions. However, these changes have been driven by border regions with a national capital (Hovedstaden, in Denmark). Hence, this is a capital-led growth effect rather than a correction or mitigation of the border effect. (Berzi, Perpiña Castillo and Herrmann, 2025) show that GDP grew more in border regions than in other regions only in countries in which the capital is actually a border region. Four countries (Poland, Slovenia, Bulgaria, and Lithuania) display strong divergence. In short, these Figures show that the problem of the underperformance of border regions compared with other regions in the same country is not diminishing.

([53]) The pharma industry in Nivelles and University College Louvain are linked through Walloon Brabant's life sciences hub, the "Pharma Valley", where the university supplies skilled graduates, research, and innovation for local pharmaceutical, biotech, and supply chain companies.



Map 1.3.2: Maritime and terrestrial border regions

Maritime and terrestrial border regions
Maritime border regions
Terrestrial border regions
Non border regions

Note : NUTS3 border regions taken into account for the distribution of the allocation for cross-border cooperation, according to the methodology set in Annex II to the Commission's proposal COM(2025) 565 for a Regulation of the European Parliament and of the Council of 16 July 2025
Source : Annex II, DG REGIO calculations

0 500 km

Administrative boundaries: © EuroGeographics, © OpenStreetMap contributors – Eurostat/GISCO

Box 1.3.1: The economic costs of borders

The economic costs of legal and administrative obstacles in cross-border regions are substantial and well-documented. They should be seen from the perspective of the "border effect", i.e. the lower socio-economic performance caused by the existence of the border. An econometric assessment by the European Parliamentary Research Service (Jančová and Kammerhofer-Schlegel, 2023) estimates that the complete removal of such barriers in EU land border regions would generate approximately €457 billion in additional gross value added per year — equivalent to 3.8% of total EU GVA — and support up to four million jobs. Under a more realistic scenario in which 20% of the obstacles are removed, the estimated benefit reaches €123 billion per year and over one million jobs. The largest share of these gains is linked to improved accessibility (€68.5 billion) and productive capacity (€48.5 billion), confirming that borders do not merely suppress trade flows but constrain the efficiency with which border regions deploy their own economic assets.

This finding is consistent with the supply-side framework developed by Capello, Caragliu and Fratesi (2018), who show that European border regions do not generally suffer from a deficit of productive resources relative to non-border regions, but rather from an inability to exploit those resources as efficiently. In their terminology, the dominant constraint is one of efficiency needs rather than endowment needs: borders reduce the returns from industrial activity, cultural assets and saving propensity, without necessarily leaving them under-resourced in absolute terms. The policy implication is significant – addressing cross-border obstacles is primarily a question of governance and legislative reform rather than additional investment, and the gains are accordingly achievable at relatively low fiscal cost.

Free mobility of labour and the deepening of the single market has already helped mitigate these obstacles and the border effect, but there is room for further improvement. Cross-border employment has grown steadily in the EU, reaching approximately 1.9 million workers in 2024 – a 46% increase since 2012 – according to the 2025 Annual Report on Intra-EU Labour Mobility. (European Commission, 2026b) However, it is still a very small fraction of the labour force. Cross-border workers represent around only 1.3% of the workforce of residence countries.

Cross-border work in the EU is geographically concentrated: France is the main country of origin (460,000 workers), followed by Poland (258,000, up 13% year-on-year) and Germany (249,000), while Germany and Switzerland are the leading destination countries (424,000 and 409,000 workers respectively). Luxembourg represents an extreme case of workforce dependence, with cross-border workers accounting for 45% of its national labour force. The concentration of cross-border work may be largely explained by the physical characteristics of borders, as cross-border work is difficult when borders run along physical obstacles (e.g. the Pyrenees between France and Spain). However, the concentration also reflects also significant wage and cost-of living differences (e.g. Poland-Germany or Luxembourg) and the underexploited potential of cross-border regional labour markets as sources of regional growth.

Employment arrangements tend to be stable: only 16% of cross-border workers held fixed-term contracts in 2024, and just 7% were employed for three months or fewer. A persistent structural feature is the gender imbalance of cross-border work. The workforce is 70% male, compared with 53% in the overall EU labour force - a gap that has remained stable over the past decade. Border regions in rural or peripheral areas, face depopulation, ageing populations, and brain drain as younger residents move to urban centres for better opportunities.

