THE 2013 EURO PLUS MONITOR

FROM PAIN TO GAIN

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Policy Brief

The 2013 Euro Plus Monitor
From Pain to Gain

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Highlights at a Glance

No pain, no gain. Reform can be difficult. But thanks to major adjustment progress at the periphery, a better European governance structure and a reliable safety net, success is now within reach. If the **eurozone** and its 17 member countries stay the course, the region's systemic crisis could be over by mid-2014. The eurozone could begin to reap the rewards of reform amid a firming cyclical recovery.

Tracking the progress. The 2013 Euro Plus Monitor tracks the fundamental health and measures the adjustment progress of the 17 euro members as well as **Poland, Sweden** and the **United Kingdom**. This year, we find further improvements as well as some new risks.

Reform countries shape up. The four euro members that had been granted external assistance by early 2013 – **Greece, Ireland, Spain** and **Portugal** – further strengthened their reform efforts in 2013. As a result, their combined twin deficit has almost disappeared (see Chart 1). In other words, they are no longer living beyond their means.

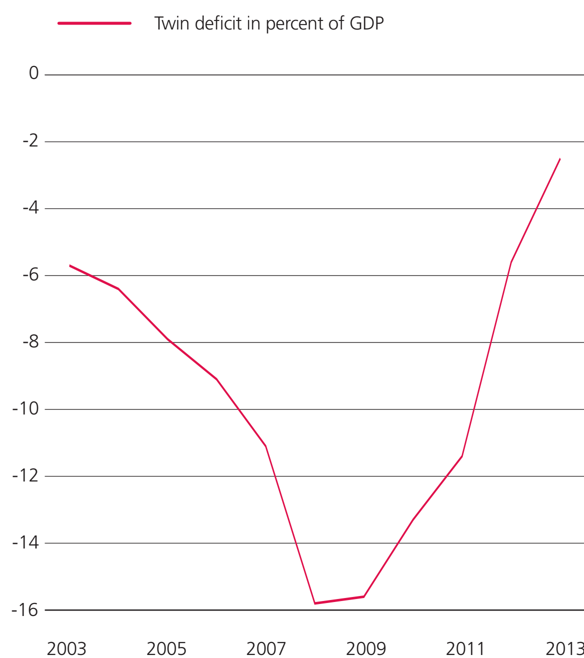
Small can be beautiful. Our award for the most impressive rise in the adjustment ranking goes to **Cyprus**. If it keeps its nerve, the small island with its flexible labour market could be on the verge of a Baltic-style rebound by late 2014.

Lagging behind in Rome. While **Italy** continues to reform at an above-average rate, its progress is patchier than in the five countries under troika supervision.

The sick man of Europe. We still find only very limited progress in **France**. The country needs to slash expenditures, cut taxes and go far beyond the minor labour market reform of early 2013. Otherwise, France could wind up at the very bottom of the European ranking in as little as three years.

Chart 1: The Disappearing Twin Deficit

Current account balance and structural fiscal balance, Spain, Greece, Ireland, Portugal combined



Sources: Eurostat, IMF World Economic Outlook October 2013

Europe is rebalancing, and so is Germany. Germany's trade surplus with the eurozone is falling fast. Proposals to turn **Germany** into a new France, with higher labour costs and excessive government spending, are misguided.

Success breeds complacency. While still in good fundamental health, **Sweden** and **Finland** are showing worrying signs of complacency. Germany could soon follow suit.

Serious risks remain. If Germany's Constitutional Court outlaws the ECB's monetary policy, if France refuses to deliver reform, or if Italy fails to address its credit crunch, the euro crisis could still return with a vengeance.

Table 1: Adjustment Progress Indicator

Rank		Country	Total Score			External adjustment			Fiscal adjustment			Labour cost adjustment			Reform drive		
2013	2012		2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	*2013*	*Change*	2012	2013	*Change*	2012
1	1	Greece	8.6	*0.4*	8.2	6.8	*0.2*	6.6	9.6	*1.0*	8.6	8.3	*0.6*	7.7	10.0	*0.0*	10.0
2	2	Ireland	7.7	*0.4*	7.3	8.7	*-0.1*	8.8	5.6	*1.1*	4.5	8.4	*0.0*	8.4	8.2	*0.8*	7.4
3	5	Spain	6.9	*0.7*	6.2	7.6	*0.5*	7.1	6.5	*2.3*	4.2	5.7	*0.0*	5.7	7.7	*-0.1*	7.8
4	4	Portugal	6.7	*0.2*	6.5	7.1	*0.4*	6.7	6.7	*0.2*	6.5	5.3	*-0.4*	5.7	7.7	*0.7*	7.1
5	6	Slovakia	6.3	*0.6*	5.7	7.7	*1.5*	6.2	7.2	*2.7*	4.5	4.9	*-1.5*	6.4	5.5	*n.a.*	n.a.
6	3	Estonia	6.2	*-0.3*	6.5	7.2	*-1.7*	8.9	2.2	*-0.2*	2.4	6.6	*-1.8*	8.3	8.8	*n.a.*	n.a.
7	10	Cyprus	6.1	*1.8*	4.3	7.1	*1.6*	5.5	4.1	*0.0*	4.1	7.2	*3.9*	3.4	n.a.	*n.a.*	n.a.
8	7	Poland	5.0	*-0.3*	5.3	5.4	*0.9*	4.5	6.2	*-2.1*	8.3	2.2	*0.4*	1.8	6.1	*-0.6*	6.7
9	8	Italy	4.6	*0.1*	4.6	4.4	*0.6*	3.8	6.5	*-0.7*	7.2	2.5	*-0.4*	2.9	5.2	*0.8*	4.4
10	12	UK	4.6	*0.5*	4.1	3.9	*0.2*	3.8	5.0	*0.5*	4.5	3.7	*1.1*	2.6	5.8	*0.2*	5.6
11	11	Slovenia	4.3	0.0	4.3	*6.5*	*0.7*	*5.8*	5.2	0.8	4.4	3.3	*0.7*	2.7	2.2	*n.a.*	n.a.
		Euro 17	4.2	0.2	3.9	*4.3*	*0.2*	*4.1*	5.0	0.7	4.3	2.5	*-0.1*	2.6	5.0	*0.3*	4.8
12	9	Malta	3.6	*-0.8*	4.4	6.2	*-0.1*	6.4	2.0	*-0.1*	2.1	2.7	*-2.2*	4.8	n.a.	*n.a.*	n.a.
13	14	Netherlands	3.4	*0.1*	3.3	5.2	*0.5*	4.8	3.1	*0.3*	2.8	2.9	*0.4*	2.5	2.4	*-0.6*	3.0
14	15	France	3.3	*0.2*	3.2	3.2	*0.2*	2.9	4.6	*0.3*	4.3	2.0	*0.0*	2.0	3.5	*0.2*	3.3
15	16	Austria	3.2	*0.2*	3.0	3.0	*0.3*	2.6	2.4	*1.5*	0.9	1.2	*-0.6*	1.8	6.1	*-0.6*	6.7
16	18	Germany	2.5	*0.5*	2.0	3.3	*-0.1*	3.4	4.1	*0.5*	3.6	1.1	*0.1*	1.0	1.5	*1.5*	0.0
17	17	Finland	2.4	*0.0*	2.4	1.9	*0.9*	1.0	0.2	*0.0*	0.2	2.8	*-0.8*	3.6	4.7	*-0.2*	4.9
18	19	Belgium	2.1	*0.1*	2.0	3.2	*0.2*	3.0	2.1	*0.1*	2.0	1.4	*-0.4*	1.8	1.6	*0.4*	1.1
19	20	Luxembourg	2.0	*0.7*	1.3	2.6	*1.5*	1.1	0.5	*0.4*	0.2	4.2	*0.5*	3.7	0.6	*0.6*	0.0
20	13	Sweden	1.9	-1.6	3.5	*2.4*	*-0.5*	*2.9*	0.0	-3.7	3.7	1.0	*-0.7*	1.7	4.3	*-1.3*	5.6

Table 2: Fundamental Health Indicator

Rank		Country	Total Score			Trend growth			Competitiveness			Fiscal sustainability			Resilience		
2013	2012		2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012
1	1	Estonia	7.4	*0.0*	7.4	6.6	*0.2*	6.5	6.3	*-0.2*	6.5	9.2	*-0.1*	9.2	7.5	*0.1*	7.4
2	3	Germany	7.3	*0.3*	7.0	6.4	*0.1*	6.3	8.1	*0.1*	8.0	7.3	*0.5*	6.9	7.5	*0.7*	6.8
3	2	Luxembourg	7.0	*-0.1*	7.1	6.8	*0.0*	6.8	6.4	*-0.2*	6.6	9.3	*-0.2*	9.5	5.7	*0.2*	5.5
4	7	Slovakia	6.9	*0.4*	6.5	5.7	*0.1*	5.6	7.1	*0.1*	6.9	7.4	*1.2*	6.3	7.6	*0.4*	7.2
5	5	Netherlands	6.9	*0.2*	6.6	7.3	*0.0*	7.3	8.3	0.3	8.0	5.8	*0.6*	5.2	6.1	*0.0*	6.0
6	4	Sweden	6.7	*-0.2*	6.9	7.1	*-0.1*	7.2	5.9	*-0.3*	6.3	7.1	*-0.3*	7.4	6.8	*-0.1*	6.9
7	8	Slovenia	6.4	*0.3*	6.1	6.0	*-0.1*	6.0	5.7	*0.2*	5.5	6.5	*0.9*	5.6	7.7	*0.4*	7.3
8	6	Poland	6.4	-0.1	6.5	6.0	0.1	5.9	7.2	-0.1	7.3	6.1	0.1	6.1	6.4	-0.3	6.7
9	9	Austria	5.9	*0.1*	5.7	5.9	*0.0*	6.0	5.8	*-0.2*	5.9	5.7	*0.5*	5.2	6.1	*0.3*	5.8
		Euro 17	5.8	0.3	5.5	5.0	0.0	5.0	6.2	0.1	6.1	6.2	0.7	5.5	5.9	0.3	5.6
10	11	Belgium	5.4	*0.1*	5.3	5.3	*-0.1*	5.4	6.9	*0.0*	6.9	4.2	0.2	4.0	5.2	*0.2*	5.0
11	14	Ireland	5.3	*0.6*	4.8	5.3	*-0.2*	5.5	7.4	*0.2*	7.2	4.9	*1.1*	3.8	3.8	*1.2*	2.7
12	12	UK	5.3	0.2	5.1	5.3	*-0.1*	5.4	6.2	*-0.2*	6.4	4.7	*1.0*	3.8	5.0	*0.1*	4.9
13	10	Finland	5.3	*-0.2*	5.4	5.8	*-0.1*	5.9	3.4	*-0.4*	3.9	6.1	*-0.4*	6.4	5.8	*0.2*	5.5
14	13	Malta	5.2	*0.2*	5.0	4.3	*0.1*	4.1	6.2	*-0.5*	6.7	6.3	*0.2*	6.0	4.1	*0.9*	3.2
15	15	Spain	4.9	*0.4*	4.5	3.7	*-0.1*	3.9	5.0	*0.6*	4.5	5.7	*1.2*	4.4	5.2	*-0.1*	5.3
16	16	France	4.7	*0.2*	4.5	4.8	*0.1*	4.7	4.0	*0.0*	4.0	4.5	*0.7*	3.9	5.4	0.1	5.3
17	20	Greece	4.5	*1.0*	3.6	3.5	*-0.4*	4.0	4.4	*0.8*	3.6	4.9	*2.1*	2.8	5.3	*1.3*	4.0
18	17	Italy	4.5	*0.1*	4.4	3.3	0.0	3.3	3.6	*0.0*	3.6	5.6	*0.2*	5.3	5.6	*0.2*	5.4
19	18	Portugal	4.4	*0.5*	3.9	3.9	*0.3*	3.6	5.2	*0.4*	4.8	4.5	*0.7*	3.7	4.1	*0.7*	3.4
20	19	Cyprus	4.0	*0.4*	3.6	3.2	*-0.7*	3.9	3.5	*1.1*	2.5	5.6	*0.0*	5.6	3.6	*1.2*	2.4

Score: We rank all sub-indicators on a linear scale of 10 (best) to 0 (worst). Having calculated the results of the sub-indicators, we aggregate them into a total score for each country for both the Adjustment Progress Indicator and the Fundamental Health Indicator.
Change refers to the change relative to the country's score in *The 2012 Euro Plus Monitor*. Small differences between the reported change and the scores for 2013 versus 2012 are due to rounding.
Rank: Based on the scores, we calculate the relative ranking of each country. The No. 1 position goes to the country with the highest score and the No. 20 rank to the one with the lowest.

I. Key Findings

Is the euro crisis over for good? After the European Central Bank managed to calm markets in the autumn of 2012, the eurozone economy returned to modest growth in the spring of 2013. Is this just a temporary respite? Or is the region using the time which the ECB has bought to address fundamental problems and lay the groundwork for sustainable growth?

In **The 2013 Euro Plus Monitor**, produced by Berenberg and the Lisbon Council, we seek to answer these questions from two different angles. First, we ask whether the 20 economies surveyed have risen to the challenge of the crisis. Regardless of their starting situation, are they reforming themselves with visible results or are they failing to adjust? We examine four key aspects of adjustment: 1) the change in each country's fiscal position, 2) the swing in the external accounts, 3) the adjustment in unit labour costs, and 4) the implementation of supply-side reforms. We aggregate the results into an **Adjustment Progress Indicator**, which measures the speed of progress that individual countries are making.

Second, we assess the fundamental economic health of the countries surveyed on four long-term criteria: 1) growth potential, 2) competitiveness, 3) fiscal sustainability and 4) resilience to financial shocks. We aggregate these results into a **Fundamental Health Indicator**, which measures the overall health of an economy, regardless of whether or not it is currently reforming itself.

The 2013 Euro Plus Monitor is the third edition of this annual survey. It covers the **17** members of the eurozone as well as three key non-eurozone economies – **Poland, Sweden** and the **United Kingdom.**

Two years ago, we found "progress amid the turmoil," as the sub-title of *The 2011 Euro Plus Monitor* suggested.[1] We argued that, under the pressure of extreme market turbulence, the countries hardest hit by the euro crisis had started to seriously correct their imbalances. Last year in *The 2012 Euro Plus Monitor*, we reported that – despite a serious and on-going adjustment recession – the eurozone had advanced significantly further on "the rocky road to balanced growth" in the future.[2]

1. Holger Schmieding (principal author), Paul Hofheinz, Jörn Quitzau, Anja Rossen and Christian Schulz, *The 2011 Euro Plus Monitor: Progress Amid the Turmoil* (London/Brussels: Berenberg/Lisbon Council, 15 November 2011).
2. Holger Schmieding and Christian Schulz (principal authors), Paul Hofheinz, Ann Mettler, *The 2012 Euro Plus Monitor: The Rocky Road to Balanced Growth* (London/Brussels: Berenberg/Lisbon Council, 29 November 2012).

‘The eurozone has advanced further; the crisis countries grace the top of the adjustment league.’

Chart 2: The Key Results: Adjustment Progress and Fundamental Health

Twenty European countries ranked by the Adjustment Progress Indicator. Grey shaded bars indicate 2012 scores

See notes under Table 2 on page 4.
Source: Berenberg calculations

‘Our award for the most impressive rise in the adjustment ranking goes to Cyprus this year.’

This year, the main conclusions are:

1. The **eurozone** has advanced further on the reform and adjustment track. Having emerged from a wrenching adjustment recession in spring 2013, the region is now close to the point where it can leave behind the worst of the pain and start to enjoy the gains of reform instead. To really progress to that stage, though, policymakers need to stay the course. Countries need to continue their reforms, the German Constitutional Court needs to allow the ECB to do its job, and banking issues at the euro periphery need to be addressed decisively.

2. As a result of continuing rapid adjustment at the euro periphery and some progress at the core, the **eurozone** as a whole is turning into a more balanced and potentially more dynamic economy. Almost all countries in need of adjustment – the ones with low rankings in the Fundamental Health Indicator – have slashed their underlying fiscal deficits and improved their external competitiveness at an impressive speed, as shown by their higher rankings in the Adjustment Progress Indicator. See Tables 1 and 2 on page 4 for more details.

3. The four eurozone countries that had been granted external assistance by early 2013 – **Greece, Ireland, Spain** and **Portugal** – have strengthened their adjustment efforts further over the last 12 months. As a result, they now take the top four places in the Adjustment Progress Indicator ranking. **Greece** ranks No. 1 on adjustment progress, as it did last year. **Ireland** keeps the No. 2 slot. **Spain** advances to No. 3, up from No. 5 last year; **Portugal** stays in the No. 4 position. In other words, the countries that need to shape up fast have done so under the pressure of the crisis. The results reveal no trace of a “moral hazard,” that is, of a hypothetical risk that outside support could blunt the readiness to adjust. Chart 3 on page 8 shows the pace of adjustment progress for these four countries as well as for the eurozone as a whole.

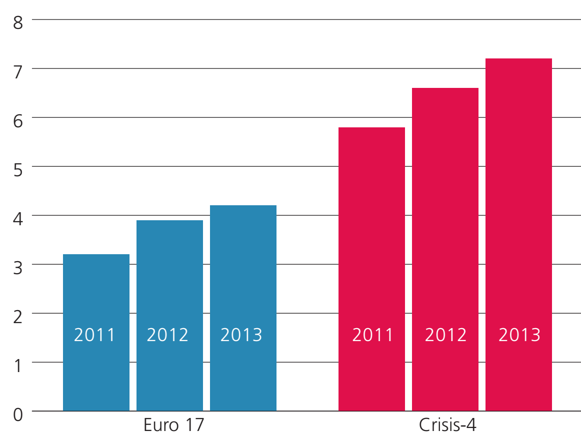
4. Our award for the most impressive rise in the adjustment progress ranking goes to **Cyprus** this year. Having only come under troika scrutiny this spring, Cyprus has moved up faster than any other country in our sample, to No. 7 position now from No. 10 in 2012 and No. 13 in 2011. If Cyprus and its creditors stay the course, the small and open island blessed with a British legacy of a comparatively flexible labour market could be on the verge of a Baltic style post-crisis rebound one year from now.

5. **Italy**, at No. 9 on adjustment progress, down from No. 8 last year, continues to reform itself at a rate that is well above average. But relative to the five countries that have been under some troika supervision, its progress remains patchy. On the positive side, Italy has improved its external balance, increased its underlying primary fiscal surplus and delivered some useful structural reforms. On the negative side, unit labour costs are still increasing as an inflexible labour market prevents an adequate response of wages to rising unemployment. In addition, the rise in the debt-to-gross domestic product ratio caused by an unexpectedly deep recession has added to the need for some further long-term fiscal consolidation.

‘The eurozone can emerge from the crisis as one the most dynamic of the major Western economies.’

Chart 3: Faster Pace of Adjustment

Adjustment progress Crisis-4 vs. Euro 17



Crisis-4 = Spain, Greece, Ireland and Portugal

Source: Euro Plus Monitor 2011, 2012 and 2013

6. Spain, at No. 3 on adjustment progress, is adapting particularly well. Helped by strong gains in exports and subdued imports, it has shifted its external balance to an estimated net export surplus of 2.4% of GDP in 2Q 2013, up from a deficit of more than 10% of GDP in 2008. It has also reformed its labour market and slashed its unit labour costs, partly through the relentless shedding of its least productive workers, especially in the low-productivity construction sector. But despite a series of harsh austerity programmes, Spain’s fiscal position remains challenging. The key for Spain should be long-term entitlement reforms and a streamlining of its multi-layered administration rather than further cuts in current government spending. Once Spain restores trust in its banking sector, ideally with further bold actions ahead of the ECB capital adequacy review and the stress tests next year, it could be a candidate for a rapid rather than just a mediocre pace of rebound from the adjustment recession that finally ended in mid-2013.

7. Many eurozone members are going through a wave of sweeping **structural and fiscal reforms** while the region as a whole is strengthening its **governance structure**. At the same time, other even more heavily indebted major economies such as the US and Japan are not. If the eurozone stays on the reform path, and if reform laggards such as France finally join in, the eurozone could eventually emerge from the crisis as one the most dynamic of the major Western economies. This is the clear message conveyed by the results presented in this survey.

8. In *The 2012 Euro Plus Monitor*, we argued that “in the absence of additional policy mistakes, the euro crisis could thus fade somewhat in 2013.” This has happened. **The impressive adjustment progress** of key member countries and the **safety net provided by the European Central Bank (ECB)** in August 2012 have boosted confidence. As a result, the eurozone returned to modest growth in the spring of 2013. The on-going progress in major parts of the eurozone can underpin a gradually strengthening recovery in 2014.

9. However, the situation remains fragile. To strengthen the still-hesitant cyclical rebound, the eurozone needs to do more, including (but not limited to) the following: 1) The **credit crunch** in parts of the euro periphery has turned into a **serious obstacle to growth**. Unfortunately, discussion about a banking union has retarded

'In 2011 we concluded that alarm bells should be ringing for France. Since then, not much has changed.'

progress on cleaning up bank balance sheets. Instead of tackling the task decisively at the national level, and preparing to ask for troika support if capital shortfalls go beyond the means of the national government, some countries have let doubts about their banks fester for too long. They ought to act now, ideally ahead of the upcoming asset-quality review and stress tests.[3]
2) The policy focus needs to shift decisively away from extra austerity to **pro-growth structural reforms**. For example, the French fiscal problems are a mere reflection of the fact that, because of its excessive labour market regulations and its equally excessive tax burden, France is not utilising its potential well. To improve its fiscal outlook, France urgently needs supply-side reforms, not a compression of demand through even higher taxes.

10. Our fiscal results drive home one fundamental point: **austerity** is a potent medicine. It has to be applied in the right dose. A lack of the necessary medicine can kill a patient. But so can an overdose. As a general rule, we would stipulate that no country should tighten its fiscal policy, or be asked to do so, by more than 2% of its annual GDP in any year, except if the country had relaxed its fiscal stance in the previous year by more than 1% of its GDP.

11. Under adverse cyclical circumstances, the **eurozone** as a whole has further improved its overall health during the last year, lifting its aggregate score on a scale of 0 to 10 to 5.8, up from 5.5 last year, in our Fundamental Health Indicator (see Table 2 on page 4). After years of painful adjustment, the euro crisis countries now reap the strongest improvements in their long-term fundamental health. The score for **Greece**, for example, surges to 4.5, up a full point from 2012. **Ireland** advances to 5.3, up 0.6 points. **Portugal** rises to 4.4, up 0.5 points and **Spain** to 4.9, up by 0.4 points. Although these euro crisis countries still score below the euro average in terms of their fundamental health, most of them have narrowed the gap with their more healthy euro partners significantly. Europe is converging, in other words. And the result, should the process continue as it is unfolding now, will be a healthier, better-balanced economy with stronger economic fundamentals.

12. The quickening pace of adjustment at the euro periphery has raised the aggregate score for the region in our Adjustment Progress Indicator substantially to 4.2, up from 3.9. As in 2011 and 2012, the aggregate score is held back by countries such as **Austria** (No. 15), **Finland** (No. 17), **Germany** (No. 16) and the **Netherlands** (No. 13) which have only a limited need to adjust and have indeed done very little to further improve their outlook.

13. In *The 2011 Euro Plus Monitor*, we concluded that "alarm bells should be ringing for **France**," Since then, not much has changed, and the morning bells are indeed ringing in the country Frére Jacques knows best. Today, France ranks No. 16 out of the 20 countries in our sample

3. The European Central Bank started a comprehensive assessment of some 120 systemically important eurozone banks in November 2013. The supervisory risk assessment, asset quality review and stress tests is scheduled to take 12 months. The ECB wants banks, or their national and eurozone backstops, to recapitalise problem banks so that the ECB can take over its supervisory role with a clean slate at the end of 2014.

'Germany reaps the rewards of its "Agenda 2010" reforms but is doing little to strengthen its position further.'

on overall economic health, slightly behind **Spain** (No. 15) and just ahead of **Greece** (No. 17) and **Italy** (No. 18). In terms of adjustment progress, **France** finds itself at No. 14, well behind Italy (No. 9) and far behind **Spain** (No. 3). France remains the only major European economy which is beset by serious health problems and has not yet done much about it. To be fair, France has modestly improved its fundamental health score (at 4.7, up from 4.5 in 2012) and its adjustment progress score (at 3.3, up slightly from 3.2 in 2012). The modest labour market reform of early 2013 was an encouraging start. But French progress remains well below the eurozone average and falls far short of what France needs. France still has one of the most bloated shares of public spending in GDP of the 20 countries in this survey and suffers from a pronounced lack of competitiveness (see the chapters on competitiveness and fiscal sustainability which begin on pages 44 and 53 and the separate Case Study: France on page 79 for more).

14. Germany continues to shine. In terms of fundamental health, it has even moved up one notch to the No. 2 position, behind **Estonia** at No. 1, and swapping places with **Luxembourg**, now at No. 3. Its adjustment effort, although marginally improved to the No. 16 position (up from No. 18 last year), remains very timid, though. Germany continues to reap the rewards of its post-2003 "Agenda 2010" reforms but is doing very little to strengthen its position further. It remains to be seen to what extent the new government will roll back some of the labour market reforms which had underpinned Germany's revival from the sick man of Europe (1993-2005) to the continent's growth engine.

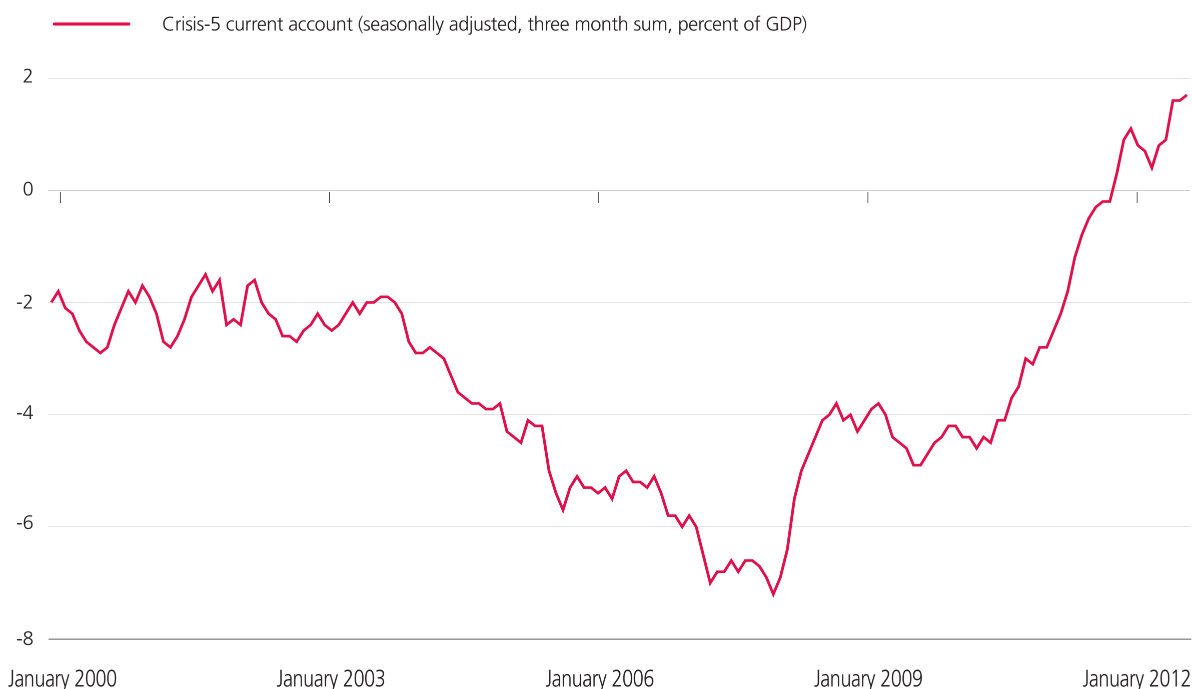
15. Judging by the tone of its domestic debate, the **United Kingdom** sees itself as a place apart, different and aloof from the crisis-stricken eurozone. The results presented here do not back up this view. Instead, hardly any other country in the survey has overall results that are closer to the eurozone average than the non-euro UK. In terms of fundamental economic health, the UK scores 5.3, somewhat below the eurozone average of 5.8. In terms of fiscal sustainability, the UK with a score of 4.7 still faces much bigger challenges than the eurozone average with a 6.2 score. While its macroeconomics are highly questionable, Britain gets top marks for its microeconomics, notably for its growth-friendly rules in product, services and labour markets. As befits a country with above-average aggregate health problems, the UK earns a good score for its current adjustment efforts of 4.6, somewhat above the eurozone average of 4.2. Thanks largely to wage restraint and some modest fiscal correction, the UK has moved in the adjustment ranking to No. 10, up from No. 12 last year.

16. Sweden still comes across as one of the strongest economies in Europe, and is in many respects quite similar to Germany. In terms of fundamental health, Sweden ranks No. 6, somewhat behind **Germany** (No. 2) and just below the **Netherlands** (No. 5). But recent International Monetary Fund data show that Sweden, having failed to take back the 2009-2011 fiscal stimulus, now has a need to tighten fiscal policy modestly, which it did not have before. With some loss in reform momentum and export dynamics, Sweden has fallen to the bottom of the adjustment progress league at No. 20, down from No. 13 last year) while

‘Sweden’s pause in adjustment and reform efforts should not last too long.’

Chart 4: Rapid External Adjustment at the Periphery

Current account balance of Italy, Spain, Greece, Ireland and Portugal



Source: Eurostat

Germany has moved in the adjustment ranking to No. 16, up from No. 18 last year. As a fundamentally healthy economy, Sweden can easily afford to take a break from the overall adjustment trend across Europe. But the fact that Sweden’s position on fundamental health is no longer quite as stellar as it was before should serve as a warning: success can breed complacency. The pause in adjustment and reform efforts should not last too long.

17. All in all, **Poland** continues to do well, although slightly less so than last year. It still excels as one of the few countries with scores well above average for both its fundamental health and its recent adjustment progress. Within the sample of 20 countries, Poland takes the No. 8 rank on both the Adjustment Progress Indicator (down from No. 7 in 2012) and on the Fundamental Health Indicator (down from No. 6 last year).

‘Would Europe be better off if Germany were to turn itself into an ailing economy like France?’

18. *The 2013 Euro Plus Monitor* shows that external imbalances are diminishing and that wage pressures are converging rapidly within the eurozone. As part and parcel of this adjustment progress, the euro crisis countries have managed to turn their erstwhile major current account deficits into a small surplus (see Chart 4 on page 11). Seen from this angle, Greece, Ireland, Italy, Portugal and Spain are no longer living beyond their means. Real unit labour costs are falling sharply in Greece, Ireland, Portugal and Spain. Conversely, wage moderation has ended in Germany. More than anything else, this shows that serious structural adjustments can happen – and are happening – within the confines of the monetary union. This result, which we had already emphasised in the 2011 and 2012 editions of *The Euro Plus Monitor*, is seen even more clearly in the 2013 report. Although the euro and its governance structure still need to be further improved, they provide a framework in which countries can successfully reform themselves.

19. Germany has come in for a heavy dose of criticism over its large current account surplus. In Case Study: The German Surplus on page 76, we look at the causes of the German surplus and the recommendations to deal with it. Proposals to further deregulate the German services sector make sense, but would probably not have a huge impact on the country’s external balance. But other proposals boil down to the idea that Germany should become more like France, increasing its labour costs and raising its public spending. But would Europe really be better off if Germany were to turn itself from a growth engine into an ailing economy like France? We prefer to let the laws of supply and demand sort this out, allowing markets to run their course and providing the necessary correction, as is already happening. As the euro crisis fades, stronger business and consumer confidence in Germany look set to raise domestic investment and consumer spending. Over time, this will bring the gap between savings and investment back to a level that is normal for a country with an ageing population. That process has started already.

II. Adjustment Progress Indicator

II.1 Overall Results

The euro confidence crisis has forced a brutal front-loaded adjustment on the economies at the southern and western periphery of the eurozone. To correct past excesses in public and private spending, governments and households need to consume less relative to what they produce and earn. In economic statistics, this should show up in a reduced fiscal deficit at home, a rise in exports relative to imports in the external accounts, and a correction in real unit labour costs forced by the crisis and the fiscal squeeze. In addition, countries need to raise their long-term growth potential through serious structural reforms.

The **Adjustment Progress Indicator** (Table 1 on page 4) tracks the progress countries are making on the most important short- to medium-term adjustment criteria. To calculate this, we focus on four measures of adjustment: 1) the rise (or fall) in exports relative to imports in the external accounts; 2) the reduction (or increase) in the fiscal deficit, adjusted for interest payments and cyclical factors; 3) changes in unit labour costs relative to the eurozone average, and 4) structural reforms. The first three adjustment criteria measure changes that are almost immediately visible in hard economic data. Fiscal tightening affects economic statistics almost instantaneously, repressing domestic demand and steering resources towards export-oriented activities. The structural reforms to which our fourth criterion refers often work with a significant time lag. They may not show up in hard economic data for a year or two after they have been implemented, but they are a crucial element of the repair process.

In *The 2013 Euro Plus Monitor*, we update the results we presented a year ago. We first calculate these four sub-indicators for each country on a scale of 0 (worst) to 10 (best). Then, we aggregate them to assign an overall Adjustment Progress Indicator score. Finally, we calculate the relative ranking of each country, with the No. 1 rank going to the country with the highest and the No. 20 rank to the one with the lowest score. A good score on the Adjustment Progress Indicator shows that countries are changing rapidly and getting results in the key areas that their fiscal repair and structural reforms are meant to address.

Greece (No. 1) comes out on top again, as in 2012, followed by **Ireland** (No. 2), **Spain** (No. 3) and **Portugal** (No. 4), with the scores for the two Iberian countries being very close to each other and well above **Slovakia** (No. 5), **Estonia** (No. 6) and **Cyprus** (No. 7). The five peripheral countries that have received some support from European facilities (bilateral loans, European Financial Stability Facility or European Stability Mechanism credits) often topped up by the IMF, are all among the seven star performers in the adjustment ranking. This flatly contradicts the occasional assertion that such support could tempt the recipients to slow down their adjustment. We find no trace of such “moral

‘The five peripheral countries that have received some support are all among the star performers.’

hazard.” Indeed, the opposite is true: countries in need of support are working hard to make sure that they deserve such support and can get back onto their own feet again fast.

Comparing the results now with those of last year strengthens the key conclusion even further: the countries hit hardest by the eurozone confidence crisis are adjusting most rapidly. All four countries that had been the initial focus of the euro crisis – **Greece, Ireland, Portugal** and **Spain** – had been among the top five last year already, with ranks of No. 1, No. 2, No. 4 and No. 5 in 2012, respectively. This year, all four of them have improved their scores again noticeably, with Spain advancing the most. As a result of its very rapid external and fiscal adjustment, Spain has now overtaken Portugal in the league table. For Greece, the fiscal adjustment is now 80% complete. With the short-term fiscal challenge largely met, the key task now is to further improve the long-term growth potential.

Cyprus is the last country to receive external assistance. It is following the adjustment pattern of the other euro crisis countries with remarkable speed. Helped by a major drop in labour costs and a significant external adjustment, Cyprus has shot up in the adjustment ranking to No. 7, up from No. 10 last year.

Unsurprisingly, **Estonia** has dropped in the adjustment ranking to the No. 6 position, down from No. 1 in 2011 and No. 3 last year. Having completed a remarkable turnaround from its wrenching crisis of 2008-2009, the Baltic champion has now allowed itself some modest fiscal slippage and a slight rebound in labour costs. It can afford to do so for a while as it reaps the rewards of its previous adjustment efforts.

Italy (No. 9) also made some modest adjustment progress since *The 2012 Euro Plus Monitor*. But because small, open and flexible **Cyprus** has surged ahead, Italy has fallen back to the No. 9 position (down from No. 8) in the ranking. Italy has delivered some structural reforms. While its external progress is quite satisfactory as well, its labour cost dynamics are not. In addition, a high and rising debt burden still makes the country vulnerable to potential bouts of market anxiety.

