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Competitive versus generative approaches of regional economic development: forecasting regional growth paths in Hungary

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Abstract

This research studies regional inequalities as a persistent feature of the Hungarian economy through investigating the methodologies of long-run regional economic forecasting. The preferable territorial scale for the long-term forecast is the NUTS 2 level, although, regional data are also available at NUTS 3 level. Regional economic modelling is well established in a few Hungarian scientific institutions, however, these practices primarily focus on impact assessment. At the same time, economic forecasts are available only at the macro level for Hungary, therefore, I intend to fill this gap by proposing a method to produce regional level forecasts.

There is no clear consensus in the literature about the question whether a theory-driven, structural model or a data-driven, econometric model performs better in economic forecasts. There are two basic approaches to producing regional-level economic forecasts. Bottom-up or generative models are full-fledged regional models with well-established interregional feedback mechanisms. Their major drawback is the great data requirement and the size of the model. Top-down, distributive or “satellite” models forecast regional growth given the forecast of the national variables obtained from macro models. These methods allocate regional growth across the regions in a competitive manner according to a certain, e.g. statistical, rule.

The aim of my research is to select a suitable methodology mix to forecast regional level growth, employment and population on Hungarian data at a longer horizon according to the distributive (top-down) approach. I intend to present that there is a trade-off between the resource requirement and the reliability of the model results, and top-down modelling approaches are filling a niche in this respect. This exercise suggests that a combination of different forecasting techniques, both structural and econometric, may be useful to arrive at a plausible model based on the Hungarian regional data.