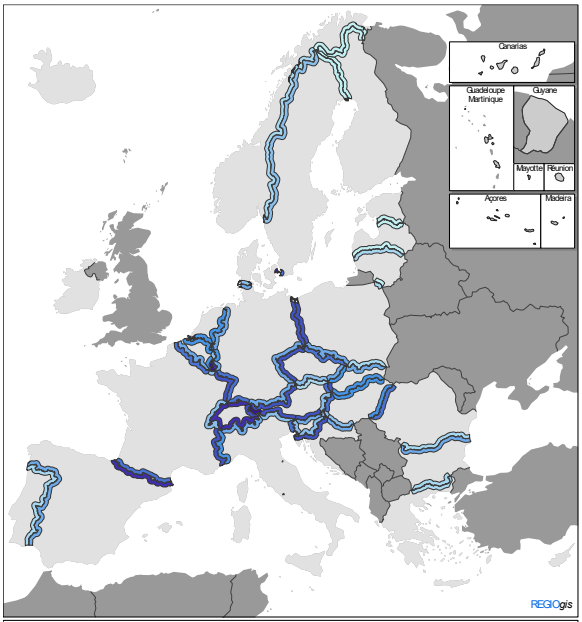
Rail connectivity is important for territorial cohesion of rural and remote regions. Transport connectivity across national borders is on average poorer than connectivity inside national boundaries, in particular for rail transport (see Map 1.3.3) ([54]). The average rail performance ([55]) for domestic trips starting in border regions is 12.3%, while cross-border trips show a significantly lower level of only 1.4%. This performance gap tends to be even wider on

([54]) To interpret Map 1.3.3, note that performance gaps are relative to the internal performance.

([55]) Measured as the share of people within 60 km that can be reached within 45 minutes.

mountainous borders, including the borders with Switzerland and the French-Spanish border. Destinations across mountainous borders generally take more time to reach, as routes are more circuitous to bypass difficult terrain, train speeds are typically lower, and rail infrastructure tends to be sparser or missing altogether. The gaps between domestic and cross-border rail performance are larger in the more central parts of the EU+EFTA area where population tends to be denser, as internal performance tends to be higher in more densely populated areas. This helps explaining the (relatively) poor performance of the Germany-Poland, France-Germany, Belgium-France and Denmark-Sweden borders. For the same reason, the gap is low on the Norway-Sweden and the Bulgaria-Greece border, even though these borders are mountainous.

The Commission is currently undertaking an initiative to identify the specific cross-border obstacles to intra-EU economic activity (European Commission, 2026b). The aim is to identify tangible, country-specific obstacles with a cross-border dimension that affect market entry, the free movement of goods and services, and the overall business environment



Map 1.3.3: Difference betw een domestic and cross-border rail transport performance in border areas, 2019

1.3.3. Outermost regions

Outermost regions (ORs), most of them islands, face a combination of several intrinsic structural constraints and acute vulnerabilities that distinguish them from both the mainland and other island or remote rural areas.([56]) ORs closely mirror the structural trap described for EU islands – connectivity deficits, sectoral concentration, and climate exposure. For many ORs these challenges are compounded by extreme remoteness resulting in the “double insularity”. Distances from the European mainland can be up to 9,400 km, making air and maritime transport as the only connection options.

These structural constraints lead to some of the worst socioeconomic outcomes in the EU. GDP per capita is below 75% of the EU average in eight of the nine ORs. Mayotte at just 28% has the lowest GDP per capita in the entire EU. Unemployment ranges from 13.5% in the Canary Islands to 28% in Mayotte, with youth unemployment particularly high (ranging from 29.5% in the Canary Islands (2025 data) to 55.4% in Mayotte (2020 data)). ORs also report high rates of early school leavers, and significant numbers of young people not in employment, education or training) populations. Access to basic services is inadequate in the least developed ORs, where clean water, sanitation, housing, healthcare, and education are still major challenges, particularly in Mayotte and French Guiana. The cost of living is high, especially for certain basic goods and in the French ORs. Housing costs are very high in the Canary Islands and Madeira.