A low score on the Adjustment Progress Indicator can mean two different things. It can show that countries do not adjust because they do not want to. This seems to be the case in **France** (No. 14). But it can also signal that some countries do not adjust much because they do not need to. This is the case with **Luxembourg** (No. 19), **Germany** (No. 16), **Austria** (No. 15) and the **Netherlands** (No. 13). These countries score well in the separate Fundamental Health Indicator, where **Germany**, **Luxembourg** and the **Netherlands** take the No. 2, No. 3 and No. 5 slots, respectively, with **Austria** at No. 9. This indicator will be discussed in section III, which begins on page 30.

‘The UK is adjusting faster than the eurozone average, as one would hope given its fundamental problems.’

An above-average result in the overall health ranking indicates that these countries can afford a relatively relaxed fiscal stance, an above-average rise in real unit labour costs and a faster rise in imports than exports. They also have a less pronounced need for immediate structural reforms than countries with lower scores. Low German and Dutch scores for recent adjustment progress are part of the convergence within the eurozone towards best practice. These countries do not need to adjust much. For **France**, however, its low ranking (No. 14) in the Adjustment Progress Indicator is not offset by a similarly high performance in the Fundamental Health Indicator (where it ranks No. 16). Unlike **Germany** and the **Netherlands**, **France** looks rather shaky on its long-term fundamentals. In **France**, the lack of major adjustment progress is a genuine concern.

Of the three non-euro countries in our sample, the **United Kingdom** (at No. 10, up from No. 12 last year) and **Poland** (at No. 8, down from No. 7 last year) show adjustment efforts that are above the eurozone average while **Sweden** has fallen to No. 20 (down from No. 13 in 2012) largely because it has granted itself a relaxed fiscal stance. These results fit into the general pattern observed for the eurozone. As the country with the best overall fundamentals among the three non-euro countries surveyed, **Sweden** has the least need to adjust and is showing no overall adjustment progress.

By contrast, the **United Kingdom**, as the non-eurozone country with the least-flattering overall fundamentals, is adjusting faster than the eurozone average, as one would hope and expect. The comparatively favourable UK score for adjustment progress largely reflects the wage restraint resulting from its flexible labour market and the great result in one of the four sub-indicators: according to the OECD, the UK is implementing structural reforms rather diligently.

‘The eurozone is improving its external position largely because the crisis countries are shaping up.’

II.2 External Adjustment

If a country has lived beyond its means, the adjustment after the party should show up most visibly in its external accounts. To track the progress, we examine two different aspects of external adjustment, namely 1) the shift in the balance of exports and imports (net exports), and 2) the rise in the share of exports in a country’s GDP. On top of looking at the absolute shifts, we also assess them relative to the starting position of each country as measured by the pre-crisis share of exports in GDP in 2H 2007. This year, we can add one extra year of data to our previous analysis. The overall results confirm the pattern we had already detected in the last two years. The eurozone as a whole is improving its external position largely because the crisis countries are shaping up. All

Table 3: External Adjustment 2007-2013

External adjustment					Change in Net Exports 2H 2007 - 2Q 2013								Rise in export ratio, % of GDP		
Rank							Relative to GDP			Relative to starting level of exports			2H 2007 - 2Q 2013		
2013	2012	Country	Score	*Change*	Score	*Change*	%	Score	*Change*	%	Score	*Change*	%	Score	*Change*
1	2	Ireland	8.7	*-0.1*	8.4	*0.1*	20.8	10.0	*0.3*	20.3	6.9	*-0.1*	17.7	9.2	*-0.4*
2	7	Slovakia	7.7	*1.5*	7.2	*1.3*	15.9	8.4	*1.7*	16.2	6.0	*1.0*	16.3	8.7	*1.7*
3	3	Spain	7.6	*0.5*	8.7	*0.4*	12.6	7.3	*0.8*	40.8	10.0	*0.0*	7.0	5.4	*0.6*
4	1	Estonia	7.2	*-1.7*	5.8	*-2.5*	9.9	6.5	*-2.6*	12.2	5.2	*-2.4*	32.7	10.0	*0.0*
5	4	Portugal	7.1	*0.4*	7.7	*0.3*	10.6	6.7	*0.4*	29.0	8.7	*0.2*	8.5	5.9	*0.6*
6	9	Cyprus	7.1	*1.6*	9.3	*2.1*	17.8	9.0	*2.0*	33.0	9.6	*2.1*	-0.6	2.6	*0.7*
7	5	Greece	6.8	*0.2*	8.5	*0.5*	11.8	7.1	*0.9*	48.9	10.0	*0.0*	1.1	3.3	*-0.5*
8	8	Slovenia	6.5	*0.7*	6.6	*0.7*	12.1	7.2	*0.8*	16.3	6.0	*0.5*	9.7	6.3	*0.7*
9	6	Malta	6.2	*-0.1*	6.3	*1.0*	12.3	7.2	*1.2*	13.1	5.3	*0.9*	9.3	6.2	*-2.4*
10	11	Poland	5.4	*0.9*	6.0	*1.2*	7.2	5.6	*1.0*	18.5	6.5	*1.4*	3.5	4.1	*0.3*
11	10	Netherlands	5.2	*0.5*	3.8	*0.4*	3.2	4.3	*0.5*	3.9	3.4	*0.3*	14.6	8.1	*0.5*
12	12	Italy	4.4	*0.6*	4.9	*0.9*	3.9	4.5	*0.7*	12.7	5.2	*1.1*	1.6	3.4	*0.0*
		Euro 17	4.3	*0.2*	4.2	*0.4*	3.2	4.3	*0.4*	7.0	4.0	*0.4*	4.4	4.4	*-0.2*
13	13	UK	3.9	*0.2*	4.0	*0.3*	2.1	3.9	*0.3*	7.0	4.0	*0.3*	2.7	3.8	*-0.1*
14	14	Germany	3.3	*-0.1*	2.7	*0.1*	-0.5	3.1	*0.1*	-1.1	2.3	*0.0*	4.9	4.6	*-0.4*
15	15	Belgium	3.2	*0.2*	2.9	*0.2*	0.0	3.3	*0.2*	0.0	2.6	*0.1*	2.8	3.9	*0.2*
16	17	France	3.2	*0.2*	3.1	*0.5*	0.4	3.4	*0.4*	1.2	2.8	*0.6*	1.3	3.3	*-0.3*
17	18	Austria	3.0	*0.3*	3.2	*0.5*	1.0	3.6	*0.6*	1.6	2.9	*0.5*	-1.0	2.5	*0.0*
18	19	Luxembourg	2.6	*1.5*	1.5	*0.8*	-6.3	1.2	*1.2*	-3.4	1.8	*0.4*	5.7	4.9	*2.9*
19	16	Sweden	2.4	*-0.5*	2.5	*-0.2*	-1.0	2.9	*-0.2*	-1.9	2.2	*-0.3*	-1.9	2.2	*-1.0*
20	20	Finland	1.9	*0.9*	2.1	*1.1*	-2.2	2.5	*1.0*	-4.4	1.6	*1.2*	-3.3	1.7	*0.6*

Ranks, scores and score changes for external adjustment indicator and sub-indicators. Values: (1) Q2 2013 over H2 2007 change of net exports as a percent of GDP, (2) as a percent of the starting level of exports in 2H 2007 and (3) rise in the export ratio in percentage points of GDP. For further explanations see notes under Table 2 on page 4.

‘Small open economies find it much easier to shift resources to the export-oriented sectors.’

economies that were running excessive external deficits until 2007 (or 2009) have turned their external balance around convincingly. **Ireland** (No. 1) has risen to the top spot, with **Spain** (again No. 3), **Portugal** (at No. 5, down from No. 4) and **Greece** (at No. 7, down from No. 5) also among the top seven performers. **Italy**, which came under market pressure only in mid-2011, stayed in the No. 12 position. While the data for Italy show an above-average improvement in its external accounts, the data are not yet good enough to let Italy pass other countries in the ranking. While post-crisis **Estonia** (at No. 4, after No. 1 finish last year) has fallen back, the star performer this year is small **Slovakia** which has surged to No. 2, up from the No. 7 slot last year.

Looking at the share of net exports in GDP, the first of the sub-criteria, **Ireland** with its small and very open economy managed the most impressive shift to its external balance, which rose between 2H 2007 and Q2 2013 by a total of 20.8% of GDP. Ireland is now followed by **Cyprus** (with a 17.8 point rise), **Slovakia** (with a 15.9 point rise), and **Spain** (with a 12.6 point rise). The reading is especially encouraging for Spain, which is a much bigger and hence less open economy than the other three.

Relative to last year, **Cyprus**, **Slovakia** and **Spain** have raised the share of net exports in GDP significantly, whereas erstwhile star performer **Estonia** (with a 9.9% of GDP shift) has now allowed its imports to rise faster than its exports, falling back in the league table as a result.

At the other end of the spectrum, the net export balance has deteriorated in a few core European economies, notably **Luxembourg** (-6.3 percentage points of GDP), **Finland** (-2.2), **Sweden** (-1.0), and **Germany** (-0.5). See the column “Change in net exports relative to GDP, Value” in Table 3 on page 16.

Of course, a mere look at the shift in the balance of exports and imports as a share of GDP is somewhat unfair. Small open economies find it much easier to shift resources from the domestically oriented to the export-oriented or import-competing sectors than larger and more closed economies. To account for this, we look not just at the shift in the balance of import and exports, but also at the shift in a country’s net export position relative to the starting level of 2H 2007.

To some extent, the results are similar: **Ireland, Estonia** and **Cyprus** stay close to the top and **Germany** close to the bottom of the list, confirming a major rebalancing, with Ireland and Estonia moving from deficit to surplus and Germany reducing its external surplus in a meaningful way. But the big news is that, adjusted for their comparatively low starting level, three of the eurozone crisis economies, namely **Greece**, **Spain** and **Portugal**, have achieved even more impressive shifts than Ireland and Estonia (see Chart 5 on page 18).

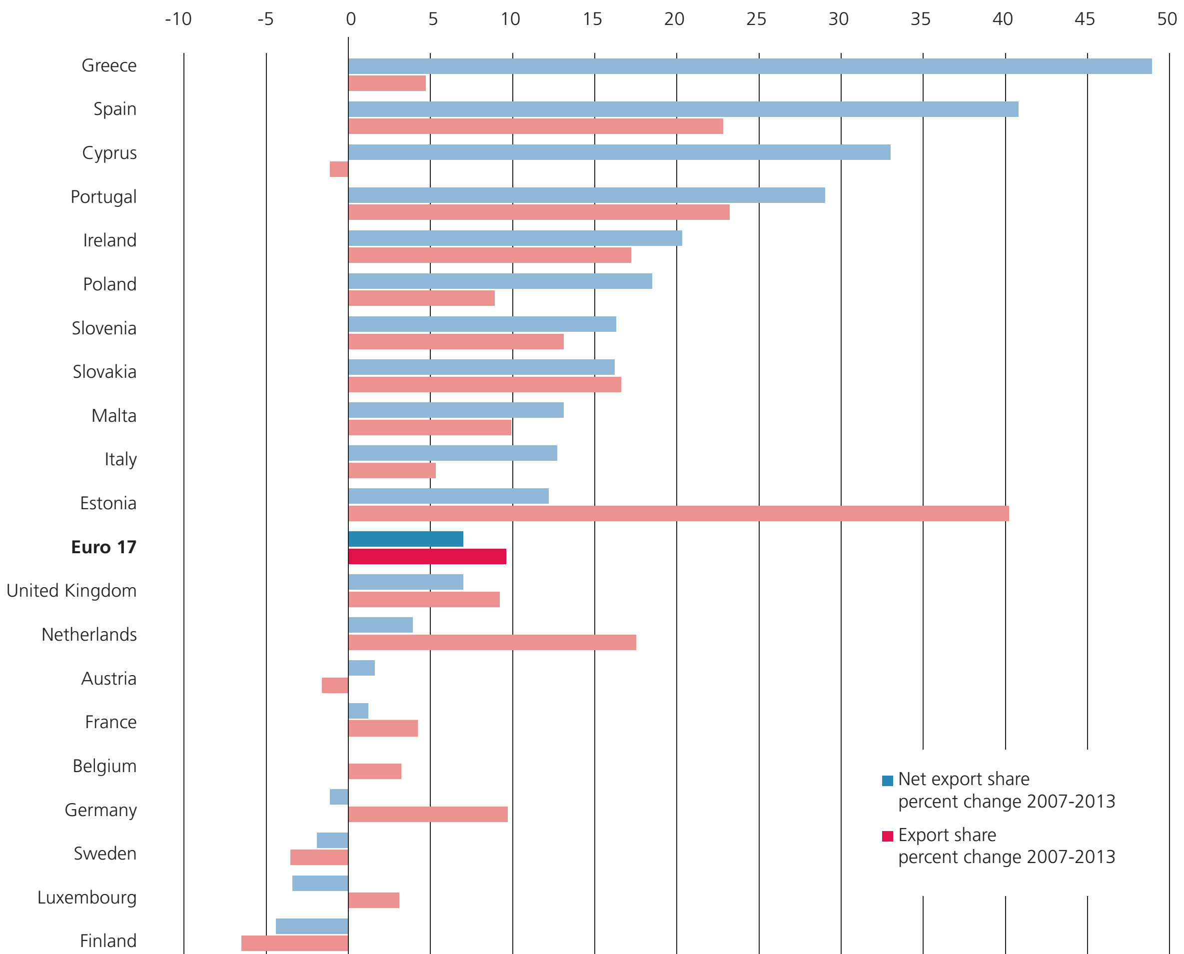
A closer look at the drivers of adjustment reveals a dark side to the external adjustment story: in some countries, the net export position improved largely through a collapse in imports and less through an actual rise in exports (see the column on “rise in export ratio” in Table 3 on page 16).

The prime example is **Greece**, which achieved the bulk of its 11.8 % turnaround in net exports through a fall in its import ratio (with the export ratio rising only by an estimated 1.1% of its

‘Greece adjusts, but the downturn in its major export activity shipping poses a severe problem.’

Chart 5: Rapid External Adjustment

Change of exports and net exports Q2 2013 over H2 2007, in percent of H2 2007 export ratio



Source: Eurostat, Berenberg calculations

‘In terms of the external adjustment, Sweden and the United Kingdom lag behind the eurozone.’

GDP). **Spain** and **Portugal** fared much better, raising their export ratio by 7.0% and 8.5% of GDP, respectively. This once again shows that, for the comparatively closed and inflexible Greek economy, the adjustment is more painful than for other countries. But Greece also had bad luck. The entrenched downturn in its major export activity, receipts from shipping and other transport services, has little to do with a lack of competitiveness of Greece and a lot to do with the protracted problems of the global shipping industry. Of course, pervasive uncertainty hampering investment into export-oriented activities may also help to explain why Greek export gains are lagging behind those of other crisis countries.

Relative to last year, almost all crisis countries managed to boost their export ratio. It rose in **Greece**, for example, to 25.2%, up from 24.0% in 2012; in **Spain**, it climbed to 37.9%, up from 34.1%; in **Portugal**, to 45.2%, up from 41.2%; and in **Ireland** to 120.3%, up from 117.9%. Even **Italy** eked out a gain to 32.3%, up from 31.5%. Taken together, these five countries increased their ratio of net exports in GDP to 39.4%, up from 37.4% in 1H 2012. More than anything else, this shows the rapid pace of external adjustment over the last few quarters.

On the opposite side of the spectrum, **Finland** (No. 20), **Cyprus** (No. 6), **Austria** (No. 17) and **Sweden** (No. 19) have not yet recouped the post-Lehman drop in their export ratios. The result is also very mediocre for **France** (No. 16) which managed to boost the ratio of exports in GDP by a mere 1.3 percentage points since the second half of 2007.

If we combine the findings from the shift in net exports and the rise in the export ratio into one ranking, it yields the results shown in Table 3 on page 16. **Ireland** (No. 1), **Slovakia** (No. 2) and **Spain** (No. 3) are now the best performers in terms of the overall external adjustment, followed by **Estonia** (No. 4), **Portugal** (No. 5), **Cyprus** (No. 6) and **Greece** (No. 7). However, comparing the countries currently suffering from the euro confidence crisis to Estonia can be misleading. Estonia started its own wrenching adjustment much earlier. In Estonia, imports also fell sharply in the first phase of the crisis (by 41% over two years) before recovering equally rapidly thereafter. The initial import adjustment for Estonia was merely the prelude to a major export boom. Going forward, we expect stronger exports rather than a fall in imports to dominate the further improvement in the net export positions of the euro crisis countries. This holds especially for Cyprus which is only in the initial phase of its adjustment programme, having received a support package only in April 2013. As our data extend only to 2Q 2013, most of the impact of this adjustment is not yet captured in the data.

In terms of the overall external adjustment, **Sweden** (at No. 19, after a No. 16 finish last year) and the **United Kingdom** (at No. 13, as last year) lag behind the eurozone average while **Poland**’s score of 5.4 (after a 4.5 score in 2012) shows a major improvement relative to the **eurozone** average of 4.3, which is up from 4.1 in *The 2012 Euro Plus Monitor* (see Table 3 on page 16).

‘The countries most in need of reining in their excessive deficits have made serious progress.’

II.3 Fiscal Adjustment

Shifts in the fiscal policy stance usually show up clearly in the underlying primary balance of the general government accounts. To avoid distortion, we use data that adjust the actual fiscal balance for the impact of the short-term business cycle, interest payments and some one-off factors.

Taking in the changes from 2010 to 2012 and the latest European Commission estimates for the likely result for 2013, we find major progress in many countries in two key areas:[4]

Table 4: Fiscal Adjustment 2009-2013

Rank					2009-13 in % of GDP			in % of required shift		
2013	2012	Country	Score	*Change*	%	Score	*Change*	%	Score	*Change*
1	1	Greece	9.6	*1.0*	14.9	10.0	*0.0*	82.0	9.1	*2.0*
2	7	Slovakia	7.2	*2.7*	5.8	7.1	*2.7*	65.0	7.2	*2.6*
3	4	Portugal	6.7	*0.2*	6.5	7.7	*0.5*	51.5	5.7	*-0.1*
4	10	Spain	6.5	*2.3*	6.6	7.8	*2.7*	46.9	5.2	*1.9*
5	3	Italy	6.5	*-0.7*	4.2	5.6	*0.5*	66.0	7.3	*-1.8*
6	2	Poland	6.2	*-2.1*	4.2	5.6	*-0.9*	60.4	6.7	*-3.3*
7	6	Ireland	5.6	*1.1*	5.3	6.6	*1.0*	40.7	4.5	*1.1*
8	8	Slovenia	5.2	*0.8*	2.9	4.5	*0.3*	54.1	6.0	*1.4*
9	5	UK	5.0	*0.5*	4.6	6.0	*0.3*	36.5	4.1	*0.7*
		Euro 17	5.0	*0.7*	3.3	4.8	*0.6*	45.9	5.1	*0.7*
10	9	France	4.6	*0.3*	3.2	4.7	*0.3*	40.4	4.5	*0.3*
11	11	Cyprus	4.1	*0.0*	2.5	4.1	*0.0*	n.a.	n.a.	*n.a*
12	13	Germany	4.1	*0.5*	1.0	2.7	*0.0*	48.7	5.4	*1.0*
13	14	Netherlands	3.1	*0.3*	1.9	3.5	*0.2*	23.4	2.6	*0.4*
14	18	Austria	2.4	*1.5*	1.1	2.8	*1.0*	18.5	2.1	*2.1*
15	15	Estonia	2.2	*-0.2*	0.4	2.2	*-0.2*	n.a.	n.a.	*n.a*
16	17	Belgium	2.1	*0.1*	1.2	2.9	*0.2*	11.5	1.3	*0.0*
17	16	Malta	2.0	*-0.1*	0.2	2.0	*-0.1*	n.a.	n.a.	*n.a*
18	19	Luxembourg	0.5	*0.4*	-1.4	0.5	*0.4*	n.a.	n.a.	*n.a*
19	20	Finland	0.2	*0.0*	-1.5	0.5	*0.1*	0.0	0.0	*0.0*
20	12	Sweden	0.0	*-3.7*	-2.2	0.0	*0.0*	0.0	0.0	*-7.5*

Ranks, scores and score changes for Fiscal Adjustment Indicator and sub-indicators. Values: (1) 2009-2013 change in structural primary balance in percent of GDP and (2) as a share of the required fiscal shift, adjusted for age-related spending.
For further explanations see notes under Table 2 on page 4.

‘Finland and Sweden have even relaxed their fiscal reins, not taking back the post-Lehman stimulus.’

- The countries most in need of reining in their excessive deficits have made serious progress, with **Greece** (No. 1) well ahead of **Portugal** (No. 3), **Spain** (No. 4), **Italy** (No. 5) and **Ireland** (No. 7) (see Table 4 on page 20). These five euro crisis countries which had been in focus of markets last year already are all among the top seven in terms of correcting their fiscal balances.

- A number of countries with a fairly comfortable fiscal starting position, including **Austria** (No. 14), **Estonia** (No. 15), and **Germany** (No. 12) have hardly changed their fiscal stance over these four years while **Luxembourg** (No. 18), **Finland** (No. 19), and **Sweden** (No. 20) have even relaxed their fiscal reins a little over this period.

Serious tightening in the fiscally challenged periphery and the virtual standstill in major parts of the core have resulted in a significant convergence of fiscal policy in the **eurozone** as a whole. As required, the overall underlying primary balance for the eurozone as a whole improved by 3.3% of GDP over this period, rising to a surplus of 1.5% of GDP in 2013 from a deficit of 1.8% in 2009.

Looking at individual results, **Greece** has undergone the most wrenching fiscal squeeze, with an improvement in the underlying primary balance by 14.9% of its GDP within four years (see Chart 6 on page 22), followed by **Spain** with a significantly less harsh 6.6%, **Portugal** with 6.5%, and **Ireland** with 5.3%. No wonder Greece fell into a long and deep depression which only ended in 2Q 2013 while Ireland managed to stabilise its economy much earlier.

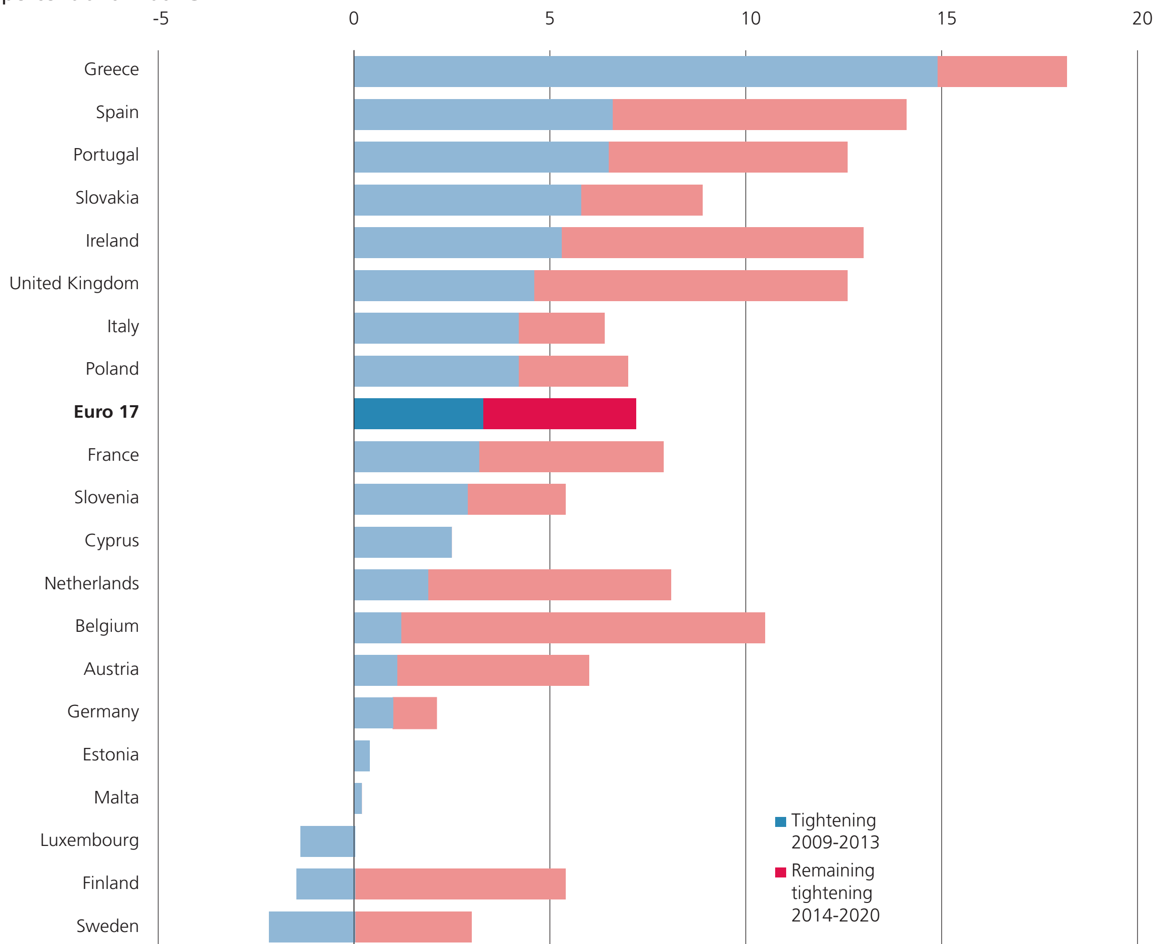
Of course, the size of the fiscal squeeze tells only half the story. We have to relate it to the actual adjustment need. The IMF has estimated how much countries have to shift their underlying primary balance between 2013 and 2020 to get to a deficit-to-GDP ratio of 60% by 2030, also adding an adjustment for age-related spending.[5] We take these numbers – including their underlying assumptions – and add the actual adjustment progress in 2013 over 2009 according to the European Commission’s November 2013 estimates. We then relate the overall required shift in stance between 2009 and 2020 to get to a 60% debt-to-GDP ratio in 2030 to what has already been achieved from 2009 to 2013.

4. European Commission, *European Economic Forecast: Autumn 2013, European Economy 7/2013* (Brussels: European Commission, 2013). As labour markets tend to react with some lag to the real economy, we use 2009 instead of 2008 as the base year for this particular adjustment indicator.
5. International Monetary Fund, *Fiscal Monitor October 2013* (Washington, DC: IMF, 2013). These estimates are subject to change, they also deviate somewhat from those of the European Commission which we use in other parts of our fiscal analysis. But the EU and IMF estimates of how much countries are shifting their cyclically adjusted primary balances tend to be similar.

‘In Italy, the efforts of the Monti government in 2012 have paid off.’

Chart 6: Fiscal Adjustment 2009-2013

Cumulative change in structural primary fiscal balance 2013 over 2009 and remaining tightening need 2014-2020, in percent of annual GDP



Source: IMF fiscal monitor (adjustment pending). European Commission forecasts (adjustment completed), Berenberg calculations

‘Germany has not gone through a lot of tightening, but its sustainability gap is hardly worrying.’

On this measure, **Greece** has also made the most progress in the eurozone, as shown in the column on “Fiscal adjustment in percent of required shift” in Table 4 on page 20. It is followed by **Italy** where the efforts of the Monti government in 2012 have paid off. Italy’s relatively limited fiscal challenge is two-thirds addressed. Recent and previous reforms have also put Italy’s pension system on a solid base. **Slovakia** scores pretty well due to some serious adjustment in 2013, ahead of **Slovenia**, **Portugal** and **Spain**. On the other side of the spectrum, **Finland** and **Sweden** now have developed their own – albeit still modest – sustainability gaps. For them, the challenges are too small to be a major worry yet. The same cannot be said of **Austria** and **Belgium**. Both have done very little fiscal adjustment yet despite a clear need for action.

We combine both fiscal adjustment measures, namely the estimated total shift between 2009 and 2013 in absolute terms, and the adjustment so far relative to the total adjustment need until 2020, for our overall fiscal score. In the resulting relative ranking, **Greece** (No. 1, unchanged from last year) comes top again, followed by **Slovakia** (No. 2, up from No. 7), **Portugal** (No. 3, up from No. 4) and **Spain** (No. 4, up from No. 10). **Italy** (No. 5) also does well, but has slipped from the No. 3 position of last year. See Table 4 on page 20. Italy’s modest slippage results from two factors. First, Italy has made hardly any further fiscal progress since the fall of the Monti government. Second, estimates for Italy’s overall adjustment need, while still rather small, have gone up slightly with the rise in its debt-to-GDP ratio during the unexpectedly protracted recession.

The mediocre ranking for **Germany** (No. 12) needs to be seen in context: Germany has not gone through a lot of tightening since 2009, but its sustainability gap is hardly worrying. For **France** (No. 10), the modestly below-average fiscal adjustment is a greater concern because the country has an above-average need to adjust.

‘The ultimate yardstick of competitiveness is whether or not a country can profitably sell its wares.’

II.4 Swing in Labour Cost Dynamics

Labour costs are a very imperfect gauge of competitiveness. The ultimate yardstick of competitiveness is whether or not a company or country can profitably sell its wares. But as other factors such as changes in product quality, brand value, consumer tastes and in the mix of goods and services offered by a company or a country are often longer-term processes, changes in nominal and real unit labour costs do provide some useful insights into the near-term adjustment dynamics of a country. This holds especially true if a decline in unit labour costs goes along with a rise in net exports, indicating that a country has indeed improved its competitive position.

Table 5: Labour Cost Adjustment 2009-2013

Rank					RULC 2009-2013			RULC shift from 2000-2009			NULC 2009-2013			NULC shift from 2000-2009		
2013	2012	Country	Score	*Change*	%	Score	*Change*	%	Score	*Change*	%	Score	*Change*	%	Score	*Change*
1	1	Ireland	8.4	*0.0*	-10.1	7.8	*-0.5*	23.9	10.0	*0.0*	-9.6	8.6	*-0.4*	29.9	7.3	*0.9*
2	3	Greece	8.3	*0.6*	-13.8	10.0	*0.0*	11.8	6.1	*0.5*	-14.0	10.0	*0.9*	27.3	7.0	*0.9*
3	10	Cyprus	7.2	*3.9*	-13.4	10.0	*6.4*	10.2	5.6	*3.0*	-7.8	7.8	*4.3*	18.2	5.6	*1.8*
4	2	Estonia	6.6	*-1.8*	-7.1	5.5	*-2.6*	17.1	7.8	*-1.4*	4.0	2.9	*-3.1*	62.5	10.0	*0.0*
5	6	Spain	5.7	*0.0*	-7.3	5.7	*-0.6*	3.9	3.5	*-0.1*	-6.8	7.4	*0.3*	22.4	6.2	*0.5*
6	5	Portugal	5.3	*-0.4*	-7.3	5.7	*-1.0*	5.6	4.1	*-0.3*	-5.0	6.6	*-0.5*	13.4	4.9	*0.2*
7	4	Slovakia	4.9	*-1.5*	-3.1	2.5	*-3.3*	2.5	3.1	*-1.3*	1.7	3.9	*-1.6*	69.3	10.0	*0.0*
8	8	Luxembourg	4.2	*0.5*	-7.3	5.7	*1.1*	13.0	6.5	*0.9*	10.5	0.2	*-0.2*	10.9	4.5	*0.4*
9	13	UK	3.7	*1.1*	-1.6	1.4	*0.0*	2.5	3.1	*0.0*	-3.9	6.2	*1.2*	7.7	4.1	*3.3*
10	12	Slovenia	3.3	*0.7*	-1.6	1.4	*1.3*	1.8	2.8	*0.6*	0.5	4.4	*0.4*	12.0	4.7	*0.4*
11	14	Netherlands	2.9	*0.4*	-1.8	1.6	*0.8*	2.4	3.0	*0.2*	3.0	3.3	*0.2*	4.1	3.5	*0.3*
12	9	Finland	2.8	*-0.8*	-1.1	1.0	*-1.1*	10.0	5.5	*-0.5*	7.3	1.5	*-1.3*	0.5	3.0	*-0.3*
13	7	Malta	2.7	*-2.2*	-2.3	2.0	*-3.7*	6.3	4.3	*-1.6*	7.5	1.5	*-2.6*	0.0	2.9	*-0.8*
		Euro 17	2.5	*-0.1*	-1.7	1.5	*-0.1*	0.0	2.3	*0.0*	2.9	3.4	*-0.4*	0.0	2.9	*0.4*
14	11	Italy	2.5	*-0.4*	0.2	0.0	*-0.4*	3.2	3.3	*-0.3*	5.0	2.5	*-0.8*	8.0	4.1	*0.0*
15	18	Poland	2.2	*0.4*	-2.5	2.1	*-0.7*	-13.5	0.0	*0.0*	3.0	3.3	*-0.3*	3.3	3.4	*2.7*
16	15	France	2.0	*0.0*	-0.3	0.4	*0.1*	0.8	2.5	*0.0*	5.1	2.5	*-0.2*	-1.0	2.8	*0.1*
17	17	Belgium	1.4	*-0.4*	0.1	0.1	*-0.4*	-0.3	2.2	*-0.2*	8.4	1.1	*-0.8*	-4.1	2.3	*-0.1*
18	16	Austria	1.2	*-0.6*	-0.8	0.8	*-0.9*	-3.7	1.1	*-0.4*	6.6	1.8	*-0.8*	-11.4	1.3	*-0.2*
19	20	Germany	1.1	*0.1*	-0.9	0.9	*0.8*	-5.0	0.7	*0.3*	5.1	2.4	*-0.6*	-17.8	0.3	*-0.1*
20	19	Sweden	1.0	*-0.7*	-1.5	1.3	*-1.9*	-1.3	1.8	*-0.8*	12.6	0.0	*-0.9*	-13.2	1.0	*1.0*

Ranks, scores and score changes for Labour Cost Adjustment Indicator and sub-indicators. Values: (1) 2009-2013 cumulative change in real unit labour costs, in percent; (2) shift in cumulative real unit labour cost change between periods 2000-2009 and 2009-2013, relative to the eurozone average, in percent; (3) 2009-2013 cumulative change in euro nominal unit labour costs, 2007-2013 for non-eurozone countries, in percent; (4) shift in cumulative euro nominal unit labour cost change between periods 2000-2009 and 2009-2013, relative to the eurozone average, 2000-2007 to 2007-2013 for non-eurozone countries, in percent . For further explanations see notes under Table 2 on page 4.

‘High unemployment is still putting serious adjustment pressure on Irish workers.’

To gauge adjustment progress, we examine how much changes in nominal and real unit labour costs are deviating from the eurozone average. We conduct our analysis in three steps. First, we calculate the cumulative change in real unit labour costs between 2009 and 2012 and rank countries according to their deviation from the eurozone average, awarding the highest score to the country with the biggest relative fall. Second, we relate this to what happened in the 2000-2009 period, assigning the best score to the country which has made the biggest shift from above-average in the earlier period to below-average in the crisis period. Third, we repeat the exercise for nominal unit labour costs. We then derive an overall score and ranking by combining these components.

Unsurprisingly, two small, open and highly flexible economies which had granted themselves by far the highest rise in nominal and real unit labour costs on the back of a credit-fuelled boom in the years 2000 to 2009 – **Ireland** (No. 1) and **Estonia** (No. 4) – also had to undergo some of the most wrenching adjustment thereafter. It is worth noting that Ireland defended its top position whereas Estonia fell back two places, as Estonia has successfully concluded its adjustment process and started to relax the reins somewhat. However, high Irish unemployment is still putting serious adjustment pressure on the workers of the Emerald Isle.

The changes since last November, when The 2012 Euro Plus Monitor appeared, are most startling for two other euro crisis countries: Small, open and highly flexible **Cyprus** (No. 3) rises seven places from its previous No. 10 slot. **Greece** (No. 2) advances one further place following its rise from No. 6 in 2011 to the No. 3 slot last year. **Spain** (No. 5) and **Portugal** (No. 6) stay close to the top of the ranking but swap places as Spain sees faster progress than its smaller Iberian neighbour.