The demographic situation varies across these territories. Some ORs (Guadeloupe, Martinique, Réunion, Azores, Madeira) face ageing and youth out-migration. Others, notably French Guiana and Mayotte, face rapid population growth. Moreover, Mayotte and the Canary Islands face intense migratory pressures, a challenge setting them apart from other islands or remote rural territories.

The different nature of the challenges faced by the various ORs isreflected in the country-specific

([56]) Outermost regions are nine regions across three Member States: French Guiana, Guadeloupe, Martinique, Mayotte, Réunion, Saint-Martin (France); Azores and Madeira (Portugal); and the Canary Islands (Spain). For statistical purposes, Saint-Martin is part of the FRY1 Guadeloupe NUTS2 region.

Table 1.3.1: Basic socioeconomic variables for Outermost Regions

	Population	Population growth 1995-2024	Employment rate	Unemployment rate	GDP per head in PPS, 2024	GDP per head in PPS, %EU, 2024	Tertiary education(a)	Dependency ratio(b)
EU	449,489,862	1.91	76.1	5.8	39,900	100	36.1	37.7
France	68,669,303	4.99	75.5	7.2	39,000	97.7	43.4	39.5
Guadeloupe	414,815	1.20	61.2	16.4	26,300	65.9	29.0	44.0
Martinique	360,227	-1.08	67.4	13.0	26,700	66.9	29.1	47.8
Guyane	296,151	26.60	50.0	16.7	16,300	40.9	21.3	14.7
La Réunion	897,613	10.76	59.4	15.6	24,900	62.4	24.2	27.9
Mayotte	320,646	34.77	:	:	10,700	26.8	:	6.1
Portugal	10,639,726	2.11	79.6	5.9	32,900	82.5	31.4	41.9
Açores	241,025	0.18	76.7	4.6	29,000	72.7	17.6	28.6
Madeira	256,622	1.39	77.2	5.3	35,300	88.5	22.4	34.7
Spain	48,619,695	7.07	72.4	10.3	36,400	91.2	42.0	34.0
Canarias	2,238,754	12.35	67.7	13.3	28,900	72.4	35.4	27.8

Notes: (a) Percentage of the population aged 20-64; (b) Population older than 65 in percentage of the working-age population.
Source: ARDECO database, Eurostat

recommendations adopted by the Council in 2026. For instance, the Council recommends that France "*Strengthen administrative capacity and spatial planning in the outermost regions*" and to "*Improve water management to better address competing demands between water-intensive sectors and ensure adequate investments in water infrastructure, particularly in the outermost regions*". The accompanying recitals refer to weaknesses in various areas such as land-use planning, the generation of renewable energy or access to the labour market and youth unemployment (Council of the European Union, 2026).

1.3.4. Islands

Leaving aside outermost regions (see previous section) and island Member States (Ireland, Malta, Cyprus), there are 4,249 inhabited islands in the EU without a fixed link to the mainland (e.g. a bridge). They are home to 10 million people across 14 Member States. The island population is highly concentrated: the five most populous islands, each with more than 250,000 inhabitants – led by Sicily and Sardinia, the only two with over one million inhabitants – account for 83% of all islanders. By contrast, around 60% of islands have fewer than 1,000 residents and represent only 0.5% of the island population.

Demographic trends diverge sharply by island size. Over 2011–2021, the smallest islands (under 1,000 inhabitants) lost population at an average annual rate of 2.7%, while the corresponding figure for the largest islands (over one million inhabitants) was 3.1%. Islands in the 100,000–1,000,000 range are the only size category registering growth (+7.1% per year). At the aggregate level, the working-age population shrank by 5.5% in the same period – nearly double the EU-wide contraction of 3.0% – and the youth population declined by 11.5%, driven by a significant natural decrease. Interestingly, the absence of a clear relationship between changes in population and the presence of airports, ferry connections, or essential services, suggests that connectivity alone is insufficient to reverse depopulation.



Map 1.3.4: Islands of the European Union

Island Nations
NUTS3 Island regions
Other Islands

Sources: DG REGIO

This map does not include the outermost regions of the European Union

Administrative boundaries: © EuroGeographics, © OpenStreetMap contributors

The economic performance of islands lags behind that of the mainland. GDP per capita in island regions ([57]) is below the EU average and has been

Table 1.3.2: Innovation performances across EU regions by urban–rural typology and island regions

	Urban regions	Intermediate regions	Rural regions	*Islands*	EU
R&D expenditure as % of GDP	2.4	2	1.6	*0.8*	2.2
Patent applications per 100,000 inhabitants	510	350	180	*41*	380
EU trademarks per 100,000 inhabitants	346	182	101	*104*	235
EU industrial designs per 100,000 inhabitants	156	118	56	*23*	123

Note: R&D Figures are JRC estimates based on 2022 data from Eurostat and ARDECO. Patent Figures reflect applications by EU-based inventors recorded in the 2023 Autumn edition of the PATSTAT database and cover filings since 1990. Trademark and design Figures refer to stocks of valid EU Trademarks and Registered EU Designs held by EU-based applicants, as of June 2025. NUTS3 island regions exclude island nations (IE, CY, MT) and outermost regions.

Source: JRC calculations and analysis based on Eurostat, ARDECO, EPO PATSTAT and EUIPO data. For islands, REGIO calculations based on JRC estimates.

declining on a relative basis for two decades. The GDP per capita of Mediterranean island regions fell from around 80–82% of the EU average in the mid-2000s to approximately 65% by the late 2010s, with only a partial post-pandemic recovery. Baltic island regions maintained closer parity with the EU average through the 2010s but have more recently also dipped below it. Both island groups are significantly less industrial than the EU average; Mediterranean islands are oriented toward tourism and trade, while Baltic islands have a large non-market services sector. Labour market outcomes mirror this underperformance. The employment rate in island regions stood at 59% in 2024, compared with 75% across the EU. Female employment is particularly low, at 49% versus 71% EU-wide. The unemployment rate (10.7%) is nearly double the EU average (5.9%).

The subpar economic performance of islands is likely linked to their having structurally lower innovation inputs and outputs than any other EU territorial typology reflecting their structural disadvantages. R&D expenditure (Table 1.3.2) stands at 0.8% of GDP, roughly one-third of the EU average (2.2%) and well below that of rural regions (1.6%). Patent applications are just 41 per 100,000 inhabitants, one-ninth of the EU Figure (380). In terms of EU trademarks, islands (104 per 100,000) are closer to rural regions (101) but still well below the EU average (235), consistent with a service and branding orientation rather than frontier technological activity.

Transport services vary considerably with island size. All islands with more than 100,000 inhabitants have an airport, against only 22% of islands in the 1,000–50,000 population range , dropping to 1% for the smallest islands. Passenger flight frequency differs markedly: 14 flights per day on average on islands with fewer than 50,000 inhabitants versus 98 per day on larger islands. Ferries serve most islands, but 20% of the smallest lack even this basic connection. Islands may also have more difficulty accessing renewable energy and higher electricity prices erode their competitiveness and economic development faster than in the case of the mainland. In the case of Greece, for instance, this is reflected in the 2026 country specific recommendations, which state that "*further actions are warranted to reduce Greece's fossil-fuel dependency and make electricity prices lower, for example through promoting demand-response and speeding up the roll out of smart meters, completing interconnection of islands, reducing losses of the distribution network and addressing factors contributing to higher electricity costs for final consumers*". (Council of the European Union, 2026)

Access to essential services follows a similar pattern: all islands with more than 50,000 inhabitants have at least one healthcare centre and one primary school, whereas among islands

(57) For many socio-economic indicators, we must rely on regional data and therefore limit the analysis to NUTS3 island regions. These regions, however, are a good proxy for islands in general as they account for 91% of islanders.

with fewer than 1,000 inhabitants only 1% have a healthcare centre and 38% have a primary school.