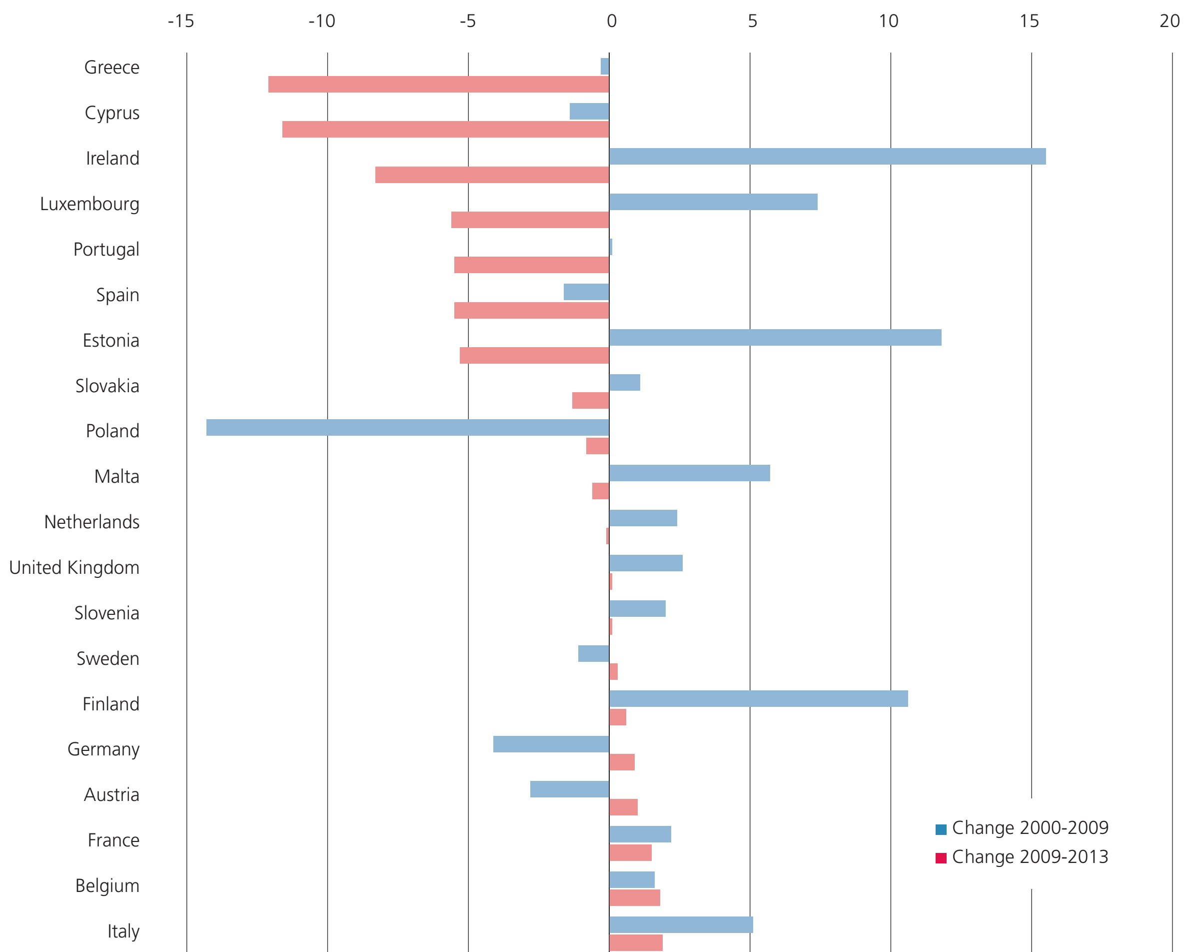
At the bottom of the league table, **Sweden** (No. 20), **Germany** (No. 19), **Austria** (No. 18) and **Belgium** (No. 17) take the last four spots. Arguably, this is exactly the position which Germany, Sweden and Austria – with their comparatively healthy labour markets – should be, whereas Belgium might need to rethink its labour market policies. The real problem in the eurozone is **France** (No. 16) which, despite excessive labour cost to start with, even falls back one slot in the ranking from its already dismal position as No. 15 last year. The inflexible French labour market has failed to respond adequately to the challenge of high unemployment.

Looking at the absolute changes in real unit labour costs in the four years leading up to 2013 (see the column on “RULC 2009-2013, cumulative in percent” in Table 5 on page 24), workers in **Greece** have endured the most pain (-13.8%), followed by **Cyprus** (-13.4%), **Ireland** (-10.1%), **Spain**, **Portugal** and **Luxembourg** (-7.3% for all three of them). The only countries with a cumulative rise in their real unit labour costs are **Italy** (0.2%) and **Belgium** (0.1%).

‘Wage moderation has taken hold with a vengeance across the euro periphery.’

Chart 7: Real Unit Labour Costs – the Great Convergence

Cumulative deviation of change in real unit labour costs from the eurozone average, 2013 over 2009 versus 2009 over 2000, in percentage points



Source: Eurostat, Berenberg calculations

'Greece has endured the most pronounced decline in real unit labour costs.'

Overall, three results stand out:

1. Wage pressures are converging rapidly within the eurozone: most of the euro members with excessive wage increases before 2009 are now going through a big correction (see Chart 7 on page 26).[6]

2. Whereas wage moderation has ended in **Germany** and **Austria**, it has taken hold with a vengeance across the euro periphery.

3. Among the less open economies which did not have a private-sector credit bubble beforehand, **Greece** has endured the most pronounced decline in real unit labour costs.

A comparison of *The 2013 Euro Plus Monitor* with the 2011 results shows the extent to which plunging domestic demand and surging unemployment have depressed wage costs in crisis countries on the euro periphery. In **Greece**, the cumulative fall in real unit labour costs by 13.8% over the last four years is far above the 4.0% drop we recorded in November 2011 for the first two years of adjustment. The same holds for **Spain** and **Portugal** where we now record cumulative four-year drops in real unit labour costs of 7.3% after much smaller declines of 3.9% and 2.9%, respectively, for the first two years.

Comparing the data for the **United Kingdom**, **Sweden** and **Poland** to the results for eurozone members poses a challenge. Cross-country comparisons of nominal labour costs, which are part of our analysis, are affected heavily by exchange rate moves. The Swedish krona and Sterling first devalued sharply after Lehman, only to recover some ground since 2009 (in the UK) or even appreciate (in Sweden). If we compare nominal unit labour costs as expressed in a common currency to those of other countries, the exchange rate moves dominate the changes in wages and productivity. But if we abstract from exchange rates, we would miss the changes in competitiveness which come about though the exchange rate.

Exchange rates react much faster to changing economic circumstances than wages or productivity. To capture this effect, we use 2007 as the base period for our comparison of nominal unit labour cost for the three non-euro members in our sample (Poland, Sweden and the UK) while keeping 2009 as the base period for euro members. This shift in the base period leads to better scores for the UK and Sweden on this count than if we had used 2009 with its low exchange rates for the three non-euro members as the base year for them as well.[7]

Whereas the **United Kingdom** (at No. 9, up from No. 13 last year) scores fairly well in terms of labour cost adjustment, the progress in **Poland** (No. 15) is more limited in terms of score. In the relative rankings, though, it is still up from No. 18 in 2012.

6. As labour markets tend to react with some lag to the real economy, we use 2009 instead of 2008 as the base year for this particular adjustment indicator.
7. For the sake of fairness, we have not made this exchange rate adjustment in the Nominal Unit Labour Cost measure in the Fundamental Health Indicator. Arguably, our approach for the UK is thus slightly biased to the upside for the Adjustment Progress Indicator and slightly biased to the downside for the Fundamental Health Indicator. But using the approach more favourable for the UK for the Fundamental Health Indicator as well would have improved the score only marginally and not led to any change in the ranking for the UK.

‘Crisis countries have reformed labour markets, cut entitlements, streamlined procedures and deregulated markets.’

II.5 Reform Drive

Countries that have lived beyond their means need to tighten their belts. But squeezing domestic demand, slashing labour costs and raising exports are only part of the solution. To make their fiscal positions sustainable in the long run without excessive pain, countries need to raise their long-term growth potential. In short: they need pro-growth structural reforms.

Under the pressure of crisis, governments in the eurozone crisis countries have taken many steps to make their economies leaner and fitter for growth. They have reformed their labour markets, cut pension and other welfare entitlements, streamlined administrative procedures and deregulated product markets. While the benefits of such reforms only show up with a lag, typically only when the initial adjustment recession has given way to a new upswing, such reforms ultimately matter more than the initial readiness to rein in excesses in public or private spending.

To measure how much countries have done, we employ the expertise of the OECD: the OECD identifies five prioritised areas for reform for each member country every year. In each of these areas it makes a number of concrete recommendations and subsequently measures whether these have been followed up (Score 1) or not (Score 0). The latest data comes from the 2013 edition of *Economic Policy Reforms: Going for Growth 2013*, with the cut-off date 31 December 2012.[8]

Table 6: Reform Drive

Rank 2013	Rank 2012	Country	Score	Change	Value
1	1	Greece	10.0	*0.0*	0.9
2	n.a.	Estonia	8.8	*n.a.*	0.8
3	3	Ireland	8.2	*0.7*	0.7
4	4	Portugal	7.7	*0.6*	0.7
5	2	Spain	7.7	*-0.1*	0.7
6	5	Poland	6.1	*-0.6*	0.6
6	5	Austria	6.1	*-0.6*	0.6
8	7	United Kingdom	5.8	*0.2*	0.5
9	n.a.	Slovakia	5.5	*n.a.*	0.5
10	10	Italy	5.2	*0.8*	0.5
		Euro 17	5.0	*0.4*	0.5
11	9	Finland	4.7	*-0.1*	0.4
12	7	Sweden	4.3	*-1.3*	0.4
13	11	France	3.5	*0.2*	0.3
14	12	Netherlands	2.4	*-0.6*	0.2
15	n.a.	Slovenia	2.2	*n.a.*	0.2
16	13	Belgium	1.6	*0.4*	0.1
17	14	Germany	1.5	*1.5*	0.1
18	14	Luxembourg	0.6	*0.6*	0.1
		Cyprus	n.a.	*n.a.*	n.a.
		Malta	n.a.	*n.a.*	n.a.

Value: responsiveness to OECD reform recommendations 2011-2012.

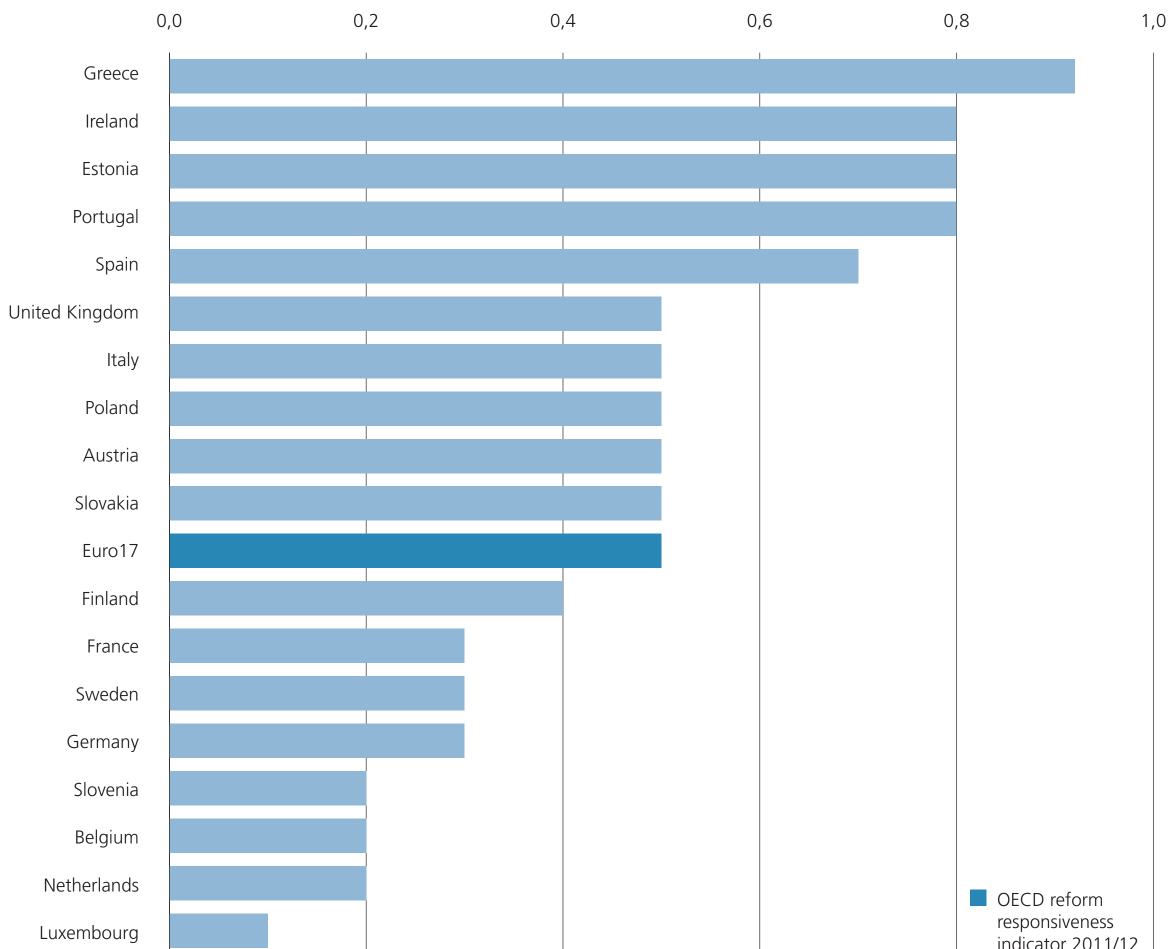
8. OECD, *Economic Policy Reforms: Going for Growth 2013* (Paris: OECD, 2013). We introduced the reform drive indicator for the first time in *The 2012 Euro Plus Monitor. In 2012*, we based our scores and ranks on the change in responsiveness as reported by the OECD for 2010-11 versus 2008-09. This time, we change the method slightly. Instead of using the change in responsiveness reported by the OECD for the new period 2011-12 versus 2009-10, we base our scores and ranks on the actual responsiveness to OECD reform proposals, not the change. The reasons are twofold. First, we are more interested in how much countries are reforming than in the question whether the pace of reforms has picked up or not. Second, the change in responsiveness refers to shifting base years, which can distort the comparison between the current and the previous results. Interestingly, the change in method has only a small impact on the results. For example, Greece and the other crisis countries excel both in the actual reform responsiveness and in their change in that responsiveness relative to pre-crisis times.

‘Will France will make up lost ground with its modest labour market and pension reforms?’

Under the pressure of crisis, and due in some measure to the vigilance of the troika, the bailed-out countries feature at the top of the table, with **Greece** (No. 1) ahead of **Ireland** (No. 3), **Portugal** (No. 4) and **Spain** (No. 5). **Italy** (No. 10) gets credit for the Monti government reforms.

Healthy core eurozone countries which need few reforms feature at the bottom of the table. Whether **France** (No. 13) will make up ground in 2013 with the modest labour market and pension reforms the Hollande government has adopted remains to be seen.

Chart 8: OECD Reform Drive Indicator



Source: OECD

III. Fundamental Health Indicator

III. 1 Overall Results

In previous years, the rankings in the Fundamental Health Indicator could help to explain why some countries fell victim to the eurozone confidence crisis while others did not. Now they begin to showcase the effect of the adjustment efforts. But our primary purpose is to focus on longer-term issues that will shape the economic outlook for European economies well beyond the current crisis. To assess the fundamental health of the 20 European countries in our sample, and their potential vulnerability to serious financial contagion, we look at four sub-indicators: 1) long-term growth potential, 2) competitiveness, 3) fiscal sustainability, and 4) fundamental resilience to financial shocks. We assess countries on each of these four sub-indicators, and assign a score from 0 (the worst possible) to 10 (the best possible).

Table 7: Fundamental Health Overview

Rank		Country	Total score			Trend growth			Competitiveness			Fiscal sustainability			Resilience		
2013	2012		2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012
1	1	Estonia	7.4	*0.0*	7.4	6.6	*0.2*	6.5	6.3	*-0.2*	6.5	9.2	*-0.1*	9.2	7.5	*0.1*	7.4
2	3	Germany	7.3	*0.3*	7.0	6.4	*0.1*	6.3	8.1	*0.1*	8.0	7.3	*0.5*	6.9	7.5	*0.7*	6.8
3	2	Luxembourg	7.0	*-0.1*	7.1	6.8	*0.0*	6.8	6.4	*-0.2*	6.6	9.3	*-0.2*	9.5	5.7	*0.2*	5.5
4	7	Slovakia	6.9	*0.4*	6.5	5.7	*0.1*	5.6	7.1	*0.1*	6.9	7.4	*1.2*	6.3	7.6	*0.4*	7.2
5	5	Netherlands	6.9	*0.2*	6.6	7.3	*0.0*	7.3	8.3	0.3	8.0	5.8	*0.6*	5.2	6.1	*0.0*	6.0
6	4	Sweden	6.7	*-0.2*	6.9	7.1	*-0.1*	7.2	5.9	*-0.3*	6.3	7.1	*-0.3*	7.4	6.8	*-0.1*	6.9
7	8	Slovenia	6.4	*0.3*	6.1	6.0	*-0.1*	6.0	5.7	*0.2*	5.5	6.5	*0.9*	5.6	7.7	*0.4*	7.3
8	6	Poland	6.4	-0.1	6.5	6.0	0.1	5.9	7.2	-0.1	7.3	6.1	0.1	6.1	6.4	-0.3	6.7
9	9	Austria	5.9	*0.1*	5.7	5.9	*0.0*	6.0	5.8	*-0.2*	5.9	5.7	*0.5*	5.2	6.1	*0.3*	5.8
		Euro 17	5.8	0.3	5.5	5.0	0.0	5.0	6.2	0.1	6.1	6.2	0.7	5.5	5.9	0.3	5.6
10	11	Belgium	5.4	*0.1*	5.3	5.3	*-0.1*	5.4	6.9	*0.0*	6.9	4.2	0.2	4.0	5.2	*0.2*	5.0
11	14	Ireland	5.3	*0.6*	4.8	5.3	*-0.2*	5.5	7.4	*0.2*	7.2	4.9	*1.1*	3.8	3.8	*1.2*	2.7
12	12	UK	5.3	0.2	5.1	5.3	*-0.1*	5.4	6.2	*-0.2*	6.4	4.7	*1.0*	3.8	5.0	*0.1*	4.9
13	10	Finland	5.3	*-0.2*	5.4	5.8	*-0.1*	5.9	3.4	*-0.4*	3.9	6.1	*-0.4*	6.4	5.8	*0.2*	5.5
14	13	Malta	5.2	*0.2*	5.0	4.3	*0.1*	4.1	6.2	*-0.5*	6.7	6.3	*0.2*	6.0	4.1	*0.9*	3.2
15	15	Spain	4.9	*0.4*	4.5	3.7	*-0.1*	3.9	5.0	*0.6*	4.5	5.7	*1.2*	4.4	5.2	*-0.1*	5.3
16	16	France	4.7	*0.2*	4.5	4.8	*0.1*	4.7	4.0	*0.0*	4.0	4.5	*0.7*	3.9	5.4	0.1	5.3
17	20	Greece	4.5	*1.0*	3.6	3.5	*-0.4*	4.0	4.4	*0.8*	3.6	4.9	*2.1*	2.8	5.3	*1.3*	4.0
18	17	Italy	4.5	*0.1*	4.4	3.3	0.0	3.3	3.6	*0.0*	3.6	5.6	*0.2*	5.3	5.6	*0.2*	5.4
19	18	Portugal	4.4	*0.5*	3.9	3.9	*0.3*	3.6	5.2	*0.4*	4.8	4.5	*0.7*	3.7	4.1	*0.7*	3.4
20	19	Cyprus	4.0	*0.4*	3.6	3.2	*-0.7*	3.9	3.5	*1.1*	2.5	5.6	*0.0*	5.6	3.6	*1.2*	2.4

Ranks, scores and score changes for the Overall Health Indicator and sub-indicators. For further explanations see notes under Table 2 on page 4.

‘Another broad-based improvement brings Germany within a whisker of overall leader Estonia.’

Then we bring the four sub-indicators together in one overall score and rank them according to that.

The four pillars of the analysis largely overlap with the four goals of the Euro Plus Pact, adopted by the European Council in 2011: 1) to foster employment, 2) foster competitiveness, 3) contribute further to the sustainability of public finances and 4) reinforce financial stability.[9] The guiding ideas of the Pact make fundamental sense. More importantly, many European Union members are making great strides towards putting them into practice.

The past year was still marked by the aftermath of the drawn out eurozone adjustment recession that lasted until Easter 2013. Public and private sector deleveraging and internal devaluation to regain competitiveness played a major role in that recession, but also improved the economic fundamentals. In a similar vein, further structural reforms and a revamping of the banking sector in some countries change the underlying strength of the economies concerned.

These changes enter *The 2013 Euro Plus Monitor* in two ways: 1) **Updated statistics**: we have updated the data, mostly to include 2012 and in some cases 2013 data, where last year we only had 2011 data. In most instances, this meant extending the analysis period from 2002-2011 by one or two years to 2002-2012 or 2002-2013. (2) **Better data**: In a few cases, better data has become available. Where we have used new data, we have back-calculated what the score would have been last year with that data in order not to distort the changes in the scores. In the following chapters, we will describe the ranking changes that result.

While the changes in the overall ranking are mostly incremental, a clear pattern emerges: 1) In crisis countries, the fiscal and structural reforms are beginning to show up in improvements in the fundamental score as well, 2) Most other eurozone countries at least maintained their score, and 3) The only substantial overall deteriorations came in northern Europe where success seems to have bred some complacency.

- Another broad-based improvement brings **Germany** (No. 2) within a whisker of overall leader **Estonia** (No. 1). Germany is in the top five in all sub-categories but improved most in fiscal sustainability and financial resilience. **Netherlands** (No. 5) and **Austria** (No. 9) also improved a bit, while **Luxembourg** (No. 3) slipped a little.

- Most improved overall for a second successive year is **Greece** (No. 17). The country where the crisis began leaves the bottom of the ranking for the first time since we launched *The Euro Plus Monitor* in 2011. Fiscal sustainability and resilience to financial shocks have improved

9. European Council, *European Council Conclusions EUCO 10/1/11 REV 1, 24-25 March 2011* (Brussels: European Council, 2011).

‘Most improved overall for a second successive year is Greece.’

markedly, as has competitiveness. Greece’s harsh adjustment programme has made it a more balanced, resilient and competitive place to invest. But the improvement came at a cost, with the resulting surge in unemployment weighing on future growth prospects.

- The other crisis countries which received EU/IMF bail-outs all improved markedly as well. **Ireland** (No. 11), **Portugal** (No. 19), **Spain** (No. 15) and **Cyprus** (No. 20) added about half a point on aggregate each to their score. Portugal improved across the board, Spain in fiscal sustainability and competitiveness, Ireland in fiscal sustainability and resilience and Cyprus in resilience only.

- **Italy** (No. 18) and **France** (No. 16) were only marginally better this year compared to last, with France achieving a significant improvement in fiscal sustainability. Both remain in the bottom third of the league table and need serious reforms particularly to boost competitiveness. A bit ahead of them, **Belgium** (No. 10) had stable scores, just below the eurozone average.

- As in France, the fiscal sustainability score in the **United Kingdom** (No. 12) improved markedly, but the overall score remains below the eurozone average. Fiscal imbalances remain the country’s weakest spot, despite the recent improvement.

- **Sweden** (No. 6) and **Finland** (No. 13) lost a bit in the overall scores, as their competitiveness and fiscal sustainability scores eroded. Both countries are fundamentally healthy, but in particular Finland is on track to develop a proper competitiveness problem if steps are not taken.

- The fast-growing eastern European economies mostly did well and stayed firmly in the upper half of the table. Eurozone members **Slovakia** (No. 4) and **Slovenia** (No. 7) made progress in the fiscal and financial criteria, **Estonia** (No. 1) maintained its high level almost everywhere, while **Poland** (No. 8) slipped very slightly across the board.

‘Growth does not cure all economic and financial ills. But it helps.’

III.2 Long-Term Growth Potential

Growth does not cure all economic and financial ills. But it helps. To gauge the long-term ability of an economy to expand, we assess four major factors: 1) recent trend growth, 2) human resources, 3) the labour market, and 4) a country’s propensity to save rather than consume. Once we have measured and analysed countries based on their performance in each of these four sub-sub-indicators, we award them an overall score and ranking for long-term growth potential.

This year, we update most of the database with 2012 data. This leads to significant changes in two subcategories in particular. First, in the employment sub-indicator, the stronger countries gain and the weaker countries lose due to the recession impact. A long period of high (or low) unemployment has a negative (positive) impact on the skill set of a country. Second, in the consumption indicator, the development is exactly the inverse. Trend growth and human capital do not change much.

Table 8: Growth Potential

Rank		Country	Total score			Recent growth			Human Capital			Employment			Consumption		
2013	2012		2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	*2012*	2013	*Change*	2012
1	1	Netherlands	7.3	*0.0*	7.3	7.0	*0.2*	6.8	6.8	*0.0*	6.8	*8.1*	*0.1*	*8.1*	7.2	*-0.4*	7.6
2	2	Sweden	7.1	*-0.1*	7.2	7.8	*0.2*	7.6	6.9	*-0.3*	7.2	*6.8*	*0.2*	*6.6*	7.1	*-0.5*	7.5
3	3	Luxembourg	6.8	*0.0*	6.8	6.0	*-0.4*	6.4	4.5	*0.2*	4.3	*6.6*	*0.0*	*6.6*	10.0	*0.0*	10.0
4	4	Estonia	6.6	*0.2*	6.5	7.3	*-0.3*	7.5	4.4	*-0.1*	4.5	*5.9*	*1.0*	*4.9*	8.9	*0.0*	8.9
5	5	Germany	6.4	*0.1*	6.3	7.2	*0.1*	7.1	4.2	*0.1*	4.2	*7.4*	*0.3*	*7.1*	6.6	*-0.1*	6.7
6	8	Poland	6.0	*0.1*	5.9	10.0	*0.2*	9.8	2.9	*0.0*	2.9	*4.0*	*0.1*	*3.9*	7.1	*-0.1*	7.2
7	6	Slovenia	6.0	*-0.1*	6.0	7.9	*0.2*	7.7	3.8	*-0.2*	4.0	*6.0*	*-0.6*	*6.6*	6.1	*0.4*	5.8
8	7	Austria	5.9	*0.0*	6.0	5.9	*0.0*	5.8	2.7	*0.0*	2.7	*8.2*	*0.2*	*8.0*	7.0	*-0.3*	7.3
9	9	Finland	5.8	*-0.1*	5.9	5.6	*0.3*	5.3	7.9	*-0.1*	8.0	*6.1*	*-0.1*	*6.2*	3.6	*-0.4*	4.0
10	10	Slovakia	5.7	*0.1*	5.6	10.0	*0.1*	9.9	2.4	*0.0*	2.4	*2.8*	*0.2*	*2.7*	7.4	*0.0*	7.5
11	12	Belgium	5.3	-0.1	5.4	*3.7*	*0.2*	*3.6*	6.6	-0.2	6.8	*5.2*	*0.0*	*5.2*	5.9	*-0.3*	6.2
12	13	UK	5.3	-0.1	5.4	*5.0*	*0.0*	*5.0*	6.2	0.0	6.2	*6.7*	*0.1*	*6.6*	3.4	*-0.4*	3.8
13	11	Ireland	5.3	*-0.2*	5.5	3.4	*-0.9*	4.3	6.1	*0.0*	6.1	*4.5*	*-0.4*	*4.9*	7.0	*0.5*	6.5
		Euro 17	5.0	*0.0*	5.0	4.2	*0.1*	4.0	4.6	*-0.1*	4.7	*5.4*	*-0.2*	*5.6*	5.6	*0.0*	5.6
14	14	France	4.8	*0.1*	4.7	3.1	*0.3*	2.9	6.1	*0.0*	6.1	*5.3*	*0.0*	*5.3*	4.6	*0.0*	4.6
15	15	Malta	4.3	*0.1*	4.1	3.8	*n.a.*	n.a.	2.7	*0.3*	2.4	*5.5*	*0.4*	*5.1*	5.1	*0.1*	5.0
16	19	Portugal	3.9	*0.3*	3.6	2.7	*0.4*	2.3	4.7	*0.2*	4.5	*4.1*	*-0.5*	*4.7*	3.9	*1.0*	2.9
17	18	Spain	3.7	*-0.1*	3.9	2.7	*0.4*	2.3	3.8	*0.1*	3.7	*3.2*	*-1.0*	*4.2*	5.1	*0.0*	5.1
18	16	Greece	3.5	*-0.4*	4.0	6.1	*0.2*	5.9	2.9	*-0.1*	3.0	*2.0*	*-2.0*	*4.0*	3.1	*0.2*	3.0
19	20	Italy	3.3	*0.0*	3.3	0.8	*0.0*	0.8	3.8	*0.0*	3.8	*4.1*	*-0.2*	*4.3*	4.7	*0.4*	4.3
20	17	Cyprus	3.2	-0.7	3.9	*1.1*	*-1.5*	*2.6*	2.5	0.0	2.4	*6.2*	*-1.1*	*7.3*	2.9	*-0.3*	3.2

Ranks, scores and score changes from last year for the Growth Potential Indicator and sub-indicators. For further explanations see notes under Table 2 on page 4.

‘Portugal improves the most and rises by three ranks due to the sharp decline in government consumption.’

On the aggregate level, the changes largely offset each other, so that the ranking in the growth potential category changes hardly at all.

- The **Netherlands** (No. 1), **Sweden** (No. 2) and **Luxembourg** (No. 3) retain their top positions.

- **Portugal** (No. 16) improves the most and rises by three ranks. The sharp decline in government consumption and upward revisions to trend growth offset another sharp deterioration in the employment score. Portugal succeeds **Estonia** (No. 4) as winner of the most-improved award in this category. But the north-eastern growth star improved again this year, too, thanks to a strong employment performance.

- The three biggest economies in the sample – **Germany** (No. 5), the **United Kingdom** (No. 12) and **France** (No. 14) – stay unchanged overall. Germany and the UK gain a bit in the employment subcategory due to their strong labour markets, while losing a bit due to increases in the propensity to consume. France benefits very slightly from small trend growth revisions.

- **Spain** (No. 17), **Greece** (No. 18), **Italy** (No. 19) and **Cyprus** (No. 20) stay at the bottom of the pile. With the recession driving unemployment rates to new record levels, all lose substantially in the employment subcategory. Improvements in the propensity to save rather than consume were not enough to offset that loss and since the labour market usually lags the economic cycle, more pain may be in store before things get better.

- Among small, rich countries, **Austria** (No. 8), **Finland** (No. 9) and **Belgium** (No. 11) shed a few tenths of a point on higher propensities to consume, but largely regained them in other sub-indicators.

‘Mature economies with high levels of productivity find it more difficult to grow fast than less mature economies.’

III.2.a Recent Trend Growth

The obvious starting point to analyse the long-term growth potential of a country is the actual recent performance. To correct for boom-bust cycles in real estate – a common problem in the pre-2008 economic data for some economies inside and outside the eurozone – we look at the trend in real gross value added (GVA) outside the construction sector.[10] We also adjust the data for increases in labour supply. By relating a measure of actual output to a measure of potential input, we calculate a variant of productivity. But this variant takes the available pool of labour (the potential) rather than actual use of labour as its base. We deal with the way a country actually utilises its human resources in the separate employment pillar in chapter III.2.c on page 39.

For the overall ranking of recent trend growth, we combine two sub-indices, namely 1) the actual average annual increase in GVA as defined in footnote 10 below, and 2) the deviation of that growth from our model estimate of how fast a European country with that starting level should expand. Simply comparing growth rates can be misleading. Mature economies with high levels of productivity typically find it more difficult to grow fast than less mature economies, which are exploiting their potential to catch up. As economies mature, they naturally lose some of their initial youthful dynamism.

Table 9: Trend Growth

Rank		Country	Score	Change
2013	2012			
1	1	Slovakia	10.0	*0.1*
1	2	Poland	10.0	*0.2*
3	3	Slovenia	7.9	*0.2*
4	4	Sweden	7.8	*0.2*
5	5	Estonia	7.3	*-0.3*
6	6	Germany	7.2	*0.1*
7	7	Netherlands	7.0	*0.2*
8	9	Greece	6.1	*0.2*
9	8	Luxembourg	6.0	*-0.4*
10	10	Austria	5.9	*0.0*
11	11	Finland	5.6	*0.3*
12	12	United Kingdom	5.0	*0.0*
		Euro 17	4.2	*0.1*
13	n.a.	Malta	3.8	*n.a.*
14	14	Belgium	3.7	*0.2*
15	13	Ireland	3.4	*-0.9*
16	15	France	3.1	*0.3*
17	17	Spain	2.7	*0.4*
18	18	Portugal	2.7	*0.4*
19	16	Cyprus	1.1	*-1.5*
20	19	Italy	0.8	*0.0*

Ranks, scores and score changes from last year for the Recent Trend Growth sub-indicator. For further explanations see notes under Table 2 on page 4.

As last year, we do not change the 2002-2010 time frame for measuring potential growth. Adding data for 2011 and 2012 would distort the results with the impact of the eurozone crisis recession. For Malta, no GVA data was available, so we have added real GDP data instead and subtracted the average eurozone construction sector performance.

10. Gross value added (GVA) is economic output at market prices minus intermediate consumption at purchaser prices. For the trend growth analysis, we use real GVA excluding construction. To separate the mere business cycle from the underlying trend, we compare 2010 to 2002, both roughly one year after a cyclical trough.

‘The top of the ranking is firmly in the hands of EU accession countries Poland and Slovakia.’

Furthermore, GVA and labour force data has been revised considerably down in a few cases towards the end of the sample. Since the revisions also change the adjustment regression, this leads to few major downward changes and many slight upward changes in the scores.

- In three countries, GVA per capita growth was revised down significantly: **Cyprus** (at No. 19, down from No. 16 in 2012), **Ireland** (at No. 15, down from No. 13) for a second successive year and **Luxembourg** (at No. 9, down from No. 10).

- The top of the ranking is firmly in the hands of EU accession countries **Poland** and **Slovakia** (which share the No. 1 slot). In both countries, non-construction GVA per capita expanded per 4.4% per year during the 2002-2010 period. In the case of Poland, that was 1.5 percentage points faster than our model would predict, and in Slovakia 1.3 percentage points quicker.

- Behind the two growth stars, **Slovenia** (No. 3) and **Sweden** (No. 4) form a second group, and **Estonia** (No. 5), **Germany** (No. 6) and the **Netherlands** (No. 7) a third. The revisions change the scores slightly for these countries, but not the ranking. All of these countries expanded fast in absolute terms (especially the East Europeans) and in terms relative to what our simple wealth-based regression would have suggested (especially Sweden, Germany).

- The middle group extends from **Greece** (No. 8) to the **United Kingdom** (No. 12). These countries had slightly above average annual non-construction GVA per capita growth rates between 0.9% (UK) and 1.8% (Greece) and were slightly ahead of the model prediction.

- The underperformers are mainly in Southern Europe. **Italy** (No. 20), at the bottom of the table, saw non-construction GVA per capita contract by 0.1% per year in the 2002-2010 period, which is 1.1 percentage points less than eurozone average for a high income country. This underperformance underlines the urgent need for structural reforms.

‘The overall fertility trends in Europe are well known. Women in France and Ireland have the most babies.’

III.2.b Human Capital

To assess the human potential in the countries surveyed, we compare three very different sub-indicators: 1) the fertility rate as a proxy for the future trend in the domestic labour force, 2) the ability to integrate immigrants, and 3) the quality of a country’s education system.

Little has changed compared to 2012, as the data base is unchanged this year, except for the fertility rate, where we use the 2009-2013 average compared to the 2009-2011 average last year.