The obvious limit to the supply of land on an island creates economic and environmental pressures. Housing affordability is more constrained in island regions than on the mainland (46.6 square metres rentable with one-third of income, versus 53.3 on the mainland). Tourism is both a structural pillar and a source of pressure: island regions record 36.3 nights per resident per year (2024), compared with 6.7 at EU level. Tourism intensity is strongly correlated with higher house prices and rents. While tourism is a major source of revenues, excessive reliance on a single economic sector leaves islands vulnerable, as dramatically illustrated by the COVID-19 pandemic. Even within tourism, islands are excessively specialized: island regions score just 0.23 on tourism diversity (versus 0.92 EU-wide), making them highly exposed to demand shocks and climate-driven shifts in visitor patterns. Tourism also puts pressure on environmental resources such as water. For instance, the recitals accompanying the country-specific recommendations for Spain acknowledge that "*[l]arge areas of the country – especially drier southern, inland and island areas – experience water stress, with demand – particularly from industry, agriculture, tourism and energy production – exceeding sustainably available resources*". (Council of the European Union, 2026) Climate risks are also disproportionately high. Under a +2°C scenario, total climate-related damages in island regions are projected to reach 1.53% of GDP by 2050 – more than double the EU average of 0.72%. Productivity losses (0.84% of GDP) and drought damages (0.37%) are the main drivers, far exceeding EU averages of 0.32% and 0.12% respectively.

The evidence presented points to a structural growth constraint that is qualitatively distinct from that observed in other lagging territories and has three mutually reinforcing aspects:(i) poor connectivity raises the cost of economic activity and provision of services and limits market reach; (ii) sectoral concentration in tourism and non-market services crowds out the diversification and innovation investment that would otherwise generate resilience; and (iii) disproportionate climate exposure threatens the natural assets on which the dominant economic model depends. These structural handicaps have likely contributed to lagging productivity growth in recent decades.



Map 1.3.5: Coastal typology by sea basin

1.3.5. Coastal areas

Coastal areas are among the EU's most economically significant territories, albeit with considerable variation: they include some of the most dynamic metropolitan areas of the EU but also remote, rural coastal regions facing serious challenges such as coastal erosion due to climate change or significant environmental and social pressures from seasonal tourism.

Approximately 95 million people live in coastal municipalities. This figure rises to 166 million when broader coastal NUTS3 regions are included, 37% of the population in Member States with a coastline. Italy, Spain, and France together account for over 65% of all coastal residents. Coastal regions generate roughly 40% of EU GDP despite covering less than 10% of its land area. Tourism employs around 3.2 million people, accounting for up to 39% of employment in Greece and Croatia. The maritime economy supports 5.4 million jobs; EU ports handle 74% of external trade. In coastal areas, urban centres attract younger, economically active populations. Conversely, rural and peripheral coastal areas –

particularly in southern and eastern Europe – face depopulation, ageing, and limited infrastructure, similarly to islands and remote rural regions in general.([58])

Coastal areas and islands share similar tourism and environmental pressures. In EU coastal waters sea levels are rising by 3–10 mm per year – above the global average – with over 1,000 km of coastline lost to erosion and construction since 2000, and approximately 50% of coastal wetlands degraded or destroyed. An estimated 13 million people in low-lying coastal areas face flooding risk by 2050. As in islands, tourism hotspots in coastal areas experience seasonal population fluctuations of 20–50%, putting a persistent strain on infrastructure, housing, and public services. Rising property prices, driven by tourism and second-home demand, displace local residents (see chapter 2.4). Some of those challenges are identified in recitals accompanying the country-specific recommendations adopted by the Council in July 2026, which point outthat "*[h]ousing shortages are most pronounced in urban and metropolitan areas, as well as in tourism-intensive coastal areas*" in Spain, "*[a]ffordability pressures are much higher in coastal and urban areas*" in Portugal, or "*housing affordability continues to be a concern, especially in major cities and coastal regions*" in Croatia. (Council of the European Union, 2026) The EU Sustainable Tourism Strategy will also focus on tackling unbalanced tourism, promoting sustainable practices and strengthening the sector's global competitiveness, encouraging national and sub-national action.

1.3.6. Northern sparsely populated areas

Northern sparsely populated areas (NSPAs) cover regions in Sweden and Finland where population density is exceptionally low.([59]) They are home to around 507,000 people in Sweden (16.1% of the national population) and 642,000 in Finland (10.8%). Between 1995 and 2024, the population of Swedish NSPAs declined by 1.8% while the national population grew by 19.7%. In the same period, the population of Finnish NSPAs fell by 4.2% , while the national population grew by 10.0%. GDP per capita in NSPAs is below national averages: 90.2% of the national average in Sweden and 84.9% in Finland.

Between 1995 and 2024, NSPAs achieved strong GDP growth, with Finnish NSPAs nearly matching the national rate (51.6% vs. 51.4%) and Swedish NSPAs outperforming it (61.36% vs. 54.60%). However, this expansion has coexisted with persistent depopulation, a paradox rooted in these countries resource-dependent economic structures. Dominated by capital-intensive industries such as forestry, mining, and energy, these regions generate high value-added output with relatively low labour demand, limiting job creation and failing to retain residents. This dynamic is reflected in the education of the workforce: the share of working-age adults with tertiary education in NSPAs (37.9% in Sweden, 43.9% in Finland) lags behind national averages (42.6% and 50.5%, respectively). This suggestes a brain drain caused by skilled workers migrating to urban centres or young people leaving the region to study and not returning.

Compounding this challenge is poor connectivity, a structural weakness that isolates these regions. Road accessibility ([60]) is significantly lower in NSPAs (70.2% in Sweden, 76.1% in Finland, compared with national levels of 81.6% and 85.3%), while rail connectivity is even weaker, with NSPAs scoring just 2.5 (Finland) and 8.7 (Sweden) against national averages of 10.8 and 17.4. This challenge is reflected in the recitals accompanying the country-specific recommendations addressed to Sweden in 2026,

([58]) For an exhaustive overview of coastal areas, see European Climate, Infrastructure and Environment Executive Agency, *Study on resilience and local economic development in EU coastal communities,* forthcoming.

([59]) From the formal point of view, NSPA are NUTS 2 level regions: North and East Finland in Finland and Upper Norrland and Middle Norrland in Sweden.

([60]) Measured as the share of the population within a 120 km radius reachable in 1.5 hours.

Table 1.3.3: Basic socio-economic variables of Northern Sparsely Populated Areas

		European Union	Sweden	Finland
Population, 2024	Total	449,844,771	3,147,438	5,960,696
	NSPA		507,749	641,917
	% total		16.1	10.8
Population growth 1995 - 2024	Total	5.70	19.74	10.03
	NSPA		-1.78	-4.17
GDP per head in PPS, 2024	Total	40,048	44,882	40,897
	NSPA		40,503	34,720
	% total		90.2	84.9
Growth of GDP per head, 1995-2024	Total	50.59	54.60	51.40
	NSPA		61.36	51.62
Road performance, 2023[(a)]	Total	80.1	81.6	85.3
	NSPA		70.2	76.1
Rail performance, 2023[(b)]	Total	15.9	17.4	10.8
	NSPA		8.7	2.5
Population aged 20-64 with tertiary education, %, 2024	Total	36.1	42.6	50.5
	NSPA[(c)]		37.9	43.9

Notes: (a) Share of population within a 120-km radius that can be reached within 1h30 by road; (b) Share of population within a 120-km radius that can be reached within 1h30 by rail; (c) Data available at NUTS2 level imputed to NUTS3 NSPA regions, population-weighted average.

Source: ARDECO database and own calculations

which notel that "*[t]here are several regions, such as in the northern sparsely populated areas with labour shortages, while labour is in surplus in other regions, which shows the need for improving labour mobility and improving public services and infrastructure to enable workers to relocate to regions where the available job opportunities better match their skills.*" (Council of the European Union, 2026)

In Finland, disruptions caused by the 1,340 km border with Russia at a time of war axacerbate the challenges facing NSPAs. Thus, while NSPAs contribute disproportionately to national GDP, their growth model characterised by automation, limited labour absorption, and weak infrastructure struggles to support population retention and long-term, cohesive regional development.

Tourism is a key sector in NSPAs. However, its highly seasonal nature, makes it a structurally fragile pillar of the economy. To mitigate this seasonality, in Lapland (Finland), for example, the focus is increasingly on developing year-round tourism by investing in non-winter attractions (such as aurora borealis observatories and indigenous Sámi cultural experiences) and marketing campaigns to diversify tourism revenue outside the ski season.

1.3.7. Eastern border regions

The Communication on the EU's eastern regions ([61]) highlights the situation of EU regions sharing a border with Russia, Belarus, Ukraine, and the Black Sea: regions in Finland, Estonia, Latvia, Lithuania, Poland, Slovakia, Hungary, Romania, and Bulgaria. These regions are home to a combined population of over 14 million (at NUTS3 level), ranging from 5.5% of the national total in Hungary to nearly 60% in Lithuania.