The overall fertility trends in Europe are well known (see Chart 9 on page 38). Women in France and Ireland have the most babies, with the fertility rate close to the 2.1 threshold needed to fully replace the current generation by a new generation over time. Austria, Germany, Italy, Portugal, Poland, Slovakia and Spain have the lowest fertility rates, reaching only roughly two thirds of the replacement ratio.

Table 10: Human Capital

Rank		Country	Score	*Change*
2013	2012			
1	1	Finland	7.9	*-0.1*
2	2	Sweden	6.9	*-0.3*
3	3	Netherlands	6.8	*0.0*
4	4	Belgium	6.6	*-0.2*
5	5	United Kingdom	6.2	*0.0*
6	6	Ireland	6.1	*0.0*
7	7	France	6.1	*0.0*
8	8	Portugal	4.7	*0.2*
		Euro 17	4.6	*-0.1*
9	10	Luxembourg	4.5	*0.2*
10	9	Estonia	4.4	*-0.1*
11	11	Germany	4.2	*0.1*
12	14	Spain	3.8	*0.1*
13	13	Italy	3.8	*0.0*
14	12	Slovenia	3.8	*-0.2*
15	15	Greece	2.9	*-0.1*
16	16	Poland	2.9	*0.0*
17	17	Austria	2.7	*0.0*
18	19	Malta	2.7	*0.3*
19	18	Cyprus	2.5	*0.0*
20	20	Slovakia	2.4	*0.0*

Ranks, scores and score changes for the Human Capital sub-indicator. For further explanations see notes under Table 2 on page 4.

The more the domestically-born population is set to contract, the more important it is for a society to attract and integrate immigrants. As a proxy for how well countries do this, we continue to use the Migration Integration Policy Index (MIPEX).[11]

On access to education, the internationally comparable Programme for International Student Assessment (PISA) scores, compiled by the OECD, can serve as a rough proxy for the quality of the education system.[12] The next update of the PISA study with 2013 data is expected in December 2013, too late for this edition of *The Euro Plus Monitor*. The old PISA results revealed a rough North-South pattern. Whereas Finland came top and Estonia and the Netherlands also did well, Greece, Italy and Spain had some of the lowest scores. In core Europe, Belgium and Germany scored well ahead of France.

11. The MIPEX project is led by the British Council and the Migration Policy Group. The MIPEX index evaluates 148 indicators from seven different areas: labour market mobility, family reunion for third-country nationals, education, political participation, long-term residence, ease of being accepted as a national, and anti-discrimination measures. For further details, see http://www.mipex.eu.
12. Organisation for Economic Co-operation and Development (OECD), *PISA 2009 Results: What Students Know and Can Do: Student Performance in Reading Mathematics and Science (Vol. 1)* (Paris: OECD, 2010).

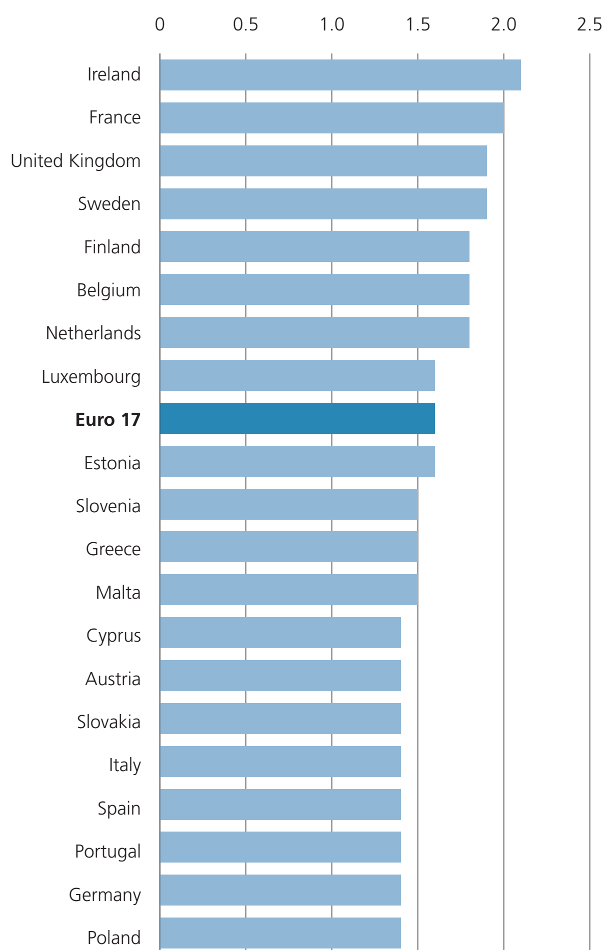
‘France has a lot of potential that needs to be unleashed.’

These three aspects combine into one aggregate indicator for human capital (see Table 9 on page 35). **Finland** (No. 1) defends the top spot, topping the list with a high birth rate, a good record of integrating immigrants and an excellent PISA score. **Sweden** (No. 2) remains the runner-up, although Finland’s lead remains large and the **Netherlands** (No. 3) and **Belgium** (No. 4) follow hot on Sweden’s heels. By contrast, **Greece** (No. 15), **Austria** (No. 17), **Malta** (No. 18), **Cyprus** (No. 19), and **Slovakia** (No. 20) do badly, and not just among eurozone members.

For human capital, the overall result for **France** (No. 7) is above the eurozone average – and above that for **Germany** (No. 11) – because of the much higher fertility rate of French women. This is despite a relatively low French ranking for the integration of immigrants and a mediocre PISA score and illustrates a key point: France has a lot of potential that needs to be unleashed. If France could get its act together, educate pupils and integrate immigrants better than it does today, its high fertility rate could enable it to move up considerably in the overall growth ranking. In the longer term, France (and the United Kingdom) may well replace Germany as the top economic powerhouse of Europe – if they can find ways to utilise their full potential.

Chart 9: Where are the Babies?

Fertility rates 2009-2013 average



Source: Eurostat, CIA factbook

‘Parts of core Europe have found the key to unlock their human potential.’

III.2.c Employment

The employment indicator investigates the question of how well a country uses its labour resources. To calculate this, we aggregate results for the following four sub-sub-indicators for the 2002-2012 period: 1) the average employment rate, 2) the rise in the employment rate, 3) average youth unemployment, and 4) average long-term unemployment 2002-2012. We combine the four separate aspects of the employment performance into an overall ranking. The only novelty this year is the addition of 2012 data to the sample.

Since the labour market is a lagging variable of the economic cycle, the gap between the top and the bottom countries has widened. The long-term character of the analysis underestimates the current divergence grossly. That trend looks likely to continue at least into 2014, before the reform progress in the periphery will have a meaningful positive impact on the employment situation:

- Parts of core Europe have found the key to unlock their human potential: **Austria** (No. 1, formerly No. 2) regained the top spot ahead of the **Netherlands** (No. 2, formerly No. 1). Given the cyclical problems the Dutch face with their sharply rising unemployment rate in 2013, Felix Austria can look forward to a couple more years in the sun. The only serious contender is the big neighbour **Germany** (No. 3), which has the fastest rising employment rate in the eurozone. All three continue to benefit from institutional factors such as the system of vocational training in Austria and Germany as well as the ease of finding temporary or part-time employment in the Netherlands.

Table 11: Employment

Rank 2013	Rank 2012	Country	Score	*Change*
1	2	Austria	8.2	*0.2*
2	1	Netherlands	8.1	*0.1*
3	4	Germany	7.4	*0.3*
4	6	Sweden	6.8	*0.2*
5	7	United Kingdom	6.7	*0.1*
6	5	Luxembourg	6.6	*0.0*
7	3	Cyprus	6.2	*-1.1*
8	9	Finland	6.1	*-0.1*
9	8	Slovenia	6.0	*-0.6*
10	14	Estonia	5.9	*1.0*
11	12	Malta	5.5	*0.4*
		Euro 17	5.4	*-0.2*
12	10	France	5.3	*0.0*
13	11	Belgium	5.2	*0.0*
14	13	Ireland	4.5	*-0.4*
15	15	Portugal	4.1	*-0.5*
16	16	Italy	4.1	*-0.2*
17	19	Poland	4.0	*0.1*
18	17	Spain	3.2	*-1.0*
19	20	Slovakia	2.8	*0.2*
20	18	Greece	2.0	*-2.0*

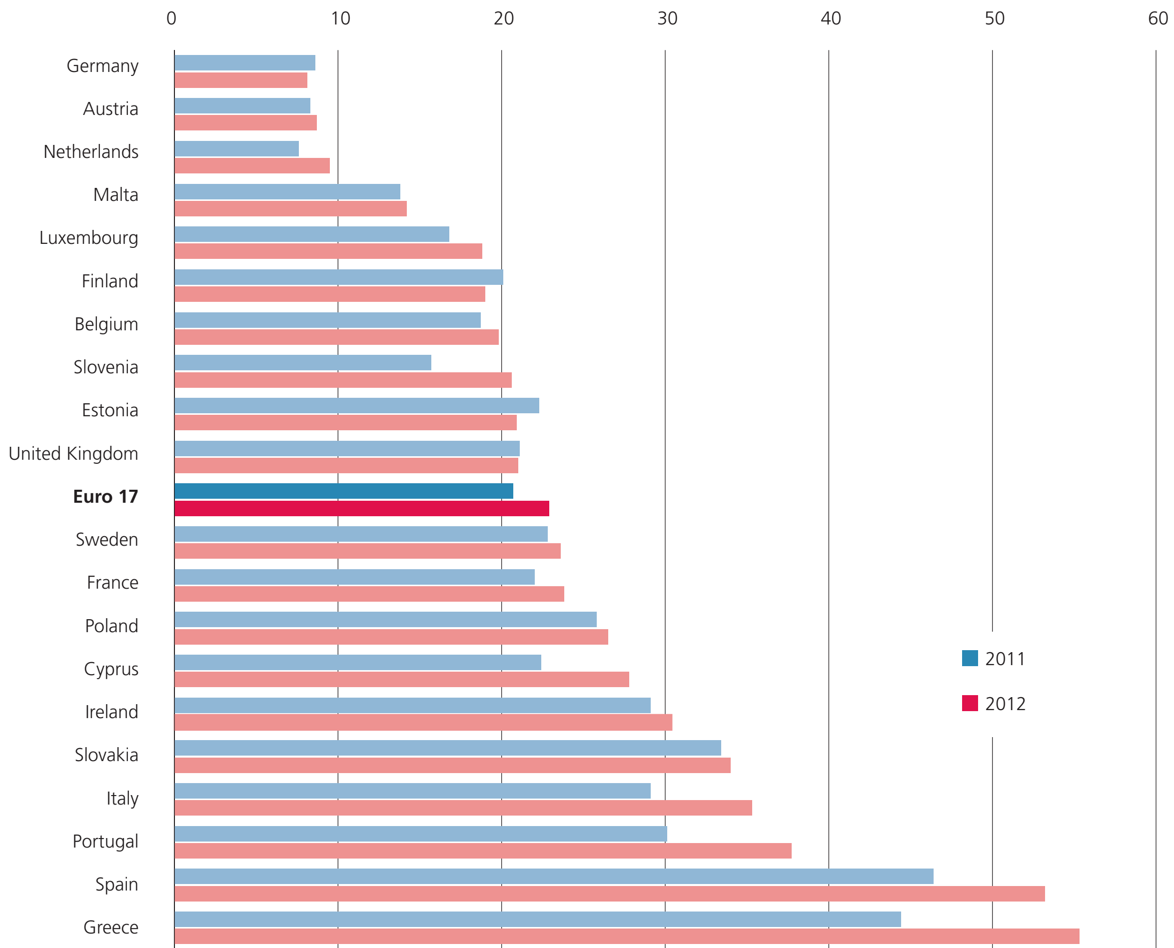
Ranks, scores and score changes from last year for the Employment sub-indicator. For further explanations see notes under Table 2 on page 4.

- The **Netherlands**, **Austria** and **Germany** dominate the important subcategories. The Netherlands has the highest employment rate in the eurozone (75.1% in 2012), while Germany created a jobs miracle with the employment rate rising by an average 0.7 percentage points per year in the 2002-2012 period, and boasts the lowest youth unemployment rate at 8.1%. Austria, meanwhile, has the lowest long-term unemployment rate at 1.1% in 2012. The three remain benchmarks for labour market reform: the Netherlands and Austria define what to achieve and Germany shows how to get there.

‘The crisis countries’ rigid labour markets have caused high unemployment, especially for young people.’

Chart 10: Not Enough Jobs for the Young - Youth Unemployment Rates

Unemployment rate of 15-24 year-olds, 2011 and 2012, in percent



Source: Eurostat

‘The share of unemployed youngsters in their total age cohort is much lower than the scary headline figures.’

- The crisis economies feature at the other end of the scale. Their rigid labour markets have caused structurally high unemployment, especially for young people (see Chart 10 on page 40). The current adjustment crisis compounds structural unemployment with a strong rise in cyclical unemployment. The sometimes sweeping, as in **Spain** (No. 18) and **Portugal** (No. 15) – and sometimes more timid, as in **Italy** (No. 16) – labour market reforms will reduce structural unemployment. But it will take some time for these changes to make a difference, as Germany’s experience in the previous decade shows. When looking at youth unemployment rates in Spain (53.2% in 2012) and **Greece** (55.3%), however, one should keep in mind that 15-24 year-olds are mostly in school or university in southern Europe, meaning their labour force participation rates are very low. The share of unemployed youngsters in their total age cohort is far lower than the scary headline figures would suggest.

- **Ireland** (No. 14) fell a bit in the ranking, but since unemployment has fallen back to 13.6% in the autumn of 2013, after peaking at 15.1% in 2012, we can reasonably hope that the island stabilises at this level and gradually improves again. It could emulate **Estonia** (No. 10), which reported a sharp rise in the employment ratio to 67.1% in 2012, up from 61% in 2010, as well as substantial declines in youth and long-term unemployment as the country enjoys the fruits of its previous adjustment efforts.

- Outside the eurozone, the **United Kingdom** (No. 5) rose up the ranking. The slight improvement in the score was due to a higher employment rate in 2012. At 70.1%, Britain has the fifth highest employment rate in the 2012 sample. Reduced benefits increasingly keep especially older workers in the labour market, while the flexible labour market allows workers to price themselves into a job rather than losing their positions altogether.

‘Spain’s government cut back consumption severely, but households made up for it.’

III.2.d Total Consumption

We round off our analysis of long-term growth potential with a look at total final consumption. The smaller the share of total consumption in GDP, the more a country saves, allowing it to invest its savings either at home or abroad. We aggregate household and government consumption and examine both the share of total final consumption in GDP and the change in this share. We combine these scores into one joint ranking (see Table 12).

For *The 2013 Euro Plus Monitor*, we have added 2012 consumption data (see Chart 11 on page 43), so that we are now analysing the share of consumption in the 2002-2012 period instead of 2002-2011. Despite adding only one year, some changes are quite significant. **Portugal** (No. 16) is the most improved country for a second successive year thanks largely to cutbacks in government consumption to 18.2% in 2012, down from 19.9% of GDP in 2011. The result is the sixth-lowest in the entire sample. We find significant improvements also for **Ireland** (No. 7) and **Italy** (No. 14), where both households and government tightened belts a bit further. **Spain** (No. 12) was the odd one out among crisis countries in 2012. The government cut back consumption severely, but households made up for it. That is unlikely to continue, though, as 2013 data project a sharp fall in household consumption.

Table 12: Total Consumption

Rank		Country	Score	*Change*
2013	2012			
1	1	Luxembourg	10.0	*0.0*
2	2	Estonia	8.9	*0.0*
3	5	Slovakia	7.4	*0.0*
4	3	Netherlands	7.2	*-0.4*
5	7	Poland	7.1	*-0.1*
6	4	Sweden	7.1	*-0.5*
7	9	Ireland	7.0	*0.5*
8	6	Austria	7.0	*-0.3*
9	8	Germany	6.6	*-0.1*
10	11	Slovenia	6.1	*0.4*
11	10	Belgium	5.9	*-0.3*
		Euro 17	5.6	*0.0*
12	12	Spain	5.1	*0.0*
13	13	Malta	5.1	*0.1*
14	15	Italy	4.7	*0.4*
15	14	France	4.6	*0.0*
16	20	Portugal	3.9	*1.0*
17	16	Finland	3.6	*-0.4*
18	17	United Kingdom	3.4	*-0.4*
19	19	Greece	3.1	*0.2*
20	18	Cyprus	2.9	*-0.3*

Ranks, scores and score changes from last year for the Total Consumption sub-indicator. For further explanations see notes under Table 2 on page 4.

‘What seemed almost unimaginable last year has happened. Portugal has passed Finland and the UK.’

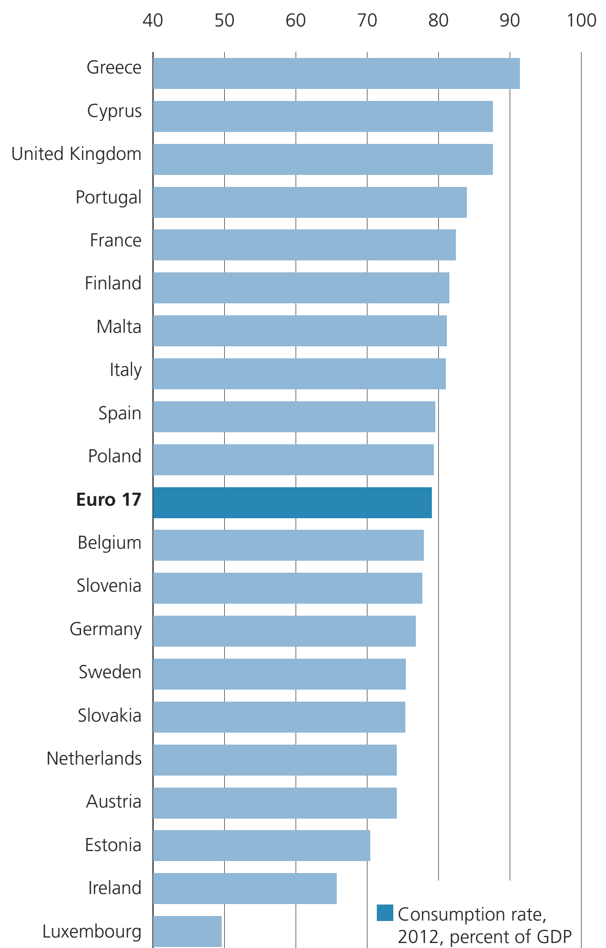
What seemed almost unimaginable last year has actually happened this year. Portugal has passed **Finland** (No. 17) and the **United Kingdom** (No. 18) on this indicator. The UK in particular is once again heading for a consumer-driven recovery, supported by an artificially stimulated housing market and lower household savings, putting it on track for the dubious honour of last place in this ranking in the next *Euro Plus Monitor*.

Central and East European economies make up most of the top half of the consumption ranking. In eastern Europe, investment plays a greater role as economies are catching up, while central Europe includes much of the industrial heartland of Europe. Most countries saw slight deteriorations in their scores. The uncertainty caused by the euro crisis led to falling investment by businesses and households, while government and household consumption was often stable and even rose as a share of GDP.

The largest decline in the score came in **Sweden** (No. 6), where both households and government consumed more. In the **Netherlands** (No. 4), government consumption was the driver of the deterioration. **Germany** (No. 9) and **France** (No. 15) had broadly stable ratios, although government consumption increased slightly in both of the two largest European economies.

Chart 11: Consuming Too Much?

Total private and public consumption 2012 in percent of GDP



Source: Eurostat

‘The list of countries with competitiveness issues still largely coincides with the list of crisis countries.’

III.3 Competitiveness

Competitiveness is an elusive concept. The ultimate proof whether a company can compete is whether it can successfully sell its wares to customers who have a choice. The wares may or may not be expensive, the company may or may not pay premium wages: what counts is whether customers value its products or services enough to pay the requested price for them.

We analyse the competitiveness of a country in a similar way: does the country find buyers for its exports? Whether or not wages or unit labour costs are high plays a role. But only a secondary role. Wages and other factors influence the price that needs to be charged. Many other aspects, ranging from the perceived quality of a product to the value of a brand, also determine whether the good or the service finds a willing buyer. In our analysis of competitiveness, we thus focus on two measures of

Table 13: Competitiveness

Rank		Country	Total score			Export ratio			Export rise			Labour costs			Regulation		
2013	2012		2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	*2012*	2013	*Change*	2012
1	2	Netherlands	8.3	*0.3*	8.0	9.9	*-0.1*	10.0	8.9	*0.7*	8.1	5.2	*0.3*	4.9	9.1	*0.2*	8.9
2	1	Germany	8.1	*0.1*	8.0	9.1	*-0.1*	9.2	10.0	*0.0*	10.0	6.9	*0.0*	6.9	6.3	*0.4*	5.9
3	4	Ireland	7.4	*0.2*	7.2	9.6	*-0.1*	9.6	6.1	*0.2*	5.9	6.1	*0.7*	5.4	7.8	*0.1*	7.7
4	3	Poland	7.2	*-0.1*	7.3	7.6	*-0.2*	7.8	10.0	*0.0*	10.0	8.0	*-0.2*	8.2	3.3	*0.1*	3.2
5	5	Slovakia	7.1	*0.1*	6.9	9.9	*-0.1*	10.0	7.6	*1.0*	6.6	4.6	*-0.5*	5.1	6.1	*0.1*	6.0
6	6	Belgium	6.9	*0.0*	6.9	10.0	*0.0*	10.0	4.9	*0.2*	4.7	4.6	*-0.5*	5.1	7.9	*0.2*	7.7
7	8	Luxembourg	6.4	*-0.2*	6.6	10.0	*0.0*	10.0	7.1	*-0.4*	7.5	5.1	*-0.4*	5.5	3.3	*-0.1*	3.5
8	9	Estonia	6.3	*-0.2*	6.5	7.1	*0.0*	7.1	7.4	*-0.8*	8.2	3.7	*-0.2*	3.9	7.1	*0.1*	6.9
9	10	UK	6.2	*-0.2*	6.4	2.9	*-0.3*	3.2	6.3	*-0.7*	7.0	6.3	*0.0*	6.2	9.5	*0.3*	9.2
10	7	Malta	6.2	*-0.5*	6.7	6.8	*-0.3*	7.1	7.4	*0.1*	7.3	5.1	*-1.6*	6.6	5.6	*-0.2*	5.8
		Euro 17	6.2	0.1	6.1	*6.0*	*-0.1*	*6.0*	7.2	0.4	6.8	5.7	*0.1*	5.6	5.9	*0.1*	5.8
11	11	Sweden	5.9	-0.3	6.3	*4.4*	*-0.2*	*4.7*	4.2	-0.8	5.0	6.7	*-0.5*	7.2	8.3	*0.2*	8.1
12	12	Austria	5.8	*-0.2*	5.9	5.7	*-0.2*	5.9	5.5	*-0.4*	5.9	6.0	*-0.7*	6.7	5.8	*0.5*	5.3
13	13	Slovenia	5.7	*0.2*	5.5	5.7	*0.1*	5.6	9.1	*0.5*	8.6	3.3	*0.6*	2.7	4.6	*-0.4*	5.0
14	14	Portugal	5.2	*0.4*	4.8	0.0	*0.0*	0.0	9.2	*1.4*	7.8	6.9	*0.9*	6.1	4.6	*-0.7*	5.3
15	15	Spain	5.0	*0.6*	4.5	1.6	*0.1*	1.5	6.2	*1.2*	4.9	6.8	*0.9*	5.9	5.6	*0.1*	5.5
16	18	Greece	4.4	*0.8*	3.6	0.0	*0.0*	0.0	7.7	*1.1*	6.6	7.7	*2.1*	5.6	2.2	*0.0*	2.2
17	16	France	4.0	*0.0*	4.0	2.1	*-0.3*	2.4	2.9	*0.2*	2.7	4.1	*0.1*	4.0	6.8	*-0.2*	7.0
18	19	Italy	3.6	*0.0*	3.6	2.3	*-0.1*	2.4	6.0	*0.6*	5.4	3.1	*-0.3*	3.4	2.8	*-0.2*	3.1
19	20	Cyprus	3.5	*1.1*	2.5	0.0	*0.0*	0.0	0.5	*0.5*	0.0	8.7	*3.9*	4.7	4.9	*-0.2*	5.1
20	17	Finland	3.4	-0.4	3.9	*0.8*	*-0.2*	*1.0*	2.9	-0.1	3.0	4.0	*-0.6*	4.6	6.0	*-0.8*	6.9

Ranks, scores and score changes from last year for the Competitiveness Indicator and sub-indicators. For further explanations see notes under Table 2 on page 4.

‘Portugal and Spain keep rising and are well on their way to joining the middle group.’

export success: 1) the share of exports in a country’s GDP and 2) the rise of this share over time. Subsequently, we add two other aspects – labour costs dynamics and the level of product and service market regulation – for an overall assessment.

In *The 2013 Euro Plus Monitor*, we update our results with 2012 data for exports and 2013 data for labour costs and regulation, where available. Furthermore, we have strived to further improve our methods, for example by using a more timely indicator for product-market regulations. The changes in the scores and ranks are gradual due to the long-term nature of the indicators. But the direction is clear: adjustment progress in the crisis countries is increasingly showing in the data on their long-term fundamental health.

- The **Netherlands** (No. 1) and **Germany** (No. 2) swap places at the top as the Dutch score improves a little more than neighbouring Germany’s. The Dutch export ratio rose a bit more, while Germany got a slightly higher score in the market-regulation category.

- **Ireland** (No. 3) and **Poland** (No. 4) also swapped places, with the latter shedding tenths of a point on exports and labour costs, while Ireland improved further on labour costs. However, Ireland is not getting closer to the top two this year. **Slovakia** and **Belgium** round off this group of challengers.

- A group of mostly small open economies follows, ranging from **Luxembourg** (No. 7) to **Slovenia** (No. 13).

- At the bottom of the table, the list of countries with competitiveness issues still largely coincides with the list of crisis countries.

- The two non-crisis countries in that list are **France** (No. 17) and **Finland** (No. 20). France suffers from a long and continuing loss in competitiveness while Finland seems to be negatively affected by the firm-specific problems of its largest single exporter as well as rising unit labour costs. It has now fallen to the bottom of the table.

- The best news comes from those crisis countries with EU/IMF adjustment programmes. **Portugal** (No. 14) and **Spain** (No. 15) keep rising and are well on their way to joining the middle group. Their impressive export performances are partly driven by a relative fall in unit labour costs. Structural reforms continue to improve their regulation scores. Even if they just maintain their new export ratios and labour costs where they are, both will rise towards the upper part of the table over time. **Greece** (No. 16) is now on a similar track as the two Iberian star reformers. **Cyprus** (No. 19) has finally reversed its earlier slide with strong improvements in unit labour costs.

- Reforms in **Italy** (No. 18) began later and have so far failed to match the intensity and ambition of those in Greece and the Iberian countries. Consequently, the competitiveness score does not improve this year. Exports are doing a bit better, but labour costs and regulation scores deteriorated further.

- The **United Kingdom** (No. 9) and **Sweden** (No. 11) saw slightly lower scores as exports deteriorated. However, they stay in the middle group as they get most of their points from their highly flexible, de-regulated economies.

‘Germany and Slovakia export much more, and Cyprus and Greece export much less, than they should.’

III.3.a Export Performance

The ultimate proof of any pudding is in the eating. Whether or not a country can successfully compete should show up first and foremost in its export performance. However, simply comparing the ratios of export in GDP would be grossly misleading. Companies producing their goods in small countries typically sell a bigger share of their output abroad than companies with a large home market. In a similar vein, rich countries tend to be more fully integrated into the international division of labour than poor countries.

We therefore adjust the actual export ratios accordingly. We first estimate for all countries in our sample the impact of their overall GDP (as a proxy for the size of their domestic market) and their per capita GDP (as a proxy for how rich the countries are) on their ratio of exports in nominal GDP. We then compare the model estimates to the actual export ratios. According to this calculation, Germany and Slovakia export much more, and Cyprus and Greece export much less, than they should. Finland, France, Italy, Portugal and Spain also have export ratios below the norm.

In addition, we look at the rise in the actual export share from 2002 to 2012 relative to the 2002 starting level. Although Germany had a comparatively high starting level, it also managed to raise its export share rapidly on this relative basis. We combine these various ways of assessing the export prowess of a country into one score (see Table 14).

Table 14: Export Prowess

Rank		Country	Score	*Change*
2013	2012			
1	1	Germany	9.5	*-0.1*
2	2	Netherlands	9.4	*0.3*
3	3	Poland	8.8	*-0.1*
4	5	Slovakia	8.8	*0.5*
5	4	Luxembourg	8.6	*-0.2*
6	6	Ireland	7.8	*0.0*
7	8	Belgium	7.4	*0.1*
8	10	Slovenia	7.4	*0.3*
9	7	Estonia	7.3	*-0.4*
10	9	Malta	7.1	*-0.1*
		Euro 17	6.6	*0.2*
11	11	Austria	5.6	*-0.3*
12	15	Portugal	4.6	*0.7*
13	12	United Kingdom	4.6	*-0.5*
14	13	Sweden	4.3	*-0.5*
15	14	Italy	4.2	*0.3*
16	17	Spain	3.9	*0.7*
17	16	Greece	3.9	*0.6*
18	18	France	2.5	*0.0*
19	19	Finland	1.9	*-0.2*
20	20	Cyprus	0.3	*0.2*

Ranks, scores and score changes from last year for the Export Prowess sub-indicator. For further explanations see notes under Table 2 on page 4.

For *The 2013 Euro Plus Monitor*, we have added 2012 data, which moderately impacts the outcome. As in previous years, we remove Luxembourg, an extreme outlier with an outsized financial services sector, from the regression to calculate the normalised export ratio for the various countries.

‘The biggest declines in export prowess occurred in Sweden and the United Kingdom.’

Due to the long-term nature of the analysis, not much changes in this ranking from year to year, although the pace of change of the underlying data in recent years has not slowed, but increased.

- **Germany** (No. 1) keeps the top spot in the ranking ahead of the **Netherlands** (No. 2). Both countries have very high export ratios, even adjusting for their high incomes and their size. The two are followed by a group of small- or medium-sized open economies, from **Poland** (No. 3), all the way down to **Malta** (No. 10).

- **Cyprus** (No. 20) occupies the other end of the table. For a very small economy, its average export ratio of 49.4% in the 2002-2012 period is low and has declined by 0.6% per year in that period. That being said, given the domestic adjustment recession which only began in earnest this year, Cyprus is likely to catch up in coming years.

- **Portugal** (No. 12), **Spain** (No. 16) and **Greece** (No. 17) have improved most in the export prowess ranking this year. In 2012, Spain’s and Greece’s export ratios rose by 2 percentage points each to 33% and 27%, respectively. Portugal’s export ratio even rose by 3 percentage points to 39%. Facing sharply lower domestic demand, companies in these crisis countries turn to foreign markets and find themselves in a better competitive position due to the reduction in labour and other factor costs. This process is less advanced in **Italy** (No. 15), where the reforms were less ambitious and thus the cost adjustment less pronounced.

- The biggest declines in export prowess occurred in **Sweden** (No. 14) and the **United Kingdom** (No. 13), where export ratios declined in 2012. This illustrates the impact the euro crisis has had on the economies for which the eurozone is the most important export market. Compared to these two, the weak but unchanged score in **France** (No. 18) could be seen as a modestly encouraging result.

‘With less productive construction workers laid off in droves, average productivity rose in Spain.’

III.3.b Labour Costs

Unit labour costs are a very imperfect gauge of competitiveness. But they do matter. Over the 11 years from 2002 to 2013, real unit labour costs declined in eight eurozone countries and increased in nine. Similar developments can mask very different drivers, though. German companies benefited from genuine wage moderation, allowing them to raise employment significantly, whereas the Spanish data are distorted by the post-2007 bust in the labour-intensive construction industry. With less productive construction workers laid off in droves, the average productivity of the workers still employed rose, hence reducing average unit labour costs.

In a currency union with no internal exchange rates that could move, nominal unit labour costs are arguably a better gauge of competitiveness than real unit labour costs. Looking at nominal rather than real unit labour costs, the overall picture changes only modestly. Germany still has the most subdued and Estonia the strongest increase in labour costs on trend. In the peripheral countries, where the difference used to be larger due to their higher inflation rates, the last few years of mass lay-offs, wage restraint or cuts and sharply lower inflation have had a major impact: the difference between nominal and real labour cost trends has now become small, too. All bailed-out countries feature in the top half of the wage-inflation chart this year (see Chart 12 on the next page).

Table 15: Labour Costs

Rank 2013	Rank 2012	Country	Score	*Change*
1	15	Cyprus	8.7	*3.9*
2	1	Poland	8.0	*-0.2*
3	9	Greece	7.7	*2.1*
4	7	Portugal	6.9	*0.9*
5	3	Germany	6.9	*0.0*
6	8	Spain	6.8	*0.9*
7	2	Sweden	6.7	*-0.5*
8	6	United Kingdom	6.3	*0.0*
9	11	Ireland	6.1	*0.7*
10	4	Austria	6.0	*-0.7*
		Euro 17	5.7	*0.1*
11	14	Netherlands	5.2	*0.3*
12	5	Malta	5.1	*-1.6*
13	10	Luxembourg	5.1	*-0.4*
14	12	Slovakia	4.6	*-0.5*
15	13	Belgium	4.6	*-0.5*
16	17	France	4.1	*0.1*
17	16	Finland	4.0	*-0.6*
18	18	Estonia	3.7	*-0.2*
19	20	Slovenia	3.3	*0.6*
20	19	Italy	3.1	*-0.3*

Ranks, scores and score changes from last year for the Labour Cost sub-indicator. For further explanations see notes under Table 2 on page 4.

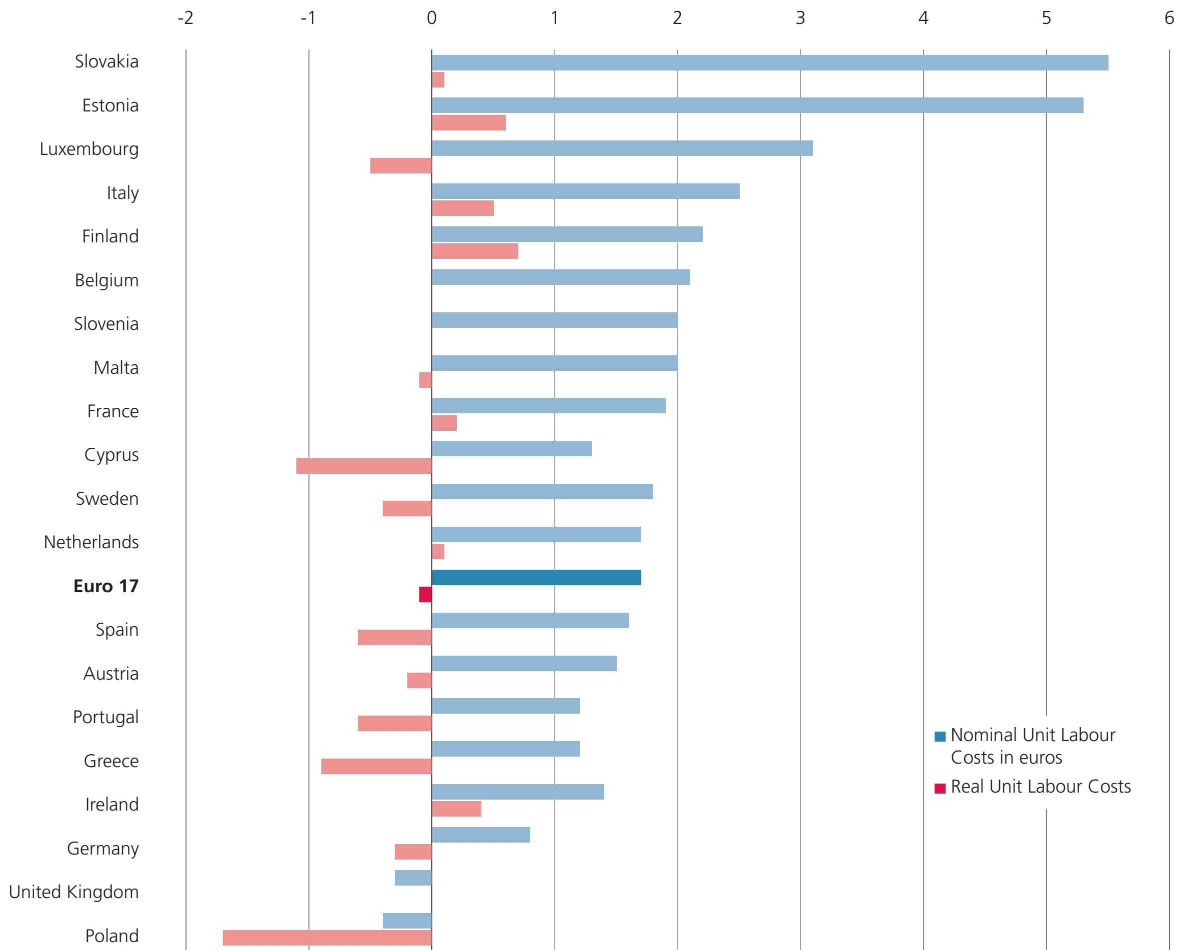
But nominal units are also a problematic concept. As prices for domestic goods usually rise significantly in fast-growing catch-up countries, an apparent loss of competitiveness as measured in terms of rising nominal unit labour costs may just reflect this “Balassa-Samuelson” effect and not be a cause for concern.[13] We thus aggregate the results for both nominal and real unit labour costs into one overall score for unit labour costs.

13. In fast-growing economies, productivity usually rises faster in the tradable goods sector exposed to global competition than in the more sheltered non-tradables sector. Whereas wage increases in the tradables sector are thus mostly offset through stronger productivity gains and do not translate into higher prices for these goods, this is not the case in the non-tradables sector where unit labour costs and hence prices do go up. A rise in prices for non-tradables relative to tradables does not impair the international competitiveness of an economy. This effect was first pointed our by economists Bela Balassa and Paul Samuelson. And is hence know as the Balassa-Samuelson effect.

‘One of the new winners in this category is an unexpected one: Cyprus.’

Chart 12: Labour Costs: Where are the Wage Pressures?

Compound annual growth rate in unit labour costs, in percent



Source: AMECO

‘Italy and France have some of the most inflexible labour markets in the world.’

In addition, unit labour costs are only one labour-related aspect that can shape the decision of companies where to invest and create jobs. Employment protection, including the implicit costs of such regulations and the legal uncertainty created by the regulatory regime, also play a major role. The flexibility of companies to adjust their labour force, in particular downwards, matters a lot for hiring decisions. To quantify this flexibility, we add the hiring and firing practices survey of the *World Economic Forum Global Competitiveness Report 2013/2014*.[14]

Just like the other sub-categories in the competitiveness ranking, the labour cost ranking changes substantially due to data updates. As we add the 2013 data, the marked swing in labour cost dynamics since the post-Lehman recession influences the long-term picture even more.

The new winner in this category is an unexpected one. Labour cost is the only fundamental health criterion in which **Cyprus** (No. 1) leads. Its labour market is one of the most flexible in the EU according to the World Economic Forum. This legacy of former British influence seems to have facilitated a sudden very sharp drop in unit labour costs, both real and nominal, as the crisis hit in earnest this year. It reminds us of Ireland in 2010 and 2011, when the country raced ahead of fellow crisis countries thanks to its also very flexible labour market.

Another big improver is **Greece** (No. 3), where nominal unit labour costs fell by 6.5% in 2013. Interestingly, real unit labour costs were unchanged, meaning that labour was not the only production factor becoming drastically cheaper. These competitive adjustments are also the drivers of the deeply negative consumer price inflation there. **Portugal** (No. 4), **Spain** (No. 6) and **Ireland** (No. 9) all feature in the top half of the ranking. The 2012 labour market reforms led to significant improvements in the hire and fire score from the World Economic Forum for all of them, even though ranks 43 (Ireland), 102 (Greece), 123 (Spain) and 124 (Portugal) in the world leave more than enough room for further improvement.

The bottom of the table is mostly made up of East European growth stars which saw strong rises in nominal wages, but little change in real terms as living standards improved broadly. More worrying is the position of **Italy** (No. 20) and **France** (No. 16) in this ranking. They occupy ranks 143 and 144 in the world for hiring and firing practices. In other words, they have some of the most inflexible labour markets in the world. Due to these rigidities, even record unemployment rates fail to trigger any significant wage adjustment, which aggravates the loss in competitiveness.

The **United Kingdom** (No. 8) also saw a significant rise in nominal unit labour costs since 2002, but at least in the short run, it can offset this with sterling devaluations. Unfortunately, flexible exchange rates can also go the other way as well, as **Sweden** (No. 7) can attest.

14. World Economic Forum, *The Global Competitiveness Report 2013-2014* (Geneva: World Economic Forum, 2013).

‘Overly regulated markets protect incumbents and deter new entrants.’

III.3.c Market Regulation

Overly regulated markets which protect incumbent business interests and deter new entrants and competition make it difficult to thrive for companies that are not yet well established. Such regulations also constrain the ability of an economy to grow. To facilitate structural change in an economy, would-be entrepreneurs must be able to establish and drive growth in new companies easily. We take data from three sources to assess the weight of red-tape on the economies:

- From the World Economic Forum, we take the survey value for competition intensity from the product market pillar. This replaces the OECD product market regulation index, which we used last year and which has not been updated since 2008. We have calculated what the score in *The 2012 Euro Plus Monitor* would have been retroactively had we taken the same index and base the score change on that.

- From the OECD, we take the index for the extent of service market regulation.[15]

- From the World Bank, we combine the surveys of what it costs and how many days it takes to register a new business as a third component for our comparison of market regulation and give all three sub-indices equal weight for the aggregate ranking.[16]

Table 16: Market Regulation

Rank		Country	Score	*Change*
2013	2012			
1	1	United Kingdom	9.5	*0.3*
2	2	Netherlands	9.1	*0.2*
3	3	Sweden	8.3	*0.2*
4	4	Belgium	7.9	*0.2*
5	5	Ireland	7.8	*0.1*
6	7	Estonia	7.1	*0.1*
7	6	France	6.8	*-0.2*
8	10	Germany	6.3	*0.4*
9	9	Slovakia	6.1	*0.1*
10	8	Finland	6.0	*-0.8*
		Euro 17	5.9	*0.1*
11	13	Austria	5.8	*0.5*
12	11	Malta	5.6	*-0.2*
13	12	Spain	5.6	*0.1*
14	15	Cyprus	4.9	*-0.2*
15	14	Portugal	4.6	*-0.7*
16	16	Slovenia	4.6	*-0.4*
17	17	Luxembourg	3.3	*-0.1*
18	18	Poland	3.3	*0.1*
19	19	Italy	2.8	*-0.2*
20	20	Greece	2.2	*0.0*

Ranks, scores and score changes from last year for the Market Regulation sub-indicator. For further explanations see notes under Table 2 on page 4.

15. *OECD Economics Department Working Paper No 695, Ten Years of Product Market Reform in OECD Countries – Insights from a Revised PMR Indicator* (Paris: OECD, 2008).
16. World Bank, *Doing Business 2013: Doing Business in a More Transparent World* (Washington, DC: World Bank, 2013).

‘The UK shows that an EU member can feature among the most-deregulated markets in the world.’

Overall, the ranking changes little compared to 2012. Taking the 2008 index of service market regulation from the OECD clearly understates the progress made in several eurozone crisis countries. A number of service professions were opened up to competition and bureaucratic processes shortened.

However, competition intensified in some countries due to reforms and possibly the recession itself. A few countries further reduced red tape for entrepreneurs starting their new businesses. **Germany** (No. 8, up from No. 10 in 2012) and **Austria** (at No. 11, up from No. 13) improved their scores the most. Austria cut the number of days it takes to register a new firm to 25, down by 3, and the cost to 4.9% of income per capita, down from 5.2% in 2012, according to the World Bank. While these are still not good values, they are at least getting better. For Germany, the respondents to the World Economic Forum poll reported slightly higher competitive pressures, which is probably more due to more foreign exporters competing for German demand than to genuine deregulation in Germany.

The **United Kingdom** (No. 1) retains the top spot, demonstrating that an EU member can feature among the most-deregulated markets in the world. It is joined by traditional free trade allies like the **Netherlands** (No. 2), **Sweden** (No. 3) and **Belgium** (No. 4).

The bottom of the table still features **Greece** (No. 20), **Italy** (No. 19) and **Poland** (No. 18). For the former two, the lack of a timely service-market regulation indicator probably understates the progress made. Greece has made some progress in cutting the length of bureaucratic processes, but the World Bank still reports Greece’s process to register new firms as the most expensive in Europe, with Italy coming second. Fostering growth perspectives and competitiveness should be put even higher in the list of priorities in these countries after the fiscal challenge has been successfully met.

‘We can report clear and accelerated progress, particularly in the bottom half of the table.’

III.4 Fiscal Sustainability

Safeguarding fiscal sustainability has been one of the key thrusts of eurozone macro policy since 2009. So where do countries stand after four years of adjustment? To assess the key issues, we look at 1) the share of government outlays in GDP, taking a high share of expenditures as a signal of potential fiscal overstretch, 2) the structural fiscal deficit as a share of GDP, 3) the ratio of public debt to GDP; and 4) the sustainability gap, i.e., the required amount of fiscal tightening in the years to 2020 to bring the debt ratio down to 60% by 2030. We then aggregate the four sub-indicators into an overall score and ranking for fiscal sustainability.

Compared to last year’s ranking, we can report clear and accelerated progress, particularly in the bottom half of the table. Regardless of whether or not it took bond market turbulences and the harsh EU/IMF adjustment programmes to make this happen, governments have realised the need

Table 17: Fiscal Sustainability

Rank		Country	Total score			Public spending			Structural deficit			Debt			Sustainability gap		
2013	2012		2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012	2013	*Change*	2012
1	1	Luxembourg	9.3	*-0.2*	9.5	10.0	*0.0*	10.0	8.7	*0.0*	8.7	9.2	*-0.2*	9.4	n.a.	*n.a.*	10.0
2	2	Estonia	9.2	*-0.1*	9.2	9.6	*-0.1*	9.7	7.8	*0.2*	7.7	10.0	*0.0*	10.0	9.2	*-0.3*	9.5
3	6	Slovakia	7.4	*1.2*	6.3	8.8	*0.2*	8.5	7.1	*2.9*	4.2	6.9	*-0.2*	7.2	6.8	*1.7*	5.1
4	4	Germany	7.3	*0.5*	6.9	6.3	*0.4*	5.9	9.4	*0.6*	8.9	5.1	*0.1*	4.9	8.4	*0.8*	7.7
5	3	Sweden	7.1	*-0.3*	7.4	2.7	*0.4*	2.3	9.1	*0.1*	9.0	7.9	*-0.1*	8.1	8.6	*-1.4*	10.0
6	10	Slovenia	6.5	*0.9*	5.6	4.5	*-0.1*	4.6	7.0	*2.0*	5.0	7.0	*-0.4*	7.4	7.3	*2.0*	5.4
7	8	Malta	6.3	*0.2*	6.0	6.6	*0.6*	6.0	6.7	*0.0*	6.7	5.5	*0.1*	5.4	n.a.	*n.a.*	n.a.
		Euro 17	6.2	*0.7*	5.5	5.7	*0.0*	5.7	8.4	*1.8*	6.6	4.3	*-0.2*	4.4	6.2	*1.1*	5.1
8	7	Poland	6.1	*0.1*	6.1	4.8	*0.2*	4.6	6.0	*0.9*	5.1	6.6	*0.0*	6.6	7.1	*-0.8*	7.9
9	5	Finland	6.1	*-0.4*	6.4	3.0	*-0.3*	3.4	8.0	*-1.0*	9.0	6.9	*-0.2*	7.2	6.2	*0.1*	6.1
10	13	Netherlands	5.8	0.6	5.2	*5.6*	*-0.1*	*5.7*	7.4	1.1	6.3	5.7	*-0.3*	6.0	4.4	*1.7*	2.7
11	12	Austria	5.7	0.5	5.2	*3.7*	*0.1*	*3.5*	8.2	0.7	7.5	5.6	*0.1*	5.5	5.5	*1.1*	4.4
12	14	Spain	5.7	*1.2*	4.4	8.2	*-0.4*	8.7	6.3	*3.5*	2.8	4.6	*-0.8*	5.4	3.5	*2.7*	0.8
13	9	Cyprus	5.6	*0.0*	5.6	6.7	*-0.3*	7.0	5.4	*1.3*	4.2	4.7	*-0.2*	4.9	n.a.	*n.a.*	6.5
14	11	Italy	5.6	*0.2*	5.3	4.2	*0.0*	4.2	8.9	*1.5*	7.4	1.6	*-0.3*	1.9	7.6	*-0.2*	7.8
15	20	Greece	4.9	*2.1*	2.8	3.2	*-0.7*	3.9	9.7	*2.7*	7.0	0.0	*0.0*	0.0	6.7	*6.6*	0.1
16	17	Ireland	4.9	*1.1*	3.8	9.9	*0.2*	9.7	4.6	*1.7*	2.9	1.8	*-1.0*	2.8	3.3	*3.3*	0.0
17	18	UK	4.7	*1.0*	3.8	6.6	*0.1*	6.5	4.7	*0.8*	3.9	4.4	*-0.2*	4.6	3.1	*3.1*	0.0
18	16	France	4.5	*0.7*	3.9	1.2	*0.0*	1.3	7.0	*1.4*	5.6	4.3	*-0.1*	4.4	5.6	*1.3*	4.3
19	19	Portugal	4.5	*0.7*	3.7	4.5	*-0.1*	4.6	7.2	*2.4*	4.7	1.7	*-0.7*	2.4	4.5	*1.4*	3.1
20	15	Belgium	4.2	0.2	4.0	*3.4*	*-0.1*	*3.5*	7.9	1.0	6.9	3.4	*-0.2*	3.5	2.1	*0.0*	2.1

Ranks, scores and score changes from last year for the Fiscal Sustainability Indicator and sub-indicators. For further explanations see notes under Table 2 on page 4.

‘Small Luxembourg and Estonia remain the fiscally most sustainable countries.’

for change. For *The 2013 Euro Plus Monitor*, we update the information with 2013 data for government outlays, the structural deficit and with 1Q 2013 data for debt ratios. Furthermore, we use the latest IMF estimates of the necessary fiscal adjustment between now and 2020 to plug the fiscal gap including necessary adjustments for age-related spending. Most European countries face the demographic challenge of an ageing population and should make provisions for that.

The big positive changes come in two categories, namely structural deficits and sustainability gaps. The massive fiscal adjustment since 2009, particularly on the eurozone periphery, has led to marked improvements in these forward-looking sub-indicators. Not all is well, of course. Legacy public debt is high in many countries and the recession has made it worse. And the role of government in many economies is still too large in many countries, often aggravated by the crisis and the ensuing high levels of unemployment.

Small **Luxembourg** (No. 1) and **Estonia** (No. 2) remain the fiscally most sustainable countries in our sample with strong scores across the board. At the other end of the table, **Belgium** (No. 20) now finds itself singled out as the weakest country despite modest improvement, mainly because all fellow strugglers accomplished more change than the politically slow-moving founding member of the EU.

This year, the prize for the biggest fiscal improvement by far goes to **Greece** (No. 15), succeeding **Austria** (No. 11), which improved most in last year’s ranking. The worst-affected crisis country now tops the structural deficit ranking and reaches a solid top-half ranking for its small sustainability gap. But Greece’s high legacy debt prevents a better ranking. It will take many years for Greece to move its debt ratio towards the Maastricht threshold of 60% of GDP, especially as still-contracting nominal GDP complicates the task at the moment.

Spain (No. 12), **Slovakia** (No. 3), the **United Kingdom** (No. 17) and **Ireland** (No. 16) also obtain much higher scores this year in their very different positions in the ranking. The only declines in scores came in countries that can, at least for the time being, easily afford it. **Finland** (No. 9), **Sweden** (No. 5), **Estonia** and **Luxembourg** were able to cushion the blow of the post-Lehman crisis a bit by loosening the fiscal reins.

Fiscal adjustment in the eurozone is far from over. But by and large, no country looks completely hopeless on any of the sub-indicators. The speed of adjustment, which contributed to the severity of the 2012/2013 recession, can slow now, allowing the private economy more breathing space.

‘As in all previous editions of The Euro Plus Monitor, France graces the bottom of the ranking.’

III.4.a Government Outlays

Excessive government spending can impair the sustainability of public finances. It constrains the room for the expansion of the private sector and hence of the tax base. It can also signal that interest groups have successfully used the coercive power of government to further their own private ends.

As a general rule, rich countries tend to have a greater share of government outlays in GDP, partly because the demand for education and health services – often provided by the public sector – and for welfare provisions rises with income levels. We thus adjust the raw data for the share of general government outlays in GDP (the 2002-2013 average) for differences in per capita income.

This year, we add 2012 data and the European Commission's latest projections for 2013 data to the dataset. Most scores deteriorated as the recession drove up unemployment and thus spending on benefits in 2012/13. But as we look at longer-term averages, these deteriorations are mostly small.

As in all previous editions of *The Euro Plus Monitor*, **France** (No. 20) graces the bottom of the ranking with the long-term share of government outlays in GDP at 54.6%. In 2013, however, **Finland** (No. 18) and **Greece** (No. 17) exceeded France's 57.0% with 57.5% and 58.2%, respectively. Whereas Greece's 2013 figure is a one-off, distorted by the second wave of post-default bank recapitalisation that ran to 10% of GDP, Finland is becoming a serious challenger to France's Leviathan award, only kept above the bottom spot in the league table because its government share was far smaller before the crisis.

Table 18: Government Outlays

Rank		Country	Score	*Change*
2013	2012			
1	1	Luxembourg	10.0	*0.0*
2	2	Ireland	9.9	*0.2*
3	3	Estonia	9.6	*-0.1*
4	5	Slovakia	8.8	*0.2*
5	4	Spain	8.2	*-0.4*
6	6	Cyprus	6.7	*-0.3*
7	7	United Kingdom	6.6	*0.1*
8	8	Malta	6.6	*0.6*
9	9	Germany	6.3	*0.4*
		Euro 17	5.7	*0.0*
10	10	Netherlands	5.6	*-0.1*
11	12	Poland	4.8	*0.2*
12	11	Slovenia	4.5	*-0.1*
13	13	Portugal	4.5	*-0.1*
14	14	Italy	4.2	*0.0*
15	16	Austria	3.7	*0.1*
16	17	Belgium	3.4	*-0.1*
17	15	Greece	3.2	*-0.7*
18	18	Finland	3.0	*-0.3*
19	19	Sweden	2.7	*0.4*
20	20	France	1.2	*0.0*

Ranks, scores and score changes from last year for the Government Outlays sub-indicator. For further explanations see notes under Table 2 on page 4.

The leanest governments can be found mostly around the edges of the EU, with **Ireland** (No. 2), **Estonia** (No. 3), **Slovakia** (No. 4) and **Spain** (No. 5) joining **Luxembourg** (No. 1) near the top.

Improvements in the score came mainly in countries relatively unscathed by the crisis such as **Malta** (No. 8), **Germany** (No. 9) and **Sweden** (No. 19), while the biggest deteriorations were inevitably recorded in countries where unemployment has increased the most, i. e. in the crisis countries Spain and Greece. Their adjustment efforts and the recent return to growth raise our hope that their scores could soon improve again.

‘Opportunities for window-dressing like the pension transfers have been exhausted.’

III.4.b Structural Fiscal Balance

To assess the underlying fiscal situation excluding mere cyclical and one-off factors, we look at the structural and the primary structural fiscal balances. Naturally, the difference between the two measures – interest payments on public debt – is most pronounced for the highly indebted economies of Greece and Italy and barely visible for the almost debt-free economies of Estonia and Luxembourg. We combine the separate scores for the two components into one overall score for the structural fiscal balance.

This year, we update the data with the latest available Eurostat projections for the structural deficits 2013 from the autumn forecasts of the European Commission, published in November. This means two extra years of adjustment and thus quite significant changes in the points, since we used estimates for 2011 in last year’s publication.

Fiscal one-off measures played less of a role in 2013 compared to previous years, meaning the differences between structural and cyclically-adjusted deficits were small, generally-speaking. Opportunities for window-dressing like the pension transfers in Portugal (2011) and the United Kingdom (2012) have been exhausted, and the big bank recapitalisations have come to an end, with the exception of Greece, where the second wave of capital injections of €25 billion shows up in a significant one-off deficit of close to 10% of GDP.

Table 19: Structural Fiscal Deficits

Rank 2013	Rank 2012	Country	Score	*Change*
1	8	Greece	9.7	*2.7*
2	3	Germany	9.4	*0.6*
3	1	Sweden	9.1	*0.1*
4	7	Italy	8.9	*1.5*
5	4	Luxembourg	8.7	*0.0*
		Euro 17	8.4	*1.8*
6	6	Austria	8.2	*0.7*
7	1	Finland	8.0	*-1.0*
8	9	Belgium	7.9	*1.0*
9	5	Estonia	7.8	*0.2*
10	11	Netherlands	7.4	*1.1*
11	15	Portugal	7.2	*2.4*
12	16	Slovakia	7.1	*2.9*
13	14	Slovenia	7.0	*2.0*
14	12	France	7.0	*1.4*
15	10	Malta	6.7	*0.0*
16	20	Spain	6.3	*3.5*
17	13	Poland	6.0	*0.9*
18	17	Cyprus	5.4	*1.3*
19	18	United Kingdom	4.7	*0.8*
20	19	Ireland	4.6	*1.7*

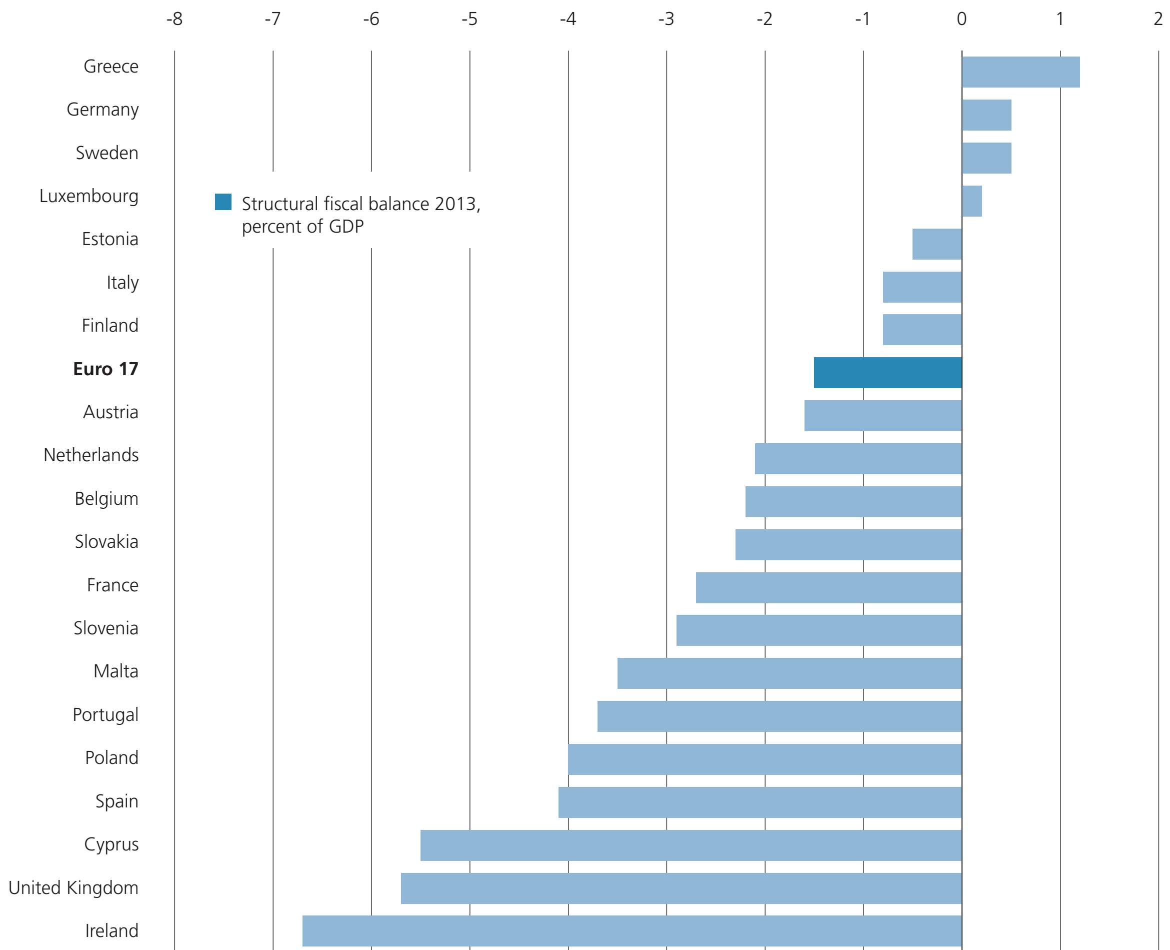
Ranks, scores and score changes from last year for the Structural Fiscal Deficit sub-indicator. For further explanations see notes under Table 2 on page 4.

Further progress in cutting primary expenditure and raising tax revenue sustained the trend towards improving structural primary balances in 2013. Structural overall deficits also fell, as lower borrowing costs in the periphery limited further increases in interest expenditure, for instance in **Portugal** (No. 11), or even reduced borrowing costs in the case of **Greece** (No. 1).

‘Crowning its adjustment efforts, Greece has become the unlikely leader in this category.’

Chart 13: Guess Who is Prudent

Structural fiscal balance 2013 in percent of GDP



Source: European Commission

‘The bottom of the pile is fast becoming almost a crisis-country-free-zone.’

Crowning its adjustment efforts over the last four years, **Greece** (No. 1) has become the unlikely leader in this category. Achieving a non-adjusted primary balance this year with a deeply depressed output level means that the structural primary balance reached a surplus of 5.3% of GDP this year. That is 8% of GDP better than the worst performer, the **United Kingdom**, with a structural primary deficit of 2.7% of GDP. Thanks to cheap loans from the eurozone and the IMF as well as the 2012 debt swap for its private creditors, Greece's overall structural balance is also in surplus at 1.2% of GDP, the highest in the eurozone (see Chart 13 on page 57).

Behind **Greece**, the usual fiscally responsible suspects line up – **Germany** (No. 2), **Sweden** (No. 3) and **Italy** (No. 4) – interspersed with the odd East European growth star. Italy would fare even better had we only evaluated the primary balance, where Italy is running a structural surplus of 4.6% of GDP, second only to Greece. But its huge debt pile means public interest expenditure remains a huge wedge between the primary and the actual fiscal balance.

The bottom of the pile is fast becoming almost a crisis-country-free-zone, with **Spain** (No. 16) the latest country to leave the strugglers behind. **Ireland** (No. 20) and the **United Kingdom** (No. 19) look likely to retain the unwanted prize of most fiscally challenged countries for a while on their current fiscal plans. But even these two euro members have made significant progress compared to *The 2012 Euro Plus Monitor*.

‘Debt levels rose in most countries, in some cases considerably, despite all the adjustment efforts.’

III.4.c Public Debt

The level of public debt is one of the most prominent factors determining fiscal sustainability. Reducing debt levels can only be achieved gradually. Public finances are under pressure from the burden of interest expenditure for a long time, even if the current deficit is under control.

This year, we update the debt level data to Eurostat’s 1Q 2013 release.[17] Debt levels rose in most countries, in some cases considerably, despite all the adjustment efforts. High levels of unemployment and in some cases bank recapitalisation kept spending high, while the recession diminished revenues and lowered the denominator of the public debt ratio. **Greece** (No. 20) kept the red lantern at the bottom of the table, with its fellow crisis countries **Ireland** (No. 17), **Portugal** (No. 18) and **Italy** (No. 19) reporting higher debt ratios as well. **Spain** (No. 13) also reported another strong increase in its debt ratio, although it still benefits from its much better pre-crisis starting point.

The ranking remained broadly unchanged. **Austria** (No. 9), **Malta** (No. 10) and **Germany** (No. 11) were the only countries with marginal reductions in their respective debt ratios. The top of the table features small eastern and northern European countries which have little legacy debt and largely avoided the euro crisis recession.

Table 20: Public Debt Ratio (in percent of GDP)

Rank		Country	Score	*Change*	Value
2013	2012				
1	1	Estonia	10.0	*0.0*	8.0
2	2	Luxembourg	9.2	*-0.2*	21.2
3	3	Sweden	7.9	*-0.1*	39.3
4	4	Slovenia	7.0	*-0.4*	51.7
5	6	Slovakia	6.9	*-0.2*	52.8
6	5	Finland	6.9	*-0.2*	52.9
7	7	Poland	6.6	*0.0*	57.3
8	8	Netherlands	5.7	*-0.3*	70.0
9	9	Austria	5.6	*0.1*	72.3
10	11	Malta	5.5	*0.1*	72.7
11	12	Germany	5.1	*0.1*	79.1
12	13	Cyprus	4.7	*-0.2*	84.6
13	10	Spain	4.6	*-0.8*	85.8
14	14	United Kingdom	4.4	*-0.2*	88.1
15	15	France	4.3	*-0.1*	89.8
		Euro 17	4.3	*-0.2*	90.1
16	16	Belgium	3.4	*-0.2*	102.6
17	17	Ireland	1.8	*-1.0*	124.9
18	18	Portugal	1.7	*-0.7*	126.5
19	19	Italy	1.6	*-0.3*	127.9
20	20	Greece	0.0	*0.0*	160.5

Ranks, scores and score changes from last year for the Government Outlays sub-indicator. Value: public debt as a percentage share of GDP, 1Q 2013, adjusted for the debt taken on by donor countries for mutual support efforts. For further explanations see notes under Table 2 on page 4.

17. We adjust these data for the extra debt taken on by most eurozone member states as part of the mutual support efforts, roughly 2% of GDP for most countries that have provided such funds.

‘Pension and health care reforms are preparing social security systems for demographic change.’

III.4.d Sustainability Gap

As a final criterion for fiscal sustainability, we use the sustainability gap. It measures how much countries would have to tighten fiscal policy from the end of this year until 2020 to reach a debt level of 60% of GDP – in line with the Maastricht criterion – by 2030, under the assumption that they achieve trend growth in the decade 2020-2030 and can hold their fiscal stance at the 2020 level.

The sustainability gap depends on current structural fiscal deficits and debt levels, so fiscal adjustment progress improves a country’s position in the ranking. However, the gap is also determined by the assumptions about long-term interest rates, inflation, trend growth rates and, when it comes to age-related spending, demographic change and how well social security systems are prepared for it. The IMF in its semi-annual *Fiscal Monitor*, from which we take the data, occasionally fine-tunes some of these assumptions, which also leads to changes in the scores.

The harsh fiscal adjustment in many eurozone countries increasingly diminishes the fiscal sustainability gaps. Pension and health care reforms are preparing social security systems better for demographic change. But also sovereign borrowing costs look likely to stay lower than in previous decades for a longer period, which helps fiscal sustainability.

Table 21: Sustainability Gap in Percent of GDP

Rank		Country	Score	*Change*	Value
2013	2012				
1	3	Estonia	9.2	*-0.3*	0.0
2	1	Sweden	8.6	*-1.4*	0.8
3	6	Germany	8.4	*0.8*	1.1
4	5	Italy	7.6	*-0.2*	2.2
5	9	Slovenia	7.3	*2.0*	2.5
6	4	Poland	7.1	*-0.8*	2.8
7	10	Slovakia	6.8	*1.7*	3.1
8	17	Greece	6.7	*6.6*	3.3
9	8	Finland	6.2	*0.1*	3.9
		Euro 17	6.2	*1.1*	3.9
10	12	France	5.6	*1.3*	4.7
11	11	Austria	5.5	*1.1*	4.9
12	13	Portugal	4.5	*1.4*	6.1
13	14	Netherlands	4.4	*1.7*	6.2
14	16	Spain	3.5	*2.7*	7.5
15	18	Ireland	3.3	*3.3*	7.7
16	18	United Kingdom	3.1	*3.1*	8.0
17	15	Belgium	2.1	*0.0*	9.3
n.a.	1	Luxembourg	n.a.	*n.a.*	n.a.
n.a.	7	Cyprus	n.a.	*n.a.*	n.a.
n.a.	n.a.	Malta	n.a.	*n.a.*	n.a.

Ranks, scores and score changes from last year for the Government Outlays sub-indicator. Value: sustainability gap in percent of GDP.
For further explanations see notes under Table 2 on page 4.

‘The prize for “most-improved fiscal sinner of the year” goes to Greece.’

- The top of the table remains heavily filled with EU newcomers that have relatively little legacy debt like **Estonia** (No. 1), **Slovenia** (No. 5), **Poland** (No. 6) and **Slovakia** (No. 7), as well as old members with a tradition of fiscal responsibility like **Sweden** (No. 2), **Germany** (No. 3) and **Italy** (No. 4).

- A strong fiscal position allows countries to try to stimulate the economy in adverse economic conditions. This explains why the top third of the table also includes all countries where the score deteriorated in 2013. **Sweden**, for example, has continuously stimulated its economy during the crisis years, meaning that the country now has a small fiscal gap. Unless this turns into long-term complacency, this deterioration is no reason for concern.

- The prize for “most-improved fiscal sinner of the year” goes to **Greece** (No. 8). That Greece apparently reached a primary fiscal surplus in 2013 with the economy having just stabilised at deeply depressed output levels is an almost incredible feat. In addition, Greece has locked in very low interest rates on its outstanding public debt held by the eurozone and the IMF as well as the remaining private sector creditors for a long period of time and has reduced future age-related spending through entitlement reform. As a result, its remaining sustainability gap of 3.3% of GDP now looks very manageable.

- The bottom of the table is formed by a mix of West European countries which had less pressure than the crisis countries to adjust quickly. For **Belgium** (No. 17) and the **Netherlands** (No. 13), the challenge is more on the demographic side, with age-related spending on current trends expected to drive up the primary deficit to 6.4% and 6.3% of GDP, respectively. According to IMF calculations, Belgium needs to tackle pension entitlements, while the Netherlands seem to need more healthcare reform.

- The **United Kingdom** (No. 16), **Ireland** (No. 15), **Spain** (No. 14) and to a lesser degree **Portugal** (No. 12) still face huge fiscal adjustment needs, although all four seem on the right track and have made significant progress in 2013.

‘Cyprus’ chaotic bail-out has realised the risk that its oversized banking sector had always posed.’

III.5 Resilience

How resilient are European countries to financial shocks? The financial storm of the eurozone crisis has provided some obvious answers. But current events are partly shaped by happenstance and peculiar political uncertainties. In our more fundamental analysis, we abstract from the current chain of events. Instead, we look at some of the factors that can make countries more or less prone to fall victim to such accidents.

All the indicators we examine are variants of one theme: how much do countries – both the sovereigns and the private sector – rely on continued access to finance?