In their countries, these regions are often rural and remote and lag behind the national average in many key indicators. GDP per capita in purchasing power standards is only 57.3% of the national average in Latvia's border regions, 57.9% in Hungary's, and 62.1% in Romania's. Only Lithuania's border regions record GDP per capita above the national average (111.3%), explained by the proximity of its capital, Vilnius, to the Belarusian border.

Demographic trends are also a cause for concern: most border regions have lost population faster than the national averages. For example, the population of Latvia's border regions declined by

([61]) (European Commission, 2026c)

Table 1.3.4: Basic socio-economic variables of NUTS3 eastern border regions

	Population[1]			Percentage		GDP per head in PPS[2]			Unemployment[3]	
	national	border regions	% national	national	border regions	national	border regions	% national	national	border regions
Finland	5,623,770	1,114,608	19.8	7.6	-1.9	40,920	35,671	87.2	8.3	8.3
Estonia	1,375,589	455,850	33.1	0.9	-12.7	31,358	24,057	76.7	7.5	7.5
Latvia	1,857,674	510,994	27.5	-17.9	-25.4	28,159	16,143	57.3	6.9	6.9
Lithuania	2,890,509	1,696,362	58.7	-14.4	-10.0	34,485	38,387	111.3	7.1	7.1
Poland	36,602,188	4,605,735	12.6	-4.1	-6.5	31,916	20,826	65.3	2.9	2.9
Slovakia	5,443,288	1,593,327	29.3	1.3	1.5	29,983	21,950	73.2	5.3	9.6
Hungary	9,560,958	523,218	5.5	-5.4	-10.2	30,363	17,581	57.9	4.5	7.0
Romania	19,055,978	3,645,857	19.1	-11.2	-11.1	31,090	19,303	62.1	5.4	6.1
Bulgaria	6,441,420	968,460	15.0	-16.5	-11.3	26,324	20,999	79.8	4.2	4.4

(1) Average annual population in 2024; (2) purchasing power parity in 2023; (3) unemployed over civilian labour force for NUTS2 regions.
Source: ARDECO database and own calculations

25.4% between 2004 and 2024, compared with a national decline of 17.9%, whereas Estonia's border regions lost 12.7% against a national gain of 0.9%. Slovakia's border regions registered marginal growth between 2004 and 2024 but only because of strong growth at the turn of the century: since 2011 population has decreased by 1.1%. Looking ahead, eastern border regions could harness their potential in critical raw materials, forestry, biomass, renewable energy and agriculture to help reverse recent economic and population decline.

Besides economic and demographic issues, eastern border regions face security challenges that are qualitatively distinct from those affecting other territorial categories. They are on the front line for hybrid threats – including disinformation, cyberattacks, and instrumentalised migration pressures – and for the management of the EU's external border with an actively hostile state. This geopolitical exposure discourages investment and economic activity; it therefore requires policy responses that go beyond standard cohesion instruments.

Those challenges are reflected in the 2026 country-specific recommendations, which recommend that the eight Member States concerned "*[a]ddress the unique socio-economic, security and civil preparedness challenges affecting regions on the EU's external eastern border, including the need to invest in dual-use infrastructure*" (Council of the European Union, 2026). In each case, the recommendation is supported by a recital setting out further details of the most relevant challenges for external eastern border regions in the Member State concerned.

1.3.8. Conclusions

Specific territories in the EU, namely islands, outermost regions, rural areas, mountain regions, and eastern border territories, face different combinations of a set of interconnected vulnerabilities that put them at a disadvantage compared to other regions. Demographic decline shaped by ageing populations, youth outmigration, and shrinking labour forces emerges as a cross-cutting challenge, exacerbating economic stagnation, service gaps, and fiscal pressure. Geographic remoteness, poor connectivity, and climate exposure further compound these disparities, limiting access to markets, public services, and economic opportunities. Excessive sectoral specialization – whether in tourism (islands, coastal areas), agriculture (remote rural regions), or resources extraction (mountain and border areas) – heightens vulnerability to external shocks, from pandemics to climate change. Finally, governance fragmentation, particularly in cross-border and ultra-peripheral regions, complicates policy implementation, often requiring tailored legal and financial instruments to bridge structural gaps.