To assess the vulnerability to sudden shifts in market sentiment, we look at six separate sub-indicators: 1) the current account deficit, 2) debt redemptions over the next three years as a share of GDP, 3) public debt held abroad as a share of

Table 22: Indicators of Resilience to Financial Shocks

Rank	Country	Total score		Debt redemptions		Debt held abroad		Savings rate		Current account		Bank assets		Private debt	
2013		2013	*Change*	2013	*Change*	2013	*Change*	2013	*Change*	2013	*Change*	2013	*Change*	2013	*Change*
1	Slovenia	7.7	*0.4*	6.3	*0.1*	6.9	*-0.5*	6.8	*0.0*	8.1	*2.3*	10.0	*0.0*	7.9	*0.2*
2	Slovakia	7.6	*0.4*	5.8	*0.7*	7.1	*-0.7*	4.8	*-0.9*	7.8	*3.2*	10.0	*0.0*	10.0	*0.0*
3	Germany	7.5	*0.7*	6.1	*2.3*	4.7	*0.3*	9.2	*-0.1*	9.0	*0.7*	7.5	*0.6*	8.4	*0.5*
4	Estonia	7.5	*0.1*	10.0	*0.3*	9.4	*-0.2*	2.9	*-0.6*	4.7	*-1.1*	10.0	*0.0*	7.7	*2.1*
5	Sweden	6.8	*-0.1*	7.0	*0.3*	7.6	*-0.5*	8.3	*0.9*	8.5	*-0.3*	7.3	*-0.1*	2.0	*-1.1*
6	Poland	6.4	*-0.3*	5.7	*1.3*	6.6	*-0.8*	0.9	*-4.1*	5.0	*1.4*	10.0	*0.0*	10.0	*0.0*
7	Austria	6.1	*0.3*	5.7	*0.5*	3.3	*0.0*	7.2	*0.0*	6.9	*0.7*	7.2	*0.6*	6.2	*-0.2*
8	Netherlands	6.1	*0.0*	5.3	*0.2*	5.6	*-0.2*	6.2	*-0.5*	10.0	*0.3*	5.7	*0.3*	3.5	*0.1*
	Euro 17	5.9	*0.3*	3.8	*0.6*	4.5	*-0.3*	7.5	*0.0*	6.8	*1.0*	6.7	*0.4*	6.3	*0.1*
9	Finland	5.8	*0.2*	6.8	*1.0*	4.6	*-0.4*	5.2	*0.1*	5.1	*0.0*	7.7	*1.2*	5.2	*-0.3*
10	Luxembourg	5.7	0.2	*10.0*	*1.3*	n.a.	n.a.	9.7	*2.0*	8.9	*-0.2*	0.0	*0.0*	0.0	*-2.1*
11	Italy	5.6	0.2	*0.0*	*-0.6*	4.9	-0.2	6.6	*-0.2*	6.2	*2.0*	7.9	*-0.1*	7.8	*0.0*
12	France	5.4	*0.1*	3.6	*0.0*	3.9	*0.2*	8.5	*-0.3*	4.9	*0.4*	5.2	*0.2*	6.3	*-0.1*
13	Greece	5.3	*1.3*	5.3	*2.1*	0.0	*0.0*	n.a.	*n.a.*	4.6	*4.5*	8.8	*0.2*	7.7	*-0.2*
14	Spain	5.2	*-0.1*	1.4	*-2.1*	6.4	*-1.3*	6.0	*-0.3*	6.4	*2.4*	6.9	*0.4*	3.9	*0.0*
15	Belgium	5.2	*0.2*	3.3	*0.8*	3.2	*-0.4*	8.5	*0.4*	6.1	*0.0*	7.5	*0.7*	2.4	*-0.5*
16	UK	5.0	*0.1*	6.3	*-0.8*	6.8	*-0.2*	4.1	*0.4*	3.7	*-1.1*	4.2	*1.6*	5.0	*0.7*
17	Portugal	4.1	*0.7*	1.5	*1.5*	0.8	*-2.1*	6.9	*1.2*	6.1	*3.6*	7.0	*0.4*	2.0	*-0.3*
18	Malta	4.1	*0.9*	5.6	*2.5*	n.a.	*n.a.*	n.a.	*n.a.*	6.6	*1.0*	0.0	*0.0*	4.1	*0.0*
19	Ireland	3.8	*1.2*	7.0	*5.7*	0.9	*-1.6*	6.4	*0.3*	7.7	*1.4*	1.1	*1.1*	0.0	*0.0*
20	Cyprus	3.6	1.2	*3.1*	*0.7*	n.a.	n.a.	7.1	*1.8*	4.8	*1.0*	2.9	*2.9*	0.0	*-0.6*

Ranks, scores and score changes from last year for the Resilience Indicator and sub-indicators. For further explanations see notes under Table 2 on page 4.

‘Countries with oversized financial systems tend to feature at the end of the resilience table.’

GDP, 4) the household savings rate, 5) the debt of households and non-financial corporations and 6) the size of the banking system as a multiple of GDP.

Finally, the adjustment efforts are shining through. During the crisis, many countries had tried to improve their resilience by slashing public borrowing needs, reducing current account deficits and restructuring financial sectors, only to see the recession and financial fragmentation thwart all progress. The good news is that this year, we can report actual improvements in the data. External adjustment shows in a large swing in current accounts in the crisis countries, bail-outs improved the debt profiles and private sector deleveraging is reducing bank assets and in some cases private sector debt. We update the analysis with the latest data and describe the main changes in the following chapters.

Despite significant improvement, **Cyprus** (No. 20) retains the red lantern behind **Ireland** (No. 19). For Cyprus, the chaotic bail-out including a serious bank restructuring has realised the risk that its oversized banking sector had always posed. Once the clean-up process is complete, this disaster will be far less likely to repeat itself. Ireland was helped by its bank debt restructuring earlier this year and the external improvement, as was **Greece** (No. 13). **Portugal** (No. 17) also improved, but its low score signposts copying Ireland’s bail-out exit in summer 2014 will be a risky endeavour.

Generally speaking, countries with oversized financial systems tend to feature at the end of the resilience table, especially if the exposure to banking is paired with fiscal vulnerabilities as in the case of the **United Kingdom** (No. 16) and **Malta** (No. 18). **Luxembourg** (No. 10) remains an important financial centre, but its public finances are among the soundest in the eurozone.

Topping the ranking is **Slovenia** (No. 1), a country which had been tipped as the next bail-out candidate after Cyprus and still faces one of the highest borrowing costs in the eurozone. Slovenia’s public and private debt levels are low, as befits a country with still modest per-capita GDP. Slovenia also runs a sizeable current account surplus and the banking system is small compared to the economy. Its problems seem more than manageable, whether it will need eurozone support or not.

The other Eastern European growth stars as well as **Germany** (No. 3) and **Sweden** (No. 5) complete the top group in our resilience ranking. **Italy** (No. 11) and **France** (No. 12) stay in the middle of the pack with virtually unchanged scores. Italy gained significantly on the current account side, but lost a fraction in all other categories. French resilience changed hardly at all. Its high public debt will remain a theoretical vulnerability for a long time, but its private sector is in good shape with low debt and high savings.

‘Germany’s huge trade surplus continues to draw ire in Washington – but the criticism is misguided.’

III.5.a Current Account

The most obvious gauge of a country’s vulnerability to shifts in market sentiment is its annual external financing need as expressed in its current account deficit. Updating with 2013 EU estimates, the often spectacular adjustment triggered by the crisis, done via collective belt-tightening and aggressive exporting, shakes up the vulnerability ranking.

The **Netherlands** (No. 1) and **Germany** (No. 2) defend their places at the top of the ranking. Germany’s huge trade surplus continues to draw ire in Washington, both at the IMF and at the US Treasury. But especially in the case of the Americans that criticism is at least partly motivated by covering up its own failures, because within the eurozone, Germany’s trade surplus has already more than halved since 2007. We explore this contentious issue in more depth in Case Study: The German Surplus on page 76.

The really spectacular shifts occurred in the periphery. **Ireland** (No. 7) is heading for the seventh highest current account surplus in the eurozone this year, **Spain** (No. 10), **Italy** (No. 11) and **Portugal** (No. 12) are each in positive territory, too. **Greece** (No. 19) still features towards the bottom of the table, but we can already forecast a significant jump for next year. Whereas the European Commission, whose data we use here to be consistent with our methodology from last year, still projects a current account deficit of 2.3% of GDP for Greece in 2013, recent monthly data point to a modest surplus instead – which would put it at least in the No. 13 position. Greece will almost certainly be credited with a stronger current account position even in the European Commission data next year.

The **United Kingdom** (No. 20) with its flexible exchange rate now graces the bottom of the table by a mile. The current account deficit of 4.3% of GDP in 2013 may be a surprising result given the 25% sterling depreciation in 2009. But as the economy has started expanding in earnest driven by consumption and the housing market, the deficit is unlikely to vanish any time soon.

Table 23: Current Account Balance in Percent of GDP

Rank 2013	Rank 2012	Country	Score	*Change*	Value
1	1	Netherlands	10.0	*0.3*	9.6
2	4	Germany	9.0	*0.7*	7.0
3	2	Luxembourg	8.9	*-0.2*	6.7
4	3	Sweden	8.5	*-0.3*	5.9
5	9	Slovenia	8.1	*2.3*	5.0
6	13	Slovakia	7.8	*3.2*	4.3
7	5	Ireland	7.7	*1.4*	4.1
8	5	Austria	6.9	*0.7*	2.5
		Euro 17	6.8	1.0	*2.3*
9	10	Malta	6.6	*1.0*	1.8
10	16	Spain	6.4	*2.4*	1.4
11	15	Italy	6.2	*2.0*	1.0
12	7	Belgium	6.1	*0.0*	0.9
12	19	Portugal	6.1	*3.6*	0.9
14	11	Finland	5.1	*0.0*	-1.2
15	18	Poland	5.0	*1.4*	-1.5
16	14	France	4.9	*0.4*	-1.8
17	17	Cyprus	4.8	*1.0*	-2.0
18	8	Estonia	4.7	*-1.1*	-2.1
19	20	Greece	4.6	*4.5*	-2.3
20	12	United Kingdom	3.7	*-1.1*	-4.3

Ranks, scores and score changes from last year for the Current Account sub-indicator. Value: 2013 current account balance, percent of GDP, as projected by the European Commission in November 2013. For further explanations see notes under Table 2 on page 4.

‘At times of market tensions, the need to roll over a pile of debt can pose a challenge.’

III.5.b Debt Profile

Having a comparatively low fiscal deficit does not suffice to maintain market confidence when investors are nervous. At times when investors want to reduce exposure to countries that have come under suspicion, the sheer need to roll over maturing debt can pose a major challenge. Also, confidence among foreign investors can be more fickle than that of domestic savers and institutions. Financial market contagion seems to be mostly driven by investors from abroad who do not bother to study carefully all the differences between countries which they may summarily lump into one category.

We thus look at two aspects of a country’s debt profile as a share of GDP:

- How much public debt has to be redeemed in 2014-2016?
- How much public debt is held abroad?

For debt held abroad, we now use 2013 instead of 2011 data. The debt redemption criterion replaces the average maturity criterion we used until last year. We believe that assessing the redemption needs over the next three years provides a clearer picture of the imminent threat, as maturity distributions can be heavily skewed in some countries, making average maturities a sometimes misleading indicator.

Since 2012, vulnerabilities have in many cases been reduced dramatically, but in a few, they have grown.

Table 24: Public Debt Profile

Rank		Country	Score	*Change*
2013	2012			
1	2	Luxembourg	10.0	*1.3*
1	1	Estonia	10.0	*0.3*
3	18	Ireland	7.0	*5.7*
4	4	Sweden	7.0	*0.3*
5	6	Finland	6.8	*1.0*
6	5	Slovenia	6.3	*0.1*
7	3	United Kingdom	6.3	*-0.8*
8	11	Germany	6.1	*2.3*
9	9	Slovakia	5.8	*0.7*
10	10	Poland	5.7	*1.3*
11	7	Austria	5.7	*0.5*
12	15	Malta	5.6	*2.5*
13	14	Greece	5.3	*2.1*
14	8	Netherlands	5.3	*0.2*
		Euro 17	3.8	*0.6*
15	12	France	3.6	*0.0*
16	16	Belgium	3.3	*0.8*
17	17	Cyprus	3.1	*0.7*
18	20	Portugal	1.5	*1.5*
19	13	Spain	1.4	*-2.1*
20	19	Italy	0.0	*-0.6*

Ranks, scores and score changes from last year for the Debt Profile sub-indicator. For further explanations see notes under Table 2 on page 4.

Ireland (No. 3) was allowed to swap €30.6 billion of short-term promissory notes to be repaid over 10 years issued during its 2010 banking system rescue into long-term government bonds with an average maturity of 34 years. That reduces the repayments over the next three years to a mere €21 billion or 12% of GDP, one of the lowest rates in the eurozone. This is one of the key reasons why Ireland’s bail-out exit is likely to be a success even without a eurozone safety net.

‘Assessing the redemption needs over three years provides a clearer picture of the imminent threat.’

Fellow bailout country **Portugal’**s (No. 18) is less fortunate, with redemptions amounting to a whopping 36% of GDP over the next three years. Such roll-over needs will pose a challenge as the country ponders whether to exit the bailout arrangements in mid-2014 with or without requesting further credit lines with the European Stability Mechanism.

Greece (No. 13) benefits from the change in methodology. Its maturity range is skewed towards the extremely long end as it has to repay the bulk of new bonds issued in the public debt restructuring in 2012 only in 30 years. The remaining redemptions until 2016 are comparatively small. Only the huge share of foreign debt holders (almost exclusively the ECB, the eurozone and the IMF) prevents a better rank.

Spain (No. 19) and **Italy** (No. 20) avoided bailouts and debt restructurings. But due to the size of their debt and the relatively short maturities, which shortened further during the peak of the crisis last year as they were forced to issue more shorter-term debt to avoid punitive borrowing costs, have made them more vulnerable.

‘The lowest private sector debt ratios can be found in central and eastern Europe.’

III.5.c Private Debt

In severe financial crises, the lines between private and public debt can become blurred. Most obviously, if an economic boom fuelled by private debt goes bust, sovereign debt often surges as tax revenues plunge while social outlays rise. In addition, the sovereign is often tempted to deliver an expensive fiscal stimulus and may have to spend money to bail out parts of the private sector. Ahead of the post-Lehman financial crises, the very comfortable fiscal positions of Ireland and Spain had obscured a serious underlying vulnerability stemming from the massive build-up of household debt.

Updating our analysis with 2012 data from Eurostat, the trend towards modest deleveraging in the eurozone as a whole and serious deleveraging in many of the most indebted countries becomes more pronounced.

The lowest private sector debt ratios can be found in central and eastern Europe, with **Slovakia**, **Poland** (jointly No. 1) and **Germany** (No. 3) leading the pack. The former two can easily sustain the modest growth rates in credit since 2009, while German households continued to deleverage into 2012 despite the low interest rates out of caution during the eurozone crisis.

Table 25: Private Debt in Percent of GDP

Rank		Country	Score	*Change*	Value
2013	2012				
1	1	Slovakia	10.0	*0.0*	76.3
1	2	Poland	10.0	*0.0*	78.4
3	4	Germany	8.4	*0.5*	116.3
4	6	Slovenia	7.9	*0.2*	125.2
5	5	Italy	7.8	*0.0*	128.8
6	9	Estonia	7.7	*2.1*	130.1
7	3	Greece	7.7	*-0.2*	130.3
		Euro 17	6.3	*0.1*	161.3
8	7	France	6.3	*-0.1*	161.7
9	8	Austria	6.2	*-0.2*	164.7
10	10	Finland	5.2	*-0.3*	185.1
11	11	United Kingdom	5.0	*0.7*	189.8
12	12	Malta	4.1	*0.0*	209.9
13	13	Spain	3.9	*0.0*	215.2
14	14	Netherlands	3.5	*0.1*	222.8
15	16	Belgium	2.4	*-0.5*	247.8
16	17	Portugal	2.0	*-0.3*	256.0
17	15	Sweden	2.0	*-1.1*	256.5
18	19	Cyprus	0.0	*-0.6*	302.6
18	20	Ireland	0.0	*0.0*	331.9
18	18	Luxembourg	0.0	*-2.1*	326.3

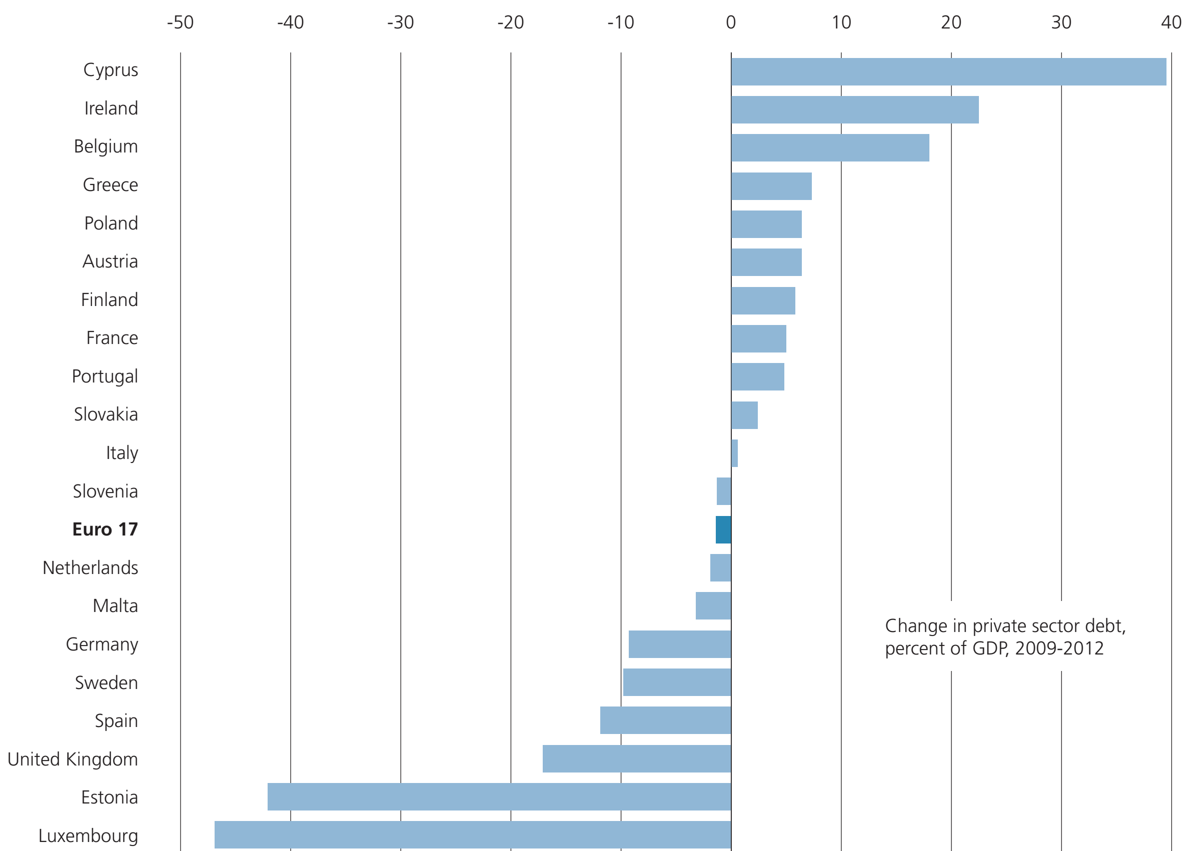
Ranks, scores and score changes from last year for the Private Debt sub-indicator. Value: 2012 private sector debt, percent of GDP. For further explanations see notes under Table 2 on page 4.

Greece (No. 7) and **Italy** (No. 5) have many problems, but over-indebtedness of the private sector is not one of them. Both easily remain in the top bracket of the table despite their sharp recessions. The middle of the pack extends from **France** (No. 8) to the **United Kingdom** (No. 11), with French indebtedness rising modestly and UK indebtedness falling gradually up until 2012.

‘Greece and Italy have many problems, but private sector debt is not one of them.’

Chart 14: Deleveraging in Action: Private Sector Debt Change 2009-2012

Change in private sector debt, percent of GDP



Source: Eurostat

‘Portuguese families have increased their savings rate and reduced consumption.’

The small countries of **Luxembourg**, **Cyprus** and **Ireland** (jointly No. 18) stay at the bottom of the table with debt ratios of more than 300% of GDP each. However, while the prosperous households and companies in Luxembourg have reduced their leverage by 47% of GDP since 2009, Irish and Cypriot debt is continuing to rise (see Chart 14 on page 68). It is much easier to repay loans in a growing economy than in a shrinking one. That difference also becomes apparent with the next two countries at the bottom of the table, **Sweden** (No. 17) and **Portugal** (No. 16). Swedish private sector debt is below its 2009 ratio, Portugal’s above. However, in Sweden, the deleveraging process seems to have come to an end, with private-sector debt rising again since 2010.

III.5.d Household Savings Rate

Having a high level of private-sector debt can be mitigated by thrift, that is by a high propensity to save money out of current income. With the savings rate of households updated from 2011 to 2012 data, the order of countries remains broadly similar, with a few exceptions.

The fall of **Cyprus** (No. 7) into serious recession in 2012 triggered a sharp rise in the savings rate to 12.4%, up from 8.8% in 2011. But this will remain a temporary boost, as Eurostat projects the bail-in troubles to reduce the savings rate to only 3.3% in 2013. **Luxembourg** (No. 1) now graces the top of the table with a savings rate of 17.4%. **Portuguese** families (No. 8) have increased their savings rate and reduced consumption, leading to a big jump in the ranking.

The sharpest reductions in savings rates were recorded in **Slovakia** (No. 15) and **Poland** (No. 18). The latter had a household savings rate of an extremely low 0.8%, with Eurostat expecting a recovery for 2013.

Table 26: Household Savings Rate in Percent of Disposable Income

Rank 2013	Rank 2012	Country	Score	*Change*	Value
1	4	Luxembourg	9.7	*2.0*	17.4
2	1	Germany	9.2	*-0.1*	16.4
3	3	Belgium	8.5	*0.4*	15.2
3	2	France	8.5	*-0.3*	15.2
5	5	Sweden	8.3	*0.9*	14.7
		Euro 17	7.5	*0.0*	13.2
6	6	Austria	7.2	*0.0*	12.6
7	14	Cyprus	7.1	*1.8*	12.4
8	12	Portugal	6.9	*1.2*	12.2
9	8	Slovenia	6.8	*0.0*	11.9
10	7	Italy	6.6	*-0.2*	11.6
11	11	Ireland	6.4	*0.3*	11.1
12	9	Netherlands	6.2	*-0.5*	10.7
13	10	Spain	6.0	*-0.3*	10.4
14	15	Finland	5.2	*0.1*	8.8
15	13	Slovakia	4.8	*-0.9*	8.2
16	17	United Kingdom	4.1	*0.4*	6.8
17	18	Estonia	2.9	*-0.6*	4.5
18	16	Poland	0.9	*-4.1*	0.8
n.a.	n.a.	Greece	n.a.	*n.a.*	n.a.
n.a.	n.a.	Malta	n.a.	*n.a.*	n.a.

Ranks, scores and score changes from last year for the Private Debt sub-indicator. Value: 2012 household savings rate in percent of disposable income. For further explanations see notes under Table 2 on page 4.

‘Bank balance sheets have started to shrink relative to GDP in almost all countries.’

III.5.e Bank Assets

The eurozone’s banking system has been a transmitter of the confidence crisis and in some case even a source of tensions. The eurozone helped to recapitalise Spanish and Greek banks in 2012-13. The Cypriot banking system suffered a bail-in by creditors and depositors in March 2013. An oversized banking sector makes countries more vulnerable to shocks of confidence. The ratio of bank assets to GDP thus features on our list of criteria to assess the resilience of a country to shocks.[18] This year, we update the data from 2011 to mid-2013.

A clear change in direction emerges. Until 2011, bank balance sheets had still been rising. But since then, bank balance sheets have started to shrink relative to GDP in almost all countries, on average by 6% in the eurozone despite the ECB’s cheap loans. **Portugal** (No. 12) is a good example: bank assets had expanded 10% from 2009 to 2011, but have fallen by 10% since then, leaving them almost unchanged compared to 2009 (see Chart 15 on page 71). In Spain, assets have declined by 9% since 2011, in Greece by 13%.

Only three eurozone countries and two of the three non-eurozone countries in the sample reported rising bank balance sheets compared to 2011. **Slovakia** (No. 1) and **Italy** (No. 6) reported very modest increases in bank assets from low levels. **Sweden** (No. 10) reported the third biggest increase in the whole sample and dropped a few places. Reassuringly though, the size of the Swedish banking system remains below the eurozone average.

The biggest change this year occurred in **Cyprus** (No. 17), where the March bail-in drastically shortened banks’ balance sheets. The second largest bank of the country was merged with the largest bank, and depositors in both took significant losses. In addition, despite capital controls, some funds

Table 27: Bank Assets in Percent of GDP

Rank 2013	Rank 2012	Country	Score	*Change*	Value
1	1	Slovakia	10.0	*0.0*	83.4
1	1	Poland	10.0	*0.0*	92.1
1	1	Estonia	10.0	*0.0*	108.4
1	1	Slovenia	10.0	*0.0*	140.7
5	5	Greece	8.8	*0.2*	215.2
6	6	Italy	7.9	*-0.1*	262.8
7	12	Finland	7.7	*1.2*	274.4
8	9	Belgium	7.5	*0.7*	287.4
9	8	Germany	7.5	*0.6*	288.2
10	7	Sweden	7.3	*-0.1*	298.8
11	11	Austria	7.2	*0.6*	302.8
12	10	Portugal	7.0	*0.4*	314.0
13	13	Spain	6.9	*0.4*	320.0
		Euro 17	6.7	*0.4*	332.6
14	14	Netherlands	5.7	*0.3*	388.8
15	15	France	5.2	*0.2*	411.9
16	16	United Kingdom	4.2	*1.6*	468.4
17	17	Cyprus	2.9	*2.9*	541.0
18	17	Ireland	1.1	*1.1*	638.1
19	17	Malta	0.0	*0.0*	811.9
19	17	Luxembourg	0.0	*0.0*	2212.1

Ranks, scores and score changes from last year for the Bank Asset sub-indicator. Value: August-2013 MFI total assets, percent of GDP. For further explanations see notes under Table 2 on page 4.

18. Source: European Central Bank. Total assets/liabilities of monetary financial institutions (MFIs).

‘Cyprus’s depositor bail-in drastically shortened its bank balance sheets.’

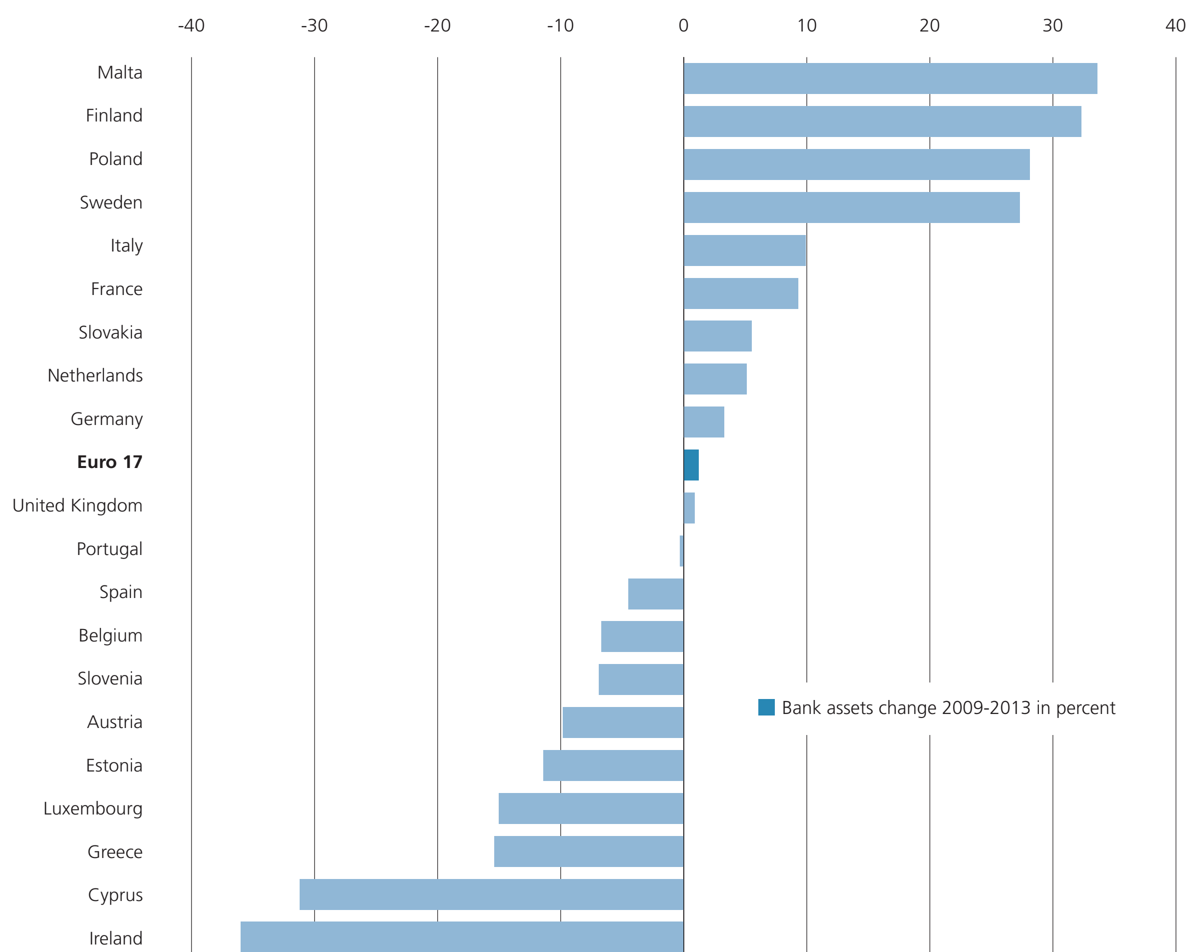
left the country. Bank assets have shrunk by 27% or €36 billion since 2011. Still, at 541% of GDP, the banking system remains very large relative to the economy.

The **United Kingdom** (No. 16) and **Ireland** (No. 18) also gained points. British banks reduced their assets in line with the eurozone average since 2011, Irish banks by 13%. However, both banking systems remain very large compared to the bulk of the eurozone at 468% and 638% of GDP, respectively.

Finland (No. 7) recovered a few places after the big drop in 2012. Its bank assets had grown by 60% from 2009 to 2011, as Scandinavian banks used the country as a financing hub in the region. Finnish banks and subsidiaries had apparently passed on the cheap financing from the ECB to non-eurozone Scandinavian banks. With the crisis easing again and ECB loans being repaid, Finnish bank assets have fallen by 18% since 2011, although they are still 32% higher than in 2009.

Chart 15: Revamping the Financial Sector: Change in Bank Assets

Total assets/liabilities of monetary financial institutions, 2013 over 2009 change in percent



Source: European Central Bank

‘There is much less moral hazard in the eurozone than in transfer systems within nation states.’

The Nature of the Euro Crisis

The eurozone differs from all other developed regions of the world in two major respects:[19]

1. Unlike nation states, the eurozone is not a transfer union with major quasi-automatic and unconditional transfers within the region.
2. Its governments and banks have no automatic lender of last resort.

The eurozone can best be understood as a close-knit family of nations: separate nations kept together by strong long-term bonds. The bonds forged by history and mutual interest in long-term co-operation are not unbreakable. But they can withstand a lot. As in a family, or a group of individuals allowed to cooperate in potentially infinitely repeated games, the enlightened self-interest of each member underpins a basic solidarity within the group. But the resulting transfers are largely horizontal, from member to member, rather than vertical from a strong centre to subordinate parts of a nation.

In the eurozone, the donors can and do set the terms at which they grant conditional credits to the recipients. For this reason, there is much less risk of moral hazard in the mutual support system within the eurozone than in the usual transfer systems within nation states. The tough-love nature of the eurozone’s internal support system explains why peripheral euro members are correcting their imbalances in such a frontloaded way.

Standard nation states have their own central bank. If need be, the central bank could buy the national debt, as the US Federal Reserve, the Bank of England and the Bank of Japan have done with abandon in the wake of the Lehman crisis.[20] In the eurozone, the multinational ECB is not the quasi-automatic lender of last resort for national governments. As a result, buyers of sovereign bonds of a member state incur a risk that the borrower may not be able to fully service its debt.

19. For a more detailed exposition, see *Tough Love: the True Nature of the Euro Crisis*, Berenberg, 20 August 2012.
20. The stock central bank purchases of government and mortgage bonds stands at 23% of GDP in the UK, 22% in the US, 38% in Japan but merely at 3% in the eurozone.

‘The lesson is clear; in turbulent times, the eurozone needs a lender of last resort.’

The ECB has played a crucial role in the euro crisis. When contagion spread across the region like wildfire after the decision in July 2011 to restructure Greek debt without providing a safety net for Italy and Spain, the ECB held back. Italian backtracking on reform promises seemed to dismay the ECB.[21] As a result, the crisis continued to fester despite half-hearted ECB measures such as three-year liquidity injections in December 2011 and February 2012. Only when the ECB finally stepped forward on 26 July 2012 as the lender of last resort, vowing to do all it takes to keep reform countries in the euro, did market tensions start to subside. Since then, the ECB’s monetary impulse has started to get through to households and companies.

The lesson is clear: in turbulent times, the eurozone needs a lender of last resort for countries that meet specified reform conditions. It needs an ECB safety net. This points to the biggest risk to our positive outlook for the eurozone in 2014. If Germany’s constitutional court were to constrain the ECB’s outright monetary transactions programme so much as to render it ineffective, a new wave of market turmoil may result, potentially pushing the eurozone back into recession. In a worst-case scenario, a political counter-reaction to such a recession could undo much of the adjustment progress achieved so far. But we view this as a remote tail risk only.

21. Before starting to buy Italian bonds as part of its Securities Market Programme in August 2011, ECB President Jean-Claude Trichet and then Banca d’Italia President Mario Draghi sent a joint letter Italian Prime Minister Silvio Berlusconi demanding sweeping fiscal cuts and reforms, apparently on the understanding that Berlusconi had accepted these recommendation as a pre-condition for ECB purchases of Italian bonds. But when the bond purchases eased market tensions temporarily, Berlusconi failed to deliver on time on some key ECB demands.

‘In the turnaround stage, the fiscal squeeze lessens and exports surge.’

The Three Stages of Adjustment

Roughly speaking, we can distinguish three separate stages of adjustment for countries which have lived well beyond their means in their domestic accounts (through excessive government and/or private sector borrowing) or in their external accounts (through excessive external deficits).

In the initial **stage of pain**, governments and households tighten their belts. A plunge in domestic demand, a collapse of imports, lay-offs of the least productive workers and severe downward pressure on real wages improve the competitive position and the external balance amid a serious adjustment recession. As a result of the recession, the improvement in the underlying fiscal balance often does not yet show up in the unadjusted headline numbers for the government deficit. In this stage, what we call “progress” in our adjustment indicator is largely a measure of pain, not yet of something that the citizens of the country concerned would already describe as a “gain.”

In the subsequent **turnaround stage**, the fiscal squeeze lessens and a surge in exports turns into the major driver of the further external improvement. Eventually, dynamic exports stimulate an upturn in business investment that helps a country to exit recession.

In the final **stage of success**, employment starts to rebound as well. Amid rising tax revenues, the country can savour the fruits of adjustment. Wages and consumption stop falling and return to normal growth rates instead while rebounding imports put an end to the gains in net exports.

Germany (which went through its own severe adjustment crisis after 2003) entered the second stage in 2006 and the third stage in 2007, only to be blown off course temporarily by the post-Lehman mega-recession in late 2008. Small open **Estonia**, which succumbed early to its home-made post-bubble bust in 2007, advanced to stage three last year, having been at the end of stage two when we produced the first *Euro Plus*

‘Ireland advanced to the turnaround stage in 2012; Spain and Portugal followed in 2013.’

Monitor in November 2011. From the position of strength which Estonia reached through rapid and determined adjustment, it is now relaxing the reins again, allowing itself a slight fiscal stimulus and some rebound in wages. While Estonia has maintained its top position for overall health, it has slipped to No. 6 in our adjustment ranking, down from No. 1 in 2011 and No. 3 in 2012.

Of the four prime euro crisis countries, **Ireland** had already progressed to the turnaround stage in 2012, with an excellent chance of reaching the final stage of success in early 2014 as long as global demand growth does not falter and abort the upturn in Irish exports and investment. **Spain** and **Portugal** also advanced to the turnaround stage in 2013 thanks to their courageous adjustment efforts. If they maintain their efforts, both could graduate to the stage of success in late 2014.

Ever since Greece received a second bail-out package in late 2012, the situation has stabilised. If both sides, Greece and the troika, stay the cause of reform without placing undue emphasis on extra austerity, Greece can likely escape the phase of pain in early 2014. As small and open **Cyprus** is adjusting fast, chances are that even this small latecomer to the euro crisis could follow suit in the summer or autumn of 2014.

IV Case Study:

Case Study: The German Surplus

The euro periphery is adjusting at a rapid pace. But what about Germany? The big country at the core of the eurozone has come in for a heavy dose of criticism over its nearly 7% current account surplus. Some observers claim that, with its alleged beggar-thy-neighbour policies, Germany is preventing a rebalancing of Europe and the world.[22]

The German view is rather different as German policies seem to be working well for the country itself. Germany has record employment, a balanced budget and an inflation rate of 1.2%. In September 2013, content voters strongly endorsed Chancellor Angela Merkel and her "tough love" policies of helping the euro periphery with huge but conditional credits.

In addition, the criticism looks overdone and somewhat out-dated. As our analysis has shown, Germany is already part-and-parcel of a major rebalancing within Europe. Driven by market forces, German wages are rising faster than almost anywhere else in the eurozone. Gross wages have increased at a 2.8% annual pace in the last two years, real private consumption was up 1.1% year-on-year in Q2 2013 while net exports are no longer contributing to the German upswing as imports are rising faster than exports. As a result of deregulating its labour market 10 years ago and letting market forces prevail, Germany today has a level and structure of wages that largely clears the labour market. The resulting 12% rise in core employment (subject to social security contributions) in the last seven years has allowed Germany to balance its budget.

Nonetheless, Germany still runs a current account surplus of close to 7% of GDP. Proposals to "deal" with this "problem" come in two strands, the modestly helpful and the outright silly.

Modestly helpful are suggestions such as those of the European Commission to further deregulate Germany's service sector and to spend a bit more on infrastructure. More competition among pharmacies and less onerous rules for various professions would make the German economy more efficient. But service-sector deregulation is hardly the stuff to make German households save less or unlock a major wave of business investment. As a result, it would probably have little impact on the current account. And yes, rising tax revenues give the German government some room to increase infrastructure spending while maintaining the constitutional commitment to an almost balanced budget. But again, that would not do much to the current account.

22. In its semiannual report to the US Congress on countries that manipulate their currencies, the US Treasury singled out Germany for a heavy does of criticism on 30 November 2013, saying that "Germany's anemic pace of domestic demand growth and dependence on exports have hampered rebalancing at a time when many pother euro area countries have been under severe pressure to curb demand and compress imports."

‘Germany’s surplus has little to do with alleged “beggar-thy-neighbour” policies in the eurozone.’

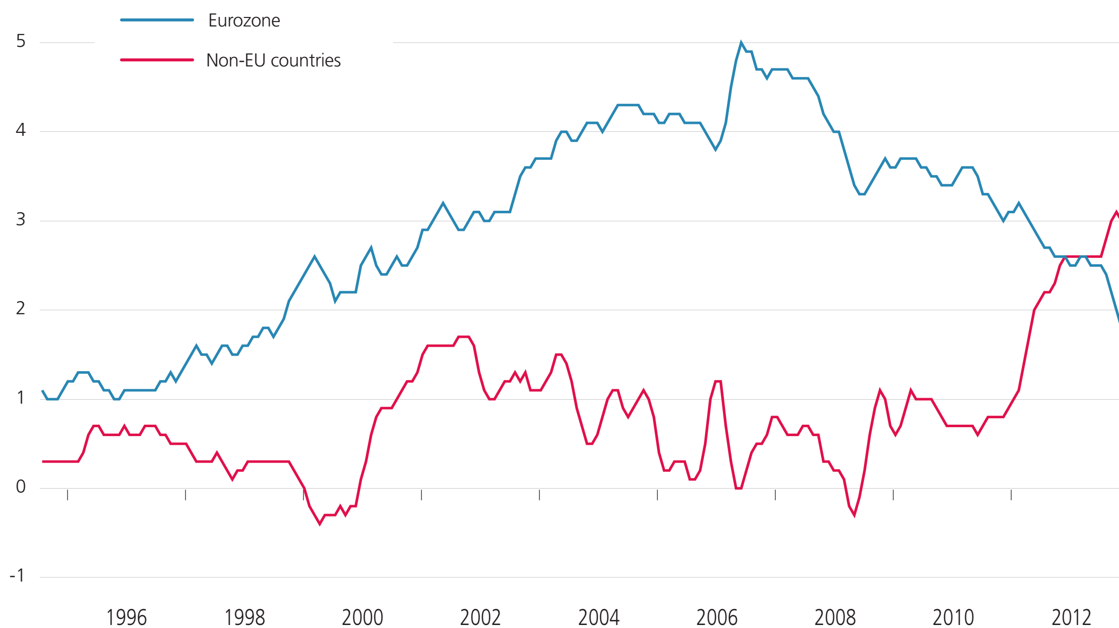
Outright silly are the more widespread proposals that Germany should raise its wages massively and embark on a major public spending programme. In a nutshell, these proposals boil down to one big idea: Germany should become more like France with high wages and huge government outlays. But would anything in Europe or the world really be better if Germany were more like France? The results of recent French economic policies are high unemployment, a stagnant economy, an excessive fiscal deficit, a politically paralysed president and a major rise in support for nasty right-wing extremists. Not exactly what Europe needs more of. Germany was the sick man of Europe 10 years ago. It is hard to see how policies that would get Germany gradually back into that sorry state could be helpful. Germany’s current account surplus has little to do with alleged “beggar-thy-neighbour” policies in the eurozone.

- The German trade surplus with other eurozone countries has already declined from a peak 5% of German GDP in early 2007 to 2.2% now (see Chart 16 below).

- Germany is a hub of a European/global supply chain. In most German cars sold in the US and China, we could probably find quite a few components from Spain. German exports outside Europe help its suppliers in other European countries.

Chart 16: German Rebalancing

German trade in goods, balance of exports and imports in percent of German GDP



Source: Deutsche Bundesbank

‘Market forces will see to it that the German current account surplus can start to normalise soon.’

- The rise in the German surplus in the last two years does not even reflect an exceptional German export prowess. In the two years to 1H 2013, German real exports expanded at a meagre 2.3% average annualised rate.

The current account is the balance of savings and investment in a country. Germany is a rich place with an ageing population. Having failed to bear enough babies, Germans collectively need to build up savings to provide for their retirement. Some current account surplus is thus the normal and desirable state of affairs for Germany. That the surplus has widened to around 7% in the last two years has little to do with alleged German austerity or any “beggar-thy-neighbour” policies. Germany has not had significant austerity in the last few years. Instead, the strong surplus reflects the impact of the euro confidence crisis.

The euro crisis escalated in the summer of 2011 after the fateful decision to restructure Greek debt without providing a safety net for Italy and Spain. Germany went straight from above-trend growth in 1H 2011 to six quarters of virtual stagnation, from 4Q 2011 to 1Q 2013. Scared by the crisis, German companies slashed their machinery investment by 8% during that period. This unsettled the savings-investment balance. As the rest of the world did not have the euro crisis, German exports continued to expand modestly while imports stagnated with German GDP.

But that is now mostly a matter of the past. Market forces and the gradual fading of the euro crisis will see to it that the German current account surplus can start to normalise soon. Reflecting the different states of labour markets, German wages are rising modestly in real terms while they are mostly stagnant or falling slightly at the euro periphery. More importantly, German machinery investment started to expand again in Q2 2013 in a lagged response to the confidence boost provided by the ECB’s announcement of late July 2012 to do all it takes to safeguard the euro. As a result, a gradual increase in German investment, ranging from residential housing to business machinery investment and some extra public infrastructure spending will slowly narrow the gap between savings and investment in Germany that finds its external expression in a current account surplus. There is no need to artificially accelerate the process through wage hikes that go beyond the level of wages to clear the labour market. Instead, forced wage hikes would be counterproductive. Higher labour costs would drive German companies to invest more abroad and less at home, leading to a rise in the gap between savings and domestic investment. And after a while, Germans may even react to the resulting rise in unemployment by saving more rather than less.

‘One reason why France now sticks out as the real problem is that most euro crisis countries have improved.’

Case Study: France

In *The 2011 Euro Plus Monitor*, we warned that “alarm bells should be ringing for France.” It came out as the only major economy in Europe which is stricken with deep-seated fundamental weaknesses without doing anything about it.[23]

Unfortunately, not much has changed since 2011:

- France still has one of the most bloated shares of government spending in GDP within the eurozone.
- Its inward orientation with a low and declining export ratio are a major handicap.
- Excessive rises in real unit labour costs and a restrictive labour code, which makes hiring and firing more difficult in France than in any other eurozone country except Slovenia, impair the competitiveness of the French economy.

In terms of overall economic health, France has raised its score slightly to 4.7, up from the 4.5 score it had in 2011. The eurozone average, meanwhile, has improved marginally faster to 5.8, up from 5.5 in 2011. In the Overall Economic Health ranking, therefore, France has thus kept its No. 16 position again this year. But Spain remains ahead of France, while Greece, Italy, Portugal and Cyprus are closing the gap to France from behind. On current trends, France could be at or very near to the bottom of the pile in Europe in three years’ time.

In terms of its adjustment progress, France has moved up marginally to No. 14, up from No. 15 in 2011. However, this largely reflects the fact that fundamentally healthy Sweden now has a small fiscal adjustment need which it did not have before. It has thus fallen back in our adjustment league from a position well ahead of France to a lower rank now.

France is the real sick man of Europe. In the last few weeks, it has become the major subject of concern in discussions with policymakers and financial market participants alike. Is that good or bad news? Actually it is both.

One major reason why France now sticks out as the real problem of Europe is that most of the usual euro crisis countries have improved so much. Ireland and Spain can wave “good bye” to the troika at the end of this year. With two quarters of GDP growth under its belt already, Portugal can now confidently expect to be in the same position in mid-2014. In small and open Cyprus with its comparatively flexible markets, the harsh adjustment programme has hit the economy less badly than the troika had feared. A year from now, Cyprus could be a candidate for a Baltic-style post-

23. In the meantime, a series of other reports including an IMF report of October 2012 have largely confirmed the findings.

‘The French aversion to reforms and its politics are a serious tail risk for Europe.’

crisis rebound. The situation in Greece remains shaky with a 0.3% quarter-on-quarter drop in GDP in Q3 after a 0.4% quarter-on-quarter gain in Q2. But the country seems to have balanced its primary budget in 2013, a major feat that the troika ought to reward. Italy is Italy, with noisy politics and somewhat unconvincing reform efforts. But courtesy of its strong structural primary surplus, Italy’s fiscal position looks easily sustainable at current bond yields. The very fact that many euro-sceptics now talk so much about France shows that reality has so far proven them wrong with their gloomy predictions for other euro countries.

On the negative side, the French aversion to reforms and its politics are indeed a serious tail risk for Europe. The French-German alliance is at the core of European integration and the euro. Rock solid support for German Chancellor Angela Merkel and the euro in the German elections have once again demonstrated that Germany will go to extreme lengths to defend the euro. But what about France? The anti-euro Front National is gaining in opinion polls while support for François Hollande has slumped to a mere 20%, the lowest ever recorded for a French president since polls began in 1958. The mainstream centre-right opposition remains in disarray. A strong showing for the Front National at the elections to the European Parliament in May 2014 looks likely. What if anti-reform protests in France get out of hand?

Reforming France is difficult due to the French tradition of staging major protests against even small changes to perceived entitlements. President Hollande currently seems unwilling to deliver more than a series of modest changes. His labour market reform in early 2013 to give companies more freedom to negotiate tailor-made deals with their workforce was a good start, but just a start.
But like Germany in its own dark days 10 years ago, France is not an obvious candidate for a financial crisis. Its fiscal position with deficits around a mere 4% of GDP is too strong for that. It also enjoys an implicit German guarantee against financial turbulence.

Breaking the link to Germany would go against the prime national interest of France. France had a reason why it wanted to escape the yoke of the Bundesbank under which it lived in the 1980s and 1990s and get the euro instead. The key lesson which the French political elite has learned from history is that France must work with Germany instead of separating itself from a neighbour which, for the time being, is in a much stronger economic position.

‘President Hollande still has the chance to turn himself into the French version of Gerhard Schröder.’

We will need to look a lot at France in the coming years. The possibility that France could commit political suicide and blow up the euro and its alliance with Germany is one of the key tail risks to watch in Europe. But it is just that, a remote tail risk.

But France is not just a risk. Crises are handmaidens of change. In France, President Hollande still has the chance to turn himself into the French version of Gerhard Schröder. Having started a first term as chancellor of a German centre-left coalition with a series of economic mistakes, Schröder finally made a U-turn four years later and laid the basis for Germany’s economic revival through a series of reforms from 2003 onwards. If and when France finally reforms its labour market and slims down its administration, the rewards could be even more spectacular than they were in Germany after the Agenda 2010. Unlike Germany, France has the young people and babies to fill the jobs of the future.

Methodological Notes

Methodology

For the scores, we rank all sub-indicators on a linear scale of 10 (best) to 0 (worst). In most cases, we calibrate the linear scale so that the top-performing country is slightly below the upper bound and the worst country slightly above the lower bound of the 10-0 range to leave room for subsequent data revisions. For some indicators, small countries had results so far outside the range of the readings for others that we did not use these outliers to define the range. Instead, we accorded these outliers the top score of 10 or the bottom score of 0, respectively.

We compare the current scores and the ranks to those of last year. However, we have incorporated modest revisions to back data on GDP and fiscal performance and made small changes to our methodology for the reform drive sub-indicator (from the change in responsiveness to the actual responsiveness to OECD reform recommendation) and the product market regulation index. As a result, the precise scores and ranks which we now present for 2012 can deviate slightly in some cases from those we published in *The 2012 Euro Plus Monitor* on 29 November 2012. These changes do not affect the overall results based on some 40 sub-indicators in any significant way.

Notes on Results by Country

I. Adjustment

1. External Adjustment

1.1 Change in net exports (real, GDP definition) as a percent of GDP. Q2 2013 over H2 2007. Source: Eurostat.

1.2 Change in net exports Q2 2013 over H2 2007, as a percent of starting level. Source: Eurostat.

1.3 Rise in export ratio, percent of GDP, Q2 2013 over H2 2007. Source: Eurostat.

2. Fiscal Adjustment

2.1 2009-2013 shift in structural primary fiscal balance, percentage of GDP. Source: European Commission Autumn 2013 forecasts, November 2013; Berenberg calculations.

2.2 Fiscal shift 2009-2013 as a percent of shift required 2009-2020 to achieve 60% public debt-to-GDP ratio by 2030, adjusted for age-related spending. Sources: European Commission Autumn 2013 forecasts, November 2013; IMF Fiscal Monitor, October 2013; Berenberg calculations.

3. Labour Cost Adjustment

3.1 Cumulative change in Real Unit Labour Costs (RULC), 2009-2013, in percent. Also in score, but not in country sheets: shift in RULC trend = cumulative change in RULC 2000-2009 minus the cumulative change in RULC 2009-2013, each minus eurozone changes in same period. Source: European Commission AMECO database.

3.2 Cumulative change in Nominal Unit Labour Costs (NULC) in euros, 2009-2013, in percent. Non-eurozone countries: 2007-2013. Also in score, but not in country sheets: shift in NULC (euros) trend = cumulative change in NULC (euros), 2000-2009 minus cumulative change in NULC (euros), 2009-2013, each minus eurozone changes in same period. Non-eurozone countries: 2000-2007 minus 2007-2013 changes, each minus eurozone average. Source: European Commission AMECO database.

4. OECD Reform Responsiveness Indicator

4. OECD Reform Responsiveness Indicator 2011/2012, 0-1 range index. Source: OECD, Economic Policy Reforms: Going for Growth 2013 (Paris: OECD, February 2013).

II. Fundamental Health Indicator

1. Growth Potential

1.1 Trend growth
1.1.1 Average annual rise in gross value added ex construction, 2002-2010, in percent. Source: Eurostat.
1.1.2 Deviation of annual average rise in Gross Value Added (GVA) from income-adjusted norm, 2002-2010, percentage points. Sources: Eurostat; Berenberg calculations.

1.2 Human capital
1.2.1 Fertility rate, 2009-2013 average. Sources: Eurostat, CIA Factbook.
1.2.2 Integration of immigrants: MIPEX index 2010. Source: Migration Policy Group.
1.2.3 Education: 2009 score in OECD's Programme for International Student Assessment (PISA) study (average of reading, science and mathematics scores). Source: OECD.

1.3 Employment
1.3.1 Employment rate, average 2002-2012, in percent of all 15-64 year-olds. Source: Eurostat.
1.3.2 Average annual change in employment rate, 2002-2012, percentage points. Source: Eurostat.
1.3.3 Youth (15-24 year-olds) unemployment rate, average 2002-2012, in percent of active population in that age group. Source: Eurostat.
1.3.4 Long-term (more than 12 months) unemployment rate (15-64 year-olds), average 2002-2012, in percent of active population. Source: Eurostat.

1.4 Consumption
1.4.1 Total public and private consumption, average 2002-2012, in percent of GDP. Source: European Commission Autumn 2013 forecasts, November 2013.
1.4.2 Average annual change in consumption rate, 2002-2012, percentage points. Source: European Commission Autumn 2013 forecasts, November 2013.

2. Competitiveness

2.1 Export ratio, average 2002-2012, percent of GDP. Score based deviation of export ratio from adjusted norm based on GDP (size) and GDP per capita (income). Outlier Luxembourg excluded from norm regression. Source: Eurostat; Berenberg calculations.

2.2 Average annual rise in export ratio, 2002-2012, percentage points of GDP. Score based on average annual rise relative to starting point average 2002/2003. Source: Eurostat.

2.3 Labour costs
2.3.1 Real Unit Labour Costs (RULC), annual average change 2002-2013, in percent. Source: European Commission AMECO database.
2.3.2 Nominal Unit Labour Costs (NULC), (national currency), annual average change 2002-2013, in percent. European Commission AMECO database.
2.3.3 World Economy Forum Global Competitiveness Report: Hiring and Firing Practices Survey, 2013. 1 (heavily impeded by regulations) - 7 (extremely flexible) range. Source: World Economic Forum Global Competitiveness Report 2013/2014, September 2013.

2.4 Market regulations
2.4.1 World Economic Forum Product Market competition intensity survey score 2013/14, 0 (not intense at all) -7 (extremely intense) range. Source: World Economic Forum Global Competitiveness Report 2013/2014, September 2013.
2.4.2 OECD service market regulation index, 2009. Source: OECD.
2.4.3 World Bank Doing Business Report 2013, days to open a new business. Score also includes cost of opening new businesses, in percent of income per capita. Source: World Bank Doing Business Report, October 2013.

3. Fiscal Sustainability

3.1 Government outlays, average 2002-2012, in percent of GDP. Source: European Commission Autumn 2013 forecasts, November 2013.

3.2 Structural fiscal balance
3.2.1 Structural fiscal balance, 2013, in percent of GDP. Source: European Commission Autumn 2013 forecasts, November 2013.
3.2.2 Structural primary fiscal balance, 2013, in percent of GDP. Source: European Commission Autumn 2013 forecasts, November 2013; Berenberg calculations.

3.3 Public debt 1Q 2013, in percent of GDP. Source: Eurostat.

3.4 Sustainability gap 2014-2020, adjusted for age-related spending, in percent of GDP. Source: IMF Fiscal Monitor, October 2013.

4. Resilience

4.1 Total bond and bill redemptions, 2014-2016, in percent of 2012 nominal GDP. Source: Bloomberg.

4.2 Share of public debt held by foreigners, 2013, in percent of GDP. Source: IMF Fiscal Monitor, October 2013.

4.3 Gross household savings rate, 2012, in percent of disposable income. Source: Eurostat.

4.4 Current account balance, 2013, in percent of GDP. Source: European Commission Autumn 2013 forecasts, November 2013.

4.5 Monetary Financial Institutions total assets/liabilities, August 2013, in percent of 2012 nominal GDP. Source: ECB.

4.6 Private sector debt, 2012, in percent of GDP. Source: Eurostat.

Austria

Overall Assessment

A mature economy with an overall health marginally above average. Less dynamic than Germany but in better shape than France and Italy. Has made very little adjustment effort, but does attain good score on OECD reform responsiveness.

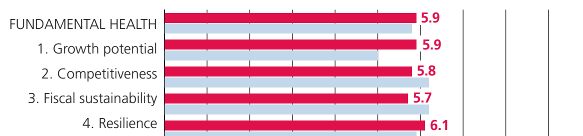
Strengths

- Fiscal situation comparatively comfortable
- Low consumption rate
- Strong labour market
- Current account surplus
- Good reform responsiveness

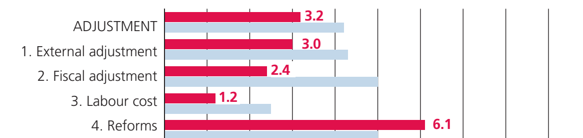
Weaknesses

- Very little adjustment effort in last few years
- High share of government expenditure in GDP
- Above-average degree of product and service market regulation
- Low fertility rate
- Difficult for immigrants to integrate

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	AT	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	5.9	5.8	**9**
1. Growth potential	5.9	5.0	**8**
2. Competitiveness	5.8	6.2	**12**
3. Fiscal sustainability	5.7	6.2	**11**
4. Resilience	6.1	5.9	**7**
ADJUSTMENT	3.2	4.2	**15**
1. External adjustment	3.0	4.3	**17**
2. Fiscal adjustment	2.4	5.0	**14**
3. Labour cost	1.2	2.5	**18**
4. Reforms	6.1	5.0	**6**

ADJUSTMENT	AT	EZ17	Score	Rank
	Value	Value	3.2	15
1. External adjustment			3.0	**17**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	1.0	3.2	3.6	**14**
1.2 Net exports relative to 2H07 exports	1.6	7.0	2.9	**14**
1.3 Rise in export ratio, % of GDP	-1.0	4.4	2.5	**18**
2. Fiscal squeze: shift in primary balance			2.4	**14**
2.1 2009-2013 in % of GDP	1.1	3.3	2.8	**14**
2.2 in % of required shift to 2020	18.5	45.9	2.1	**13**
3. Unit labour costs, 2009-13			1.2	**18**
3.1 Real ULC 2009-2013, %	-0.8	-1.7	0.9	**19**
3.2 Nominal ULC 2009-2013, %	6.6	2.9	1.5	**18**
4. Reform responsiveness, 2011-12	0.6	0.5	6.1	**6**

FUNDAMENTAL HEALTH	AT	EZ17	Score	Rank
1. Growth potential	Value	Value	5.9	8
1.1 Trend growth 2002-2010, in %			5.9	**10**
1.1.1 Rise in Gross value added	1.2	0.9	4.9	**9**
1.1.2 Deviation of GVA growth from norm	0.4	-0.1	6.9	**8**
1.2 Human resources			2.7	**17**
1.2.1 Fertility rate 2009-2013 average	1.4	1.6	3.5	**14**
1.2.2 Integration of Immigrants (MIPEX, 2010)	42.0	54.9	1.8	**16**
1.2.3 Pisa Scores 2009	486.7	498.5	2.1	**14**
1.3 Employment			8.2	**1**
1.3.1 Employment rate 2002-2012, in %	70.3	64.0	7.1	**4**
1.3.2 Change in ER 2002-2012, per year, pcp	0.4	0.2	7.6	**4**
1.3.3 Youth unemployment rate, 2002-2012, in %	8.9	18.2	9.4	**2**
1.3.4 Long-term unemployment 2002-2012, in %	1.1	4.0	8.7	**1**
1.4 Consumption rate			7.0	**8**
1.4.1 Total consumption, 2002-2012, % of GDP	73.1	77.9	8.4	**4**
1.4.2 Change in CR 2002-2012, per year, pcp	0.1	0.2	5.5	**10**

FUNDAMENTAL HEALTH	AT	EZ17	Score	Rank
2. Competitiveness	Value	Value	5.8	12
2.1 Export Ratio, % of GDP (2002-2012)	54.2	39.9	5.7	**10**
2.2 Rise in export ratio, 2002-2012, pcp	0.9	1.0	5.5	**15**
2.3 Labour costs			6.0	**10**
2.3.1 Real unit labour cost, change 2002-13 in %	-0.2	-0.1	6.6	**9**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.5	1.7	7.1	**8**
2.3.3 Hiring & firing practice 2013	3.3	3.4	4.3	**9**
2.4 Market regulations			5.8	**11**
2.4.1 Competition intensity (index)	5.8	5.5	8.3	**6**
2.4.2 Service markets (index)	2.7	2.4	3.3	**13**
2.4.3 Opening new business (days)	25.0	12.1	5.9	**15**

FUNDAMENTAL HEALTH	AT	EZ17	Score	Rank
4. Resilience	Value	Value	6.1	7
4.1 Debt redemptions 2014-16, % of GDP	17.8	25.7	5.7	**11**
4.2 Debt held abroad, % of GDP, 2013	60.4	49.8	3.3	**13**
4.3 Gross household savings rate, in %, 2012	12.6	13.2	7.2	**6**
4.4 Current account, % of GDP, 2013	2.5	2.3	6.9	**8**
4.5 Bank assets, % of GDP, 2013	302.8	332.6	7.2	**11**
4.6 Private sector debt, % of GDP, 2012	164.7	161.3	6.2	**9**

FUNDAMENTAL HEALTH	AT	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	5.7	11
3.1 Government outlays, % of GDP (2002-2013)	51.0	48.5	3.7	**15**
3.2 Underlying fiscal balance 2013			8.2	**6**
3.2.1 Underlying fiscal balance (% of GDP)	-1.6	-1.5	7.2	**8**
3.2.2 Underlying primary fiscal balance (% of GDP)	1.1	1.5	9.1	**5**
3.3 Debt ratio, % of GDP, Q1 2013	72.3	90.1	5.6	**9**
3.4 Sustainability gap 2014 -2020 (% of GDP)	4.9	3.9	5.5	**11**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

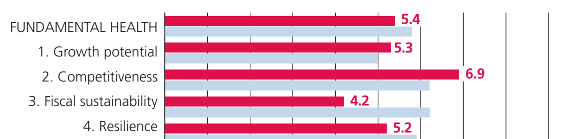
Belgium

Overall Assessment
A mature export-oriented economy with scores almost in line with eurozone average in most fundamental health categories. After substantial fiscal progress since 1993, Belgium's political paralysis over the last few years has left it trailing the crisis countries in terms of adjustment effort.

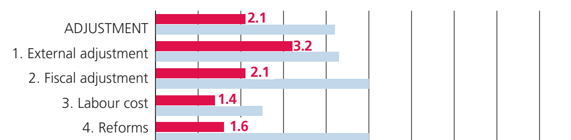
Strengths
- Strong export orientation
- Relatively high fertility rate
- High competition intensity on product markets
- Thrifty households

Weaknesses
- Below average trend growth rate
- Fiscally extremely challenged due to high legacy public debt
- Low employment rate
- Losing labour cost competitiveness
- Highly regulated labour market
- High private sector debt

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	BE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.4	5.8	**10**
1. Growth potential	5.3	5.0	**11**
2. Competitiveness	6.9	6.2	**6**
3. Fiscal sustainability	4.2	6.2	**20**
4. Resilience	5.2	5.9	**15**
ADJUSTMENT	2.1	4.2	**18**
1. External adjustment	3.2	4.3	**15**
2. Fiscal adjustment	2.1	5.0	**16**
3. Labour costs	1.4	2.5	**17**
4. Reforms	1.6	5.0	**16**

ADJUSTMENT	BE Value	EZ17 Value	Score 2.0	Rank 18
1. External adjustment			3.2	**15**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	0.0	3.2	3.3	**16**
1.2 Net exports relative to 2H07 exports	0.0	7.0	2.6	**16**
1.3 Rise in export ratio, % of GDP	2.8	4.4	3.9	**12**
2. Fiscal squeze: shift in primary balance			2.1	**16**
2.1 2009-2013 in % of GDP	1.2	3.3	2.9	**13**
2.2 in % of required shift to 2020	11.5	45.9	1.3	**14**
3. Unit labour costs, 2009-13			1.4	**17**
3.1 Real ULC 2009-2013, %	0.1	-1.7	1.1	**17**
3.2 Nominal ULC 2009-2013, %	8.4	2.9	1.7	**17**
4. Reform responsiveness, 2011-12	0.1	0.5	1.6	**16**

FUNDAMENTAL HEALTH 1. Growth potential	BE Value	EZ17 Value	Score 5.3	Rank 11
1.1 Trend growth 2002-2010, in %			3.7	**14**
1.1.1 Rise in Gross value added	0.6	0.9	3.2	**16**
1.1.2 Deviation of GVA growth from norm	-0.2	-0.1	4.3	**13**
1.2 Human resources			6.6	**4**
1.2.1 Fertility rate 2009-2013 average	1.8	1.6	6.6	**6**
1.2.2 Integration of Immigrants (MIPEX, 2010)	67.6	54.9	8.1	**5**
1.2.3 Pisa Scores 2009	509.3	498.5	4.9	**5**
1.3 Employment			5.2	**13**
1.3.1 Employment rate 2002-2012, in %	61.2	64.0	3.1	**14**
1.3.2 Change in ER 2002-2012, per year, pcp	0.2	0.2	6.1	**8**
1.3.3 Youth unemployment rate, 2002-2012, in %	19.4	18.2	5.9	**11**
1.3.4 Long-term unemployment 2002-2012, in %	3.8	4.0	5.8	**12**
1.4 Consumption rate			5.9	**11**
1.4.1 Total consumption, 2002-2012, % of GDP	75.5	77.9	7.3	**8**
1.4.2 Change in CR 2002-2012, per year, pcp	0.3	0.2	4.5	**15**

FUNDAMENTAL HEALTH 2. Competitiveness	BE Value	EZ17 Value	Score 6.9	Rank 6
2.1 Export Ratio, % of GDP (2002-2012)	79.8	39.9	10.0	**1**
2.2 Rise in export ratio, 2002-2012, pcp	1.1	1.0	4.9	**16**
2.3 Labour costs			4.6	**15**
2.3.1 Real unit labour cost, change 2002-13 in %	0.0	-0.1	5.6	**12**
2.3.2 Nominal unit labour cost, 2002-13 in %	2.1	1.7	5.6	**12**
2.3.3 Hiring & firing practice 2013	2.8	3.4	2.7	**17**
2.4 Market regulations			7.9	**4**
2.4.1 Competition intensity (index)	6.0	5.5	10.0	**1**
2.4.2 Service markets (index)	2.2	2.4	5.1	**9**
2.4.3 Opening new business (days)	4.0	12.1	8.7	**6**

FUNDAMENTAL HEALTH 4. Resilience	BE Value	EZ17 Value	Score 5.2	Rank 15
4.1 Debt redemptions 2014-16, % of GDP	28.1	25.7	3.3	**16**
4.2 Debt held abroad, % of GDP, 2013	61.5	49.8	3.2	**14**
4.3 Gross household savings rate, in %, 2012	15.2	13.2	8.5	**3**
4.4 Current account, % of GDP, 2013	0.9	2.3	6.1	**12**
4.5 Bank assets, % of GDP, 2013	287.4	332.6	7.5	**8**
4.6 Private sector debt, % of GDP, 2012	247.8	161.3	2.4	**15**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	BE Value	EZ17 Value	Score 4.2	Rank 20
3.1 Government outlays, % of GDP (2002-2013)	51.3	48.5	3.4	**16**
3.2 Underlying fiscal balance 2013			7.9	**8**
3.2.1 Underlying fiscal balance (% of GDP)	-2.2	-1.5	6.8	**10**
3.2.2 Underlying primary fiscal balance (% of GDP)	1.0	1.5	9.0	**6**
3.3 Debt ratio, % of GDP, Q1 2013	102.6	90.1	3.4	**16**
3.4 Sustainability gap 2014 -2020 (% of GDP)	9.3	3.9	2.1	**17**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Cyprus

Overall Assessment

So far last eurozone country to receive a bail-out. Oversized banking sector was always a risk that materialised in the chaotic bail-in of March 2013. EU/IMF programme has accelerated the adjustment effort markedly, but other countries had a head-start which leaves Cyprus at the bottom of the fundamental health table this year.

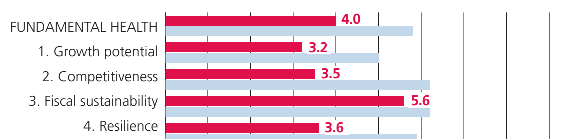
Strengths

- Liberal labour laws
- Sharp adjustment in unit labour costs improves competitiveness
- High employment rate
- Still low youth- and long-term unemployment rates

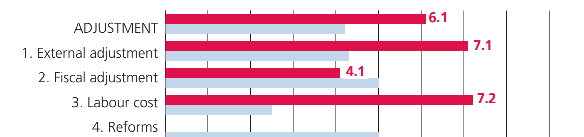
Weaknesses

- Weak export base
- Weak trend growth and failing integration of immigrants
- Very high structural fiscal deficit
- Very vulnerable due to still huge banking system and high private sector debt

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	CY Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	4.0	5.8	**20**
1. Growth potential	3.2	5.0	**20**
2. Competitiveness	3.5	6.2	**19**
3. Fiscal sustainability	5.6	6.2	**13**
4. Resilience	3.6	5.9	**20**
ADJUSTMENT	6.1	4.2	**7**
1. External adjustment	7.1	4.3	**6**
2. Fiscal adjustment	4.1	5.0	**11**
3. Labour costs	7.2	2.5	**3**
4. Reforms	n.a.	5.0	**n.a.**

ADJUSTMENT	CY Value	EZ17 Value	Score 6.1	Rank 7
1. External adjustment			7.1	**6**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	17.8	3.2	9.0	**2**
1.2 Net exports relative to 2H07 exports	33.0	7.0	9.6	**3**
1.3 Rise in export ratio, % of GDP	-0.6	4.4	2.6	**17**
2. Fiscal squeze: shift in primary balance			4.1	**11**
2.1 2009-2013 in % of GDP	2.5	3.3	4.1	**11**
2.2 in % of required shift to 2020	n.a.	45.9	n.a.	**n.a.**
3. Unit labour costs, 2009-13			7.2	**3**
3.1 Real ULC 2009-2013, %	-13.4	-1.7	7.8	**3**
3.2 Nominal ULC 2009-2013, %	-7.8	2.9	6.7	**5**
4. Reform responsiveness, 2011-12	n.a.	0.5	n.a.	**n.a.**

FUNDAMENTAL HEALTH 1. Growth potential	CY Value	EZ17 Value	Score 3.2	Rank 20
1.1 Trend growth 2002-2010. in %			1.1	**19**
1.1.1 Rise in Gross value added	0.2	0.9	2.1	**19**
1.1.2 Deviation of GVA growth from norm	-1.2	-0.1	0.0	**20**
1.2 Human resources			2.5	**19**
1.2.1 Fertility rate 2009-2013 average	1.4	1.6	3.7	**13**
1.2.2 Integration of Immigrants (MIPEX. 2010)	35.1	54.9	0.0	**20**
1.2.3 Pisa Scores 2009	n.a.	498.5	n.a.	**n.a.**
1.3 Employment			6.2	**7**
1.3.1 Employment rate 2002-2012. in %	68.8	64.0	6.5	**6**
1.3.2 Change in ER 2002-2012. per year. pcp	-0.4	0.2	2.1	**17**
1.3.3 Youth unemployment rate. 2002-2012. in %	13.5	18.2	7.8	**4**
1.3.4 Long-term unemployment 2002-2012. in %	1.2	4.0	8.6	**3**
1.4 Consumption rate			2.9	**20**
1.4.1 Total consumption. 2002-2012. % of GDP	85.1	77.9	2.4	**17**
1.4.2 Change in CR 2002-2012. per year. pcp	0.5	0.2	3.4	**19**

FUNDAMENTAL HEALTH 2. Competitiveness	CY Value	EZ17 Value	Score 3.7	Rank 18
2.1 Export Ratio, % of GDP (2002-2012)	46.1	39.9	0.0	**18**
2.2 Rise in export ratio, 2002-2012, pcp	-0.6	1.0	0.5	**20**
2.3 Labour costs			8.7	**1**
2.3.1 Real unit labour cost, change 2002-13 in %	-1.1	-0.1	10.0	**1**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.4	1.7	7.3	**7**
2.3.3 Hiring & firing practice 2013	4.0	3.4	6.7	**4**
2.4 Market regulations			4.9	**14**
2.4.1 Competition intensity (index)	5.2	5.5	3.3	**14**
2.4.2 Service markets (index)	n.a.	2.4	n.a.	**n.a.**
2.4.3 Opening new business (days)	8.0	12.1	6.4	**14**

FUNDAMENTAL HEALTH 4. Resilience	CY Value	EZ17 Value	Score 3.6	Rank 20
4.1 Debt redemptions 2014-16, % of GDP	28.9	25.7	3.1	**17**
4.2 Debt held abroad, % of GDP, 2013	n.a.	49.8	n.a.	**n.a.**
4.3 Gross household savings rate, in %, 2012	12.4	13.2	7.1	**7**
4.4 Current account, % of GDP, 2013	-2.0	2.3	4.8	**17**
4.5 Bank assets, % of GDP, 2013	541.0	332.6	2.9	**17**
4.6 Private sector debt, % of GDP, 2012	302.6	161.3	0.0	**18**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	CY Value	EZ17 Value	Score 5.6	Rank 13
3.1 Government outlays, % of GDP (2002-2013)	44.1	48.5	6.7	**6**
3.2 Underlying fiscal balance 2013			5.4	**18**
3.2.1 Underlying fiscal balance (% of GDP)	-5.5	-1.5	4.2	**18**
3.2.2 Underlying primary fiscal balance (% of GDP)	-1.4	1.5	6.6	**18**
3.3 Debt ratio, % of GDP, Q1 2013	84.6	90.1	4.7	**12**
3.4 Sustainability gap 2014 -2020 (% of GDP)	n.a.	3.9	n.a.	**n.a.**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Estonia

Overall Assessment

Top performer on fundamental health in the eurozone. Small open and highly dynamic catching-up economy. Recovery after credit bubble recession in 2007 complete. Adjustment effort thus fading. Low private and public sector debt levels make it one of the most resilient economies in eurozone.

Strengths

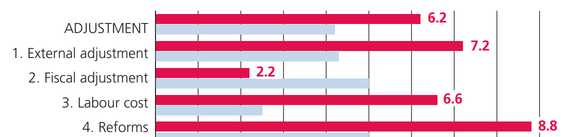
- Extremely comfortable fiscal position
- Deregulated product, services and labour markets
- Low and falling propensity to consume

Weaknesses

- High legacy long-term unemployment
- Fast rising unit labour costs before the crisis
- Current account back to negative
- Low household savings rate

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	EE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	7.4	5.8	**1**
1. Growth potential	6.6	5.0	**4**
2. Competitiveness	6.3	6.2	**8**
3. Fiscal sustainability	9.2	6.2	**2**
4. Resilience	7.5	5.9	**4**
ADJUSTMENT	6.2	4.2	**6**
1. External adjustment	7.2	4.3	**4**
2. Fiscal adjustment	2.2	5.0	**15**
3. Labour costs	6.6	2.5	**4**
4. Reforms	8.8	5.0	**n.a.**

ADJUSTMENT	EE Value	EZ17 Value	Score 6.2	Rank 6
1. External adjustment			7.2	**4**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	9.9	3.2	6.5	**9**
1.2 Net exports relative to 2H07 exports	12.2	7.0	5.2	**11**
1.3 Rise in export ratio, % of GDP	32.7	4.4	10.0	**1**
2. Fiscal squeze: shift in primary balance			2.2	**15**
2.1 2009-2013 in % of GDP	0.4	3.3	2.2	**16**
2.2 in % of required shift to 2020	n.a.	45.9	n.a.	**n.a.**
3. Unit labour costs, 2009-13			6.6	**4**
3.1 Real ULC 2009-2013, %	-7.1	-1.7	6.6	**4**
3.2 Nominal ULC 2009-2013, %	4.0	2.9	6.5	**6**
4. Reform responsiveness, 2011-12	0.8	0.5	8.8	**n.a.**

FUNDAMENTAL HEALTH 1. Growth potential	EE Value	EZ17 Value	Score 6.6	Rank 4
1.1 Trend growth 2002-2010, in %			7.3	**5**
1.1.1 Rise in Gross value added	2.9	0.9	9.6	**3**
1.1.2 Deviation of GVA growth from norm	0.0	-0.1	4.9	**12**
1.2 Human resources			4.4	**10**
1.2.1 Fertility rate 2009-2013 average	1.6	1.6	4.6	**9**
1.2.2 Integration of Immigrants (MIPEX, 2010)	46.1	54.9	2.8	**15**
1.2.3 Pisa Scores 2009	513.7	498.5	5.5	**3**
1.3 Employment			5.9	**10**
1.3.1 Employment rate 2002-2012, in %	65.0	64.0	4.8	**10**
1.3.2 Change in ER 2002-2012, per year, pcp	0.5	0.2	8.3	**3**
1.3.3 Youth unemployment rate, 2002-2012, in %	19.9	18.2	5.7	**12**
1.3.4 Long-term unemployment 2002-2012, in %	4.6	4.0	4.9	**16**
1.4 Consumption rate			8.9	**2**
1.4.1 Total consumption, 2002-2012, % of GDP	72.9	77.9	8.6	**3**
1.4.2 Change in CR 2002-2012, per year, pcp	-0.5	0.2	9.2	**3**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	EE Value	EZ17 Value	Score 9.2	Rank 2
3.1 Government outlays, % of GDP (2002-2013)	37.2	48.5	9.6	**3**
3.2 Underlying fiscal balance 2013			7.8	**9**
3.2.1 Underlying fiscal balance (% of GDP)	-0.5	-1.5	8.1	**5**
3.2.2 Underlying primary fiscal balance (% of GDP)	-0.4	1.5	7.6	**12**
3.3 Debt ratio, % of GDP, Q1 2013	8.0	90.1	10.0	**1**
3.4 Sustainability gap 2014 -2020 (% of GDP)	0.0	3.9	9.2	**1**

FUNDAMENTAL HEALTH 2. Competitiveness	EE Value	EZ17 Value	Score 6.3	Rank 8
2.1 Export Ratio, % of GDP (2002-2012)	75.1	39.9	7.1	**8**
2.2 Rise in export ratio, 2002-2012, pcp	2.1	1.0	7.4	**9**
2.3 Labour costs			3.7	**18**
2.3.1 Real unit labour cost, change 2002-13 in %	0.6	-0.1	2.5	**19**
2.3.2 Nominal unit labour cost, 2002-13 in %	5.3	1.7	0.0	**20**
2.3.3 Hiring & firing practice 2013	4.6	3.4	8.7	**1**
2.4 Market regulations			7.1	**6**
2.4.1 Competition intensity (index)	5.6	5.5	6.7	**7**
2.4.2 Service markets (index)	2.1	2.4	5.3	**8**
2.4.3 Opening new business (days)	7.0	12.1	9.2	**4**

FUNDAMENTAL HEALTH 4. Resilience	EE Value	EZ17 Value	Score 7.5	Rank 4
4.1 Debt redemptions 2014-16, % of GDP	0.0	25.7	10.0	**1**
4.2 Debt held abroad, % of GDP, 2013	5.5	49.8	9.4	**1**
4.3 Gross household savings rate, in %, 2012	4.5	13.2	2.9	**17**
4.4 Current account, % of GDP, 2013	-2.1	2.3	4.7	**18**
4.5 Bank assets, % of GDP, 2013	108.4	332.6	10.0	**1**
4.6 Private sector debt, % of GDP, 2012	130.1	161.3	7.7	**6**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Finland

Overall Assessment

Still a good performer in terms of fundamental economic health, but one of the losers in the ranking for the second year running. The issues of its largest exporting firm weigh on overall competitiveness. Growth potential, fiscal sustainability and financial resilience remain strong points though.

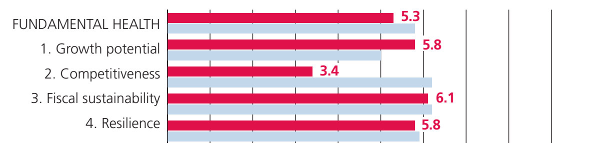
Strengths

- Extremely strong human resources
- Decent employment score
- Virtually balanced fiscal budget
- Low government debt ratio
- Below-average bank assets as share of GDP

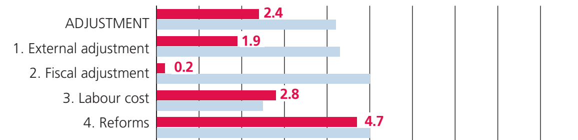
Weaknesses

- Dropped to last place in competitiveness
- Very weak export performance and high unit labour costs
- Fast-rising propensity to consume
- Low degree of product market competition

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	FI Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.3	5.8	**13**
1. Growth potential	5.8	5.0	**9**
2. Competitiveness	3.4	6.2	**20**
3. Fiscal sustainability	6.1	6.2	**9**
4. Resilience	5.8	5.9	**9**
ADJUSTMENT	2.4	4.2	**17**
1. External adjustment	1.9	4.3	**20**
2. Fiscal adjustment	0.2	5.0	**19**
3. Labour costs	2.8	2.5	**12**
4. Reforms	4.7	5.0	**11**

ADJUSTMENT	FI Value	EZ17 Value	Score 2.4	Rank 17
1. External adjustment			1.9	**20**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	-2.2	3.2	2.5	**19**
1.2 Net exports relative to 2H07 exports	-4.4	7.0	1.6	**20**
1.3 Rise in export ratio, % of GDP	-3.3	4.4	1.7	**20**
2. Fiscal squeze: shift in primary balance			0.2	**19**
2.1 2009-2013 in % of GDP	-1.5	3.3	0.5	**19**
2.2 in % of required shift to 2020	0.0	45.9	0.0	**15**
3. Unit labour costs, 2009-13			2.8	**12**
3.1 Real ULC 2009-2013, %	-1.1	-1.7	3.3	**8**
3.2 Nominal ULC 2009-2013, %	7.3	2.9	2.3	**15**
4. Reform responsiveness, 2011-12	0.4	0.5	4.7	**11**

FUNDAMENTAL HEALTH 1. Growth potential	FI Value	EZ17 Value	Score 5.8	Rank 9
1.1 Trend growth 2002-2010, in %			5.6	**11**
1.1.1 Rise in Gross value added	1.2	0.9	4.8	**10**
1.1.2 Deviation of GVA growth from norm	0.4	-0.1	6.5	**9**
1.2 Human resources			7.9	**1**
1.2.1 Fertility rate 2009-2013 average	1.8	1.6	6.9	**5**
1.2.2 Integration of Immigrants (MIPEX, 2010)	69.1	54.9	8.5	**3**
1.2.3 Pisa Scores 2009	543.7	498.5	9.2	**1**
1.3 Employment			6.1	**8**
1.3.1 Employment rate 2002-2012, in %	69.1	64.0	6.6	**5**
1.3.2 Change in ER 2002-2012, per year, pcp	0.0	0.2	4.9	**12**
1.3.3 Youth unemployment rate, 2002-2012, in %	21.6	18.2	5.1	**15**
1.3.4 Long-term unemployment 2002-2012, in %	1.8	4.0	7.9	**7**
1.4 Consumption rate			3.6	**17**
1.4.1 Total consumption, 2002-2012, % of GDP	75.9	77.9	7.1	**9**
1.4.2 Change in CR 2002-2012, per year, pcp	1.0	0.2	0.1	**20**

FUNDAMENTAL HEALTH 2. Competitiveness	FI Value	EZ17 Value	Score 3.4	Rank 20
2.1 Export Ratio, % of GDP (2002-2012)	41.7	39.9	0.8	**17**
2.2 Rise in export ratio, 2002-2012, pcp	0.1	1.0	2.9	**19**
2.3 Labour costs			4.0	**17**
2.3.1 Real unit labour cost, change 2002-13 in %	0.7	-0.1	1.5	**20**
2.3.2 Nominal unit labour cost, 2002-13 in %	2.2	1.7	5.0	**13**
2.3.3 Hiring & firing practice 2013	3.7	3.4	5.7	**6**
2.4 Market regulations			6.0	**10**
2.4.1 Competition intensity (index)	4.8	5.5	0.0	**19**
2.4.2 Service markets (index)	1.0	2.4	9.7	**4**
2.4.3 Opening new business (days)	14.0	12.1	8.4	**9**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	FI Value	EZ17 Value	Score 6.1	Rank 9
3.1 Government outlays, % of GDP (2002-2013)	52.1	48.5	3.0	**18**
3.2 Underlying fiscal balance 2013			8.0	**7**
3.2.1 Underlying fiscal balance (% of GDP)	-0.8	-1.5	7.8	**6**
3.2.2 Underlying primary fiscal balance (% of GDP)	0.2	1.5	8.2	**9**
3.3 Debt ratio, % of GDP, Q1 2013	52.9	90.1	6.9	**6**
3.4 Sustainability gap 2014 -2020 (% of GDP)	3.9	3.9	6.2	**9**

FUNDAMENTAL HEALTH 4. Resilience	FI Value	EZ17 Value	Score 5.8	Rank 9
4.1 Debt redemptions 2014-16, % of GDP	13.3	25.7	6.8	**5**
4.2 Debt held abroad, % of GDP, 2013	48.5	49.8	4.6	**11**
4.3 Gross household savings rate, in %, 2012	8.8	13.2	5.2	**14**
4.4 Current account, % of GDP, 2013	-1.2	2.3	5.1	**14**
4.5 Bank assets, % of GDP, 2013	274.4	332.6	7.7	**7**
4.6 Private sector debt, % of GDP, 2012	185.1	161.3	5.2	**10**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

France

Overall Assessment

Below average on all major indicators of fundamental health and still little action to improve the situation. France continues to fall behind Germany, but also behind many of the fast-reforming crisis countries. Losing the AAA credit rating may not have hurt France on the financial markets but reflects the lack of action to reverse the economic and financial deterioration.

Strengths

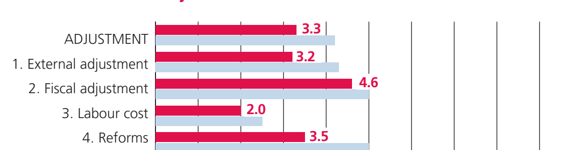
- One of the highest fertility rates in Europe
- Easy to open new business
- High household savings rate
- Low private sector debt

Weaknesses

- Low trend growth rate
- Highest share of government outlays in GDP
- Rising labour costs and rigid labour markets
- Weak employment performance
- Weak exports
- High bank assets as share of GDP

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	FR	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	4.7	5.8	**16**
1. Growth potential	4.8	5.0	**14**
2. Competitiveness	4.0	6.2	**17**
3. Fiscal sustainability	4.5	6.2	**18**
4. Resilience	5.4	5.9	**12**
ADJUSTMENT	3.3	4.2	**14**
1. External adjustment	3.2	4.3	**16**
2. Fiscal adjustment	4.6	5.0	**10**
3. Labour costs	2.0	2.5	**16**
4. Reforms	3.5	5.0	**13**

ADJUSTMENT	FR	EZ17	Score	Rank
	Value	Value	3.3	**14**
1. External adjustment			3.2	**16**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	0.4	3.2	3.4	**15**
1.2 Net exports relative to 2H07 exports	1.2	7.0	2.8	**15**
1.3 Rise in export ratio, % of GDP	1.3	4.4	3.3	**15**
2. Fiscal squeze: shift in primary balance			4.6	**10**
2.1 2009-2013 in % of GDP	3.2	3.3	4.7	**9**
2.2 in % of required shift to 2020	40.4	45.9	4.5	**10**
3. Unit labour costs, 2009-13			2.0	**16**
3.1 Real ULC 2009-2013, %	-0.3	-1.7	1.5	**16**
3.2 Nominal ULC 2009-2013, %	5.1	2.9	2.6	**13**
4. Reform responsiveness, 2011-12	0.3	0.5	3.5	**13**

FUNDAMENTAL HEALTH	FR	EZ17	Score	Rank
1. Growth potential	Value	Value	4.8	**14**
1.1 Trend growth 2002-2010, in %			3.1	**16**
1.1.1 Rise in Gross value added	0.4	0.9	2.7	**17**
1.1.2 Deviation of GVA growth from norm	-0.3	-0.1	3.6	**15**
1.2 Human resources			6.1	**7**
1.2.1 Fertility rate 2009-2013 average	2.0	1.6	8.5	**2**
1.2.2 Integration of Immigrants (MIPEX, 2010)	50.9	54.9	4.0	**11**
1.2.3 Pisa Scores 2009	497.0	498.5	3.4	**9**
1.3 Employment			5.3	**12**
1.3.1 Employment rate 2002-2012, in %	63.8	64.0	4.3	**13**
1.3.2 Change in ER 2002-2012, per year, pcp	0.1	0.2	5.3	**10**
1.3.3 Youth unemployment rate, 2002-2012, in %	20.7	18.2	5.4	**14**
1.3.4 Long-term unemployment 2002-2012, in %	3.6	4.0	6.0	**11**
1.4 Consumption rate			4.6	**15**
1.4.1 Total consumption, 2002-2012, % of GDP	81.1	77.9	4.5	**15**
1.4.2 Change in CR 2002-2012, per year, pcp	0.3	0.2	4.7	**13**

FUNDAMENTAL HEALTH	FR	EZ17	Score	Rank
2. Competitiveness	Value	Value	4.0	**17**
2.1 Export Ratio, % of GDP (2002-2012)	26.4	39.9	2.1	**15**
2.2 Rise in export ratio, 2002-2012, pcp	0.1	1.0	2.9	**18**
2.3 Labour costs			4.1	**16**
2.3.1 Real unit labour cost, change 2002-13 in %	0.2	-0.1	4.6	**16**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.9	1.7	5.9	**11**
2.3.3 Hiring & firing practice 2013	2.5	3.4	1.7	**19**
2.4 Market regulations			6.8	**7**
2.4.1 Competition intensity (index)	5.5	5.5	5.8	**9**
2.4.2 Service markets (index)	2.1	2.4	5.3	**7**
2.4.3 Opening new business (days)	7.0	12.1	9.4	**2**

FUNDAMENTAL HEALTH	FR	EZ17	Score	Rank
4. Resilience	Value	Value	5.4	**12**
4.1 Debt redemptions 2014-16, % of GDP	26.9	25.7	3.6	**15**
4.2 Debt held abroad, % of GDP, 2013	55.1	49.8	3.9	**12**
4.3 Gross household savings rate, in %, 2012	15.2	13.2	8.5	**3**
4.4 Current account, % of GDP, 2013	-1.8	2.3	4.9	**16**
4.5 Bank assets, % of GDP, 2013	411.9	332.6	5.2	**15**
4.6 Private sector debt, % of GDP, 2012	161.7	161.3	6.3	**8**

FUNDAMENTAL HEALTH	FR	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	4.5	**18**
3.1 Government outlays, % of GDP (2002-2013)	54.6	48.5	1.2	**20**
3.2 Underlying fiscal balance 2013			7.0	**14**
3.2.1 Underlying fiscal balance (% of GDP)	-2.7	-1.5	6.4	**12**
3.2.2 Underlying primary fiscal balance (% of GDP)	-0.4	1.5	7.6	**12**
3.3 Debt ratio, % of GDP, Q1 2013	89.8	90.1	4.3	**15**
3.4 Sustainability gap 2014 -2020 (% of GDP)	4.7	3.9	5.6	**10**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Germany

Overall Assessment

Remains by far the most dynamic major mature European economy. Very competitive. Improving fiscal sustainability despite relatively high legacy public debt. Growth potential and resilience also clearly above average. Still room for improvement in terms of liberalisation. Rising labour cost imply a gradual loss in competitiveness within the eurozone.

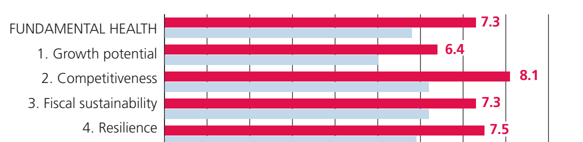
Strengths

- Excellent fundamental health, top-5 in all categories
- Very competitive economy
- Excellent employment situation
- No signficant fiscal challenge
- Low private sector debt, high household savings rate

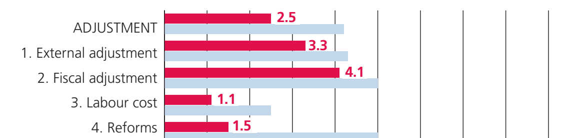
Weaknesses

- Demographic challenge: extremely low fertility rate
- Highly regulated markets
- Risk of reform reversals

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	DE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	7.3	5.8	**2**
1. Growth potential	6.4	5.0	**5**
2. Competitiveness	8.1	6.2	**2**
3. Fiscal sustainability	7.3	6.2	**4**
4. Resilience	7.5	5.9	**3**
ADJUSTMENT	2.5	4.2	**16**
1. External adjustment	3.3	4.3	**14**
2. Fiscal adjustment	4.1	5.0	**12**
3. Labour costs	1.1	2.5	**20**
4. Reforms	1.5	5.0	**17**

ADJUSTMENT	DE Value	EZ17 Value	Score	Rank
			2.5	**16**
1. External adjustment			3.3	**14**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	-0.5	3.2	3.1	**17**
1.2 Net exports relative to 2H07 exports	-1.1	7.0	2.3	**17**
1.3 Rise in export ratio, % of GDP	4.9	4.4	4.6	**10**
2. Fiscal squeze: shift in primary balance			4.1	**12**
2.1 2009-2013 in % of GDP	1.0	3.3	2.7	**15**
2.2 in % of required shift to 2020	48.7	45.9	5.4	**7**
3. Unit labour costs, 2009-13			1.1	**19**
3.1 Real ULC 2009-2013, %	-0.9	-1.7	0.8	**20**
3.2 Nominal ULC 2009-2013, %	5.1	2.9	1.4	**19**
4. Reform responsiveness, 2011-12	0.1	0.5	1.5	**17**

FUNDAMENTAL HEALTH	DE	EZ17	Score	Rank
1. Growth potential	Value	Value	6.4	**5**
1.1 Trend growth 2002-2010, in %			7.2	**6**
1.1.1 Rise in Gross value added	1.6	0.9	6.0	**7**
1.1.2 Deviation of GVA growth from norm	0.8	-0.1	8.4	**5**
1.2 Human resources			4.2	**11**
1.2.1 Fertility rate 2009-2013 average	1.4	1.6	3.2	**19**
1.2.2 Integration of Immigrants (MIPEX, 2010)	57.3	54.9	5.6	**9**
1.2.3 Pisa Scores 2009	510.0	498.5	5.0	**4**
1.3 Employment			7.4	**3**
1.3.1 Employment rate 2002-2012, in %	68.5	64.0	6.3	**7**
1.3.2 Change in ER 2002-2012, per year, pcp	0.7	0.2	9.6	**2**
1.3.3 Youth unemployment rate, 2002-2012, in %	11.2	18.2	8.6	**3**
1.3.4 Long-term unemployment 2002-2012, in %	4.4	4.0	5.2	**14**
1.4 Consumption rate			6.6	**9**
1.4.1 Total consumption, 2002-2012, % of GDP	76.7	77.9	6.6	**11**
1.4.2 Change in CR 2002-2012, per year, pcp	-0.1	0.2	6.6	**5**

FUNDAMENTAL HEALTH	DE	EZ17	Score	Rank
2. Competitiveness	Value	Value	8.1	**2**
2.1 Export Ratio, % of GDP (2002-2012)	44.1	39.9	9.1	**6**
2.2 Rise in export ratio, 2002-2012, pcp	1.6	1.0	10.0	**1**
2.3 Labour costs			6.9	**5**
2.3.1 Real unit labour cost, change 2002-13 in %	-0.3	-0.1	7.4	**8**
2.3.2 Nominal unit labour cost, 2002-13 in %	0.8	1.7	9.0	**2**
2.3.3 Hiring & firing practice 2013	3.3	3.4	4.3	**9**
2.4 Market regulations			6.3	**8**
2.4.1 Competition intensity (index)	5.9	5.5	9.2	**5**
2.4.2 Service markets (index)	2.9	2.4	2.6	**16**
2.4.3 Opening new business (days)	15.0	12.1	7.3	**13**

FUNDAMENTAL HEALTH	DE	EZ17	Score	Rank
4. Resilience	Value	Value	7.5	**3**
4.1 Debt redemptions 2014-16, % of GDP	16.4	25.7	6.1	**8**
4.2 Debt held abroad, % of GDP, 2013	47.4	49.8	4.7	**10**
4.3 Gross household savings rate, in %, 2012	16.4	13.2	9.2	**2**
4.4 Current account, % of GDP, 2013	7.0	2.3	9.0	**2**
4.5 Bank assets, % of GDP, 2013	288.2	332.6	7.5	**9**
4.6 Private sector debt, % of GDP, 2012	116.3	161.3	8.4	**3**

FUNDAMENTAL HEALTH	DE	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	7.3	**4**
3.1 Government outlays, % of GDP (2002-2013)	46.2	48.5	6.3	**9**
3.2 Underlying fiscal balance 2013			9.4	**2**
3.2.1 Underlying fiscal balance (% of GDP)	0.5	-1.5	8.8	**2**
3.2.2 Underlying primary fiscal balance (% of GDP)	2.8	1.5	10.0	**1**
3.3 Debt ratio, % of GDP, Q1 2013	79.1	90.1	5.1	**11**
3.4 Sustainability gap 2014 -2020 (% of GDP)	1.1	3.9	8.4	**3**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Greece

Overall Assessment

The "original" crisis country left the bottom of the fundamental health table for the first time since 2011, a reward for its harsh adjustment programme. Leader in adjustment ranking, especially on fiscal and structural side. Politically more stable this year than in 2012, which has diminished the risk of euro exit considerably.

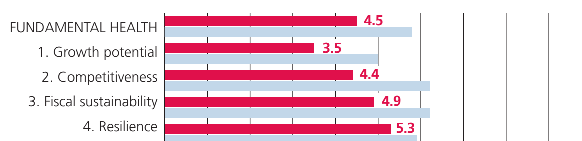
Strengths

- Top performer in the adjustment ranking
- Highest structural fiscal surplus in Europe
- One of the top performers in labour cost after harsh internal devaluation
- Low private sector debt
- Current account on track for surplus soon

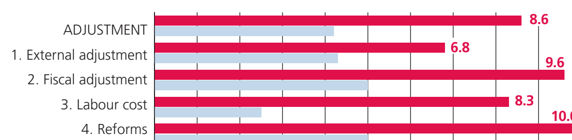
Weaknesses

- Worst debt ratio to GDP despite 2012 debt restructuring and fiscal progress
- Still very highly regulated economy
- Worst performer on employment score
- Weak human resources
- Highest propensity to consume
- Small export sector

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	GR Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	4.5	5.8	**17**
1. Growth potential	3.5	5.0	**18**
2. Competitiveness	4.4	6.2	**16**
3. Fiscal sustainability	4.9	6.2	**15**
4. Resilience	5.3	5.9	**13**
ADJUSTMENT	8.6	4.2	**1**
1. External adjustment	6.8	4.3	**7**
2. Fiscal adjustment	9.6	5.0	**1**
3. Labour costs	8.3	2.5	**2**
4. Reforms	10.0	5.0	**1**

ADJUSTMENT	GR Value	EZ17 Value	Score 8.6	Rank 1
1. External adjustment *Change 2H07-2Q13*			6.8	**7**
1.1 Net exports in % points of GDP	11.8	3.2	7.1	**7**
1.2 Net exports relative to 2H07 exports	48.9	7.0	10.0	**1**
1.3 Rise in export ratio, % of GDP	1.1	4.4	3.3	**16**
2. Fiscal squeze: shift in primary balance			9.6	**1**
2.1 2009-2013 in % of GDP	14.9	3.3	10.0	**1**
2.2 in % of required shift to 2020	82.0	45.9	9.1	**1**
3. Unit labour costs, 2009-13			8.3	**2**
3.1 Real ULC 2009-2013, %	-13.8	-1.7	8.0	**2**
3.2 Nominal ULC 2009-2013, %	-14.0	2.9	8.5	**1**
4. Reform responsiveness, 2011-12	0.9	0.5	10.0	**1**

FUNDAMENTAL HEALTH 1. Growth potential	GR Value	EZ17 Value	Score 3.5	Rank 18
1.1 Trend growth 2002-2010, in %			6.1	**8**
1.1.1 Rise in Gross value added	1.8	0.9	6.5	**5**
1.1.2 Deviation of GVA growth from norm	0.2	-0.1	5.6	**11**
1.2 Human resources			2.9	**15**
1.2.1 Fertility rate 2009-2013 average	1.5	1.6	3.9	**11**
1.2.2 Integration of Immigrants (MIPEX, 2010)	49.1	54.9	3.5	**12**
1.2.3 Pisa Scores 2009	473.0	498.5	0.4	**18**
1.3 Employment			2.0	**20**
1.3.1 Employment rate 2002-2012, in %	58.9	64.0	2.1	**17**
1.3.2 Change in ER 2002-2012, per year, pcp	-0.6	0.2	0.4	**19**
1.3.3 Youth unemployment rate, 2002-2012, in %	30.3	18.2	2.2	**20**
1.3.4 Long-term unemployment 2002-2012, in %	6.1	4.0	3.3	**18**
1.4 Consumption rate			3.1	**19**
1.4.1 Total consumption, 2002-2012, % of GDP	89.7	77.9	0.1	**20**
1.4.2 Change in CR 2002-2012, per year, pcp	0.0	0.2	6.1	**8**

FUNDAMENTAL HEALTH 2. Competitiveness	GR Value	EZ17 Value	Score 4.4	Rank 16
2.1 Export Ratio, % of GDP (2002-2012)	22.9	39.9	0.0	**18**
2.2 Rise in export ratio, 2002-2012, pcp	0.6	1.0	7.7	**6**
2.3 Labour costs			7.7	**3**
2.3.1 Real unit labour cost, change 2002-13 in %	-0.9	-0.1	10.0	**1**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.2	1.7	8.1	**3**
2.3.3 Hiring & firing practice 2013	3.5	3.4	5.0	**7**
2.4 Market regulations			2.2	**20**
2.4.1 Competition intensity (index)	4.8	5.5	0.0	**19**
2.4.2 Service markets (index)	2.8	2.4	2.7	**15**
2.4.3 Opening new business (days)	11.0	12.1	4.0	**18**

FUNDAMENTAL HEALTH 4. Resilience	GR Value	EZ17 Value	Score 5.3	Rank 13
4.1 Debt redemptions 2014-16, % of GDP	19.4	25.7	5.3	**13**
4.2 Debt held abroad, % of GDP, 2013	128.1	49.8	0.0	**17**
4.3 Gross household savings rate, in %, 2012	n.a.	13.2	n.a.	**n.a.**
4.4 Current account, % of GDP, 2013	-2.3	2.3	4.6	**19**
4.5 Bank assets, % of GDP, 2013	215.2	332.6	8.8	**5**
4.6 Private sector debt, % of GDP, 2012	130.3	161.3	7.7	**7**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	GR Value	EZ17 Value	Score 4.9	Rank 15
3.1 Government outlays, % of GDP (2002-2013)	49.4	48.5	3.2	**17**
3.2 Underlying fiscal balance 2013			9.7	**1**
3.2.1 Underlying fiscal balance (% of GDP)	1.2	-1.5	9.4	**1**
3.2.2 Underlying primary fiscal balance (% of GDP)	5.3	1.5	10.0	**1**
3.3 Debt ratio, % of GDP, Q1 2013	160.5	90.1	0.0	**20**
3.4 Sustainability gap 2014 -2020 (% of GDP)	3.3	3.9	6.7	**8**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Ireland

Overall Assessment

Small open and highly competitive economy that continues its rebalancing from credit-fuelled domestic consumption back to export-driven growth. Combines solid fundamental outlook with a serious short-term adjustment effort. About to graduate from EU/IMF bail-out thanks to restored market confidence. Gets mostly extreme scores, either very good or very bad.

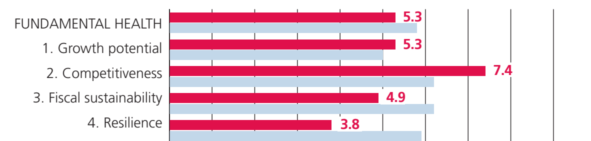
Strengths

- Second fastest adjusting economy after Greece
- Very deregulated labour, product and services markets facilitate adjustment
- Highest fertility rate in our sample
- Very competitive economy
- Very high OECD reform responsiveness score
- Small government

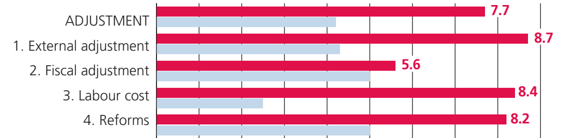
Weaknesses

- Extremely weak fiscal indicators: highest structural deficit in the eurozone
- Excessive rise in real unit labour costs before 2009
- Oversized banking system
- One of the highest private sector debt levels in our sample
- Depends on foreign creditors
- Weak employment trend

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	IE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.3	5.8	**11**
1. Growth potential	5.3	5.0	**13**
2. Competitiveness	7.4	6.2	**3**
3. Fiscal sustainability	4.9	6.2	**16**
4. Resilience	3.8	5.9	**19**
ADJUSTMENT	7.7	4.2	**2**
1. External adjustment	8.7	4.3	**1**
2. Fiscal adjustment	5.6	5.0	**7**
3. Labour costs	8.4	2.5	**1**
4. Reforms	8.2	5.0	**3**

ADJUSTMENT	IE Value	EZ17 Value	Score 7.7	Rank 2
1. External adjustment			8.7	**1**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	20.8	3.2	10.0	**1**
1.2 Net exports relative to 2H07 exports	20.3	7.0	6.9	**5**
1.3 Rise in export ratio, % of GDP	17.7	4.4	9.2	**2**
2. Fiscal squeze: shift in primary balance			5.6	**7**
2.1 2009-2013 in % of GDP	5.3	3.3	6.6	**5**
2.2 in % of required shift to 2020	40.7	45.9	4.5	**9**
3. Unit labour costs, 2009-13			8.4	**1**
3.1 Real ULC 2009-2013, %	-10.1	-1.7	8.9	**1**
3.2 Nominal ULC 2009-2013, %	-9.6	2.9	8.0	**2**
4. Reform responsiveness, 2011-12	0.7	0.5	8.2	**3**

FUNDAMENTAL HEALTH 1. Growth potential	IE Value	EZ17 Value	Score 5.3	Rank 13
1.1 Trend growth 2002-2010, in %			3.4	**15**
1.1.1 Rise in Gross value added	0.4	0.9	2.7	**18**
1.1.2 Deviation of GVA growth from norm	-0.2	-0.1	4.1	**14**
1.2 Human resources			6.1	**6**
1.2.1 Fertility rate 2009-2013 average	2.1	1.6	8.8	**1**
1.2.2 Integration of Immigrants (MIPEX, 2010)	48.7	54.9	3.4	**13**
1.2.3 Pisa Scores 2009	497.0	498.5	3.4	**9**
1.3 Employment			4.5	**14**
1.3.1 Employment rate 2002-2012, in %	64.4	64.0	4.5	**11**
1.3.2 Change in ER 2002-2012, per year, pcp	-0.6	0.2	0.5	**18**
1.3.3 Youth unemployment rate, 2002-2012, in %	15.8	18.2	7.1	**9**
1.3.4 Long-term unemployment 2002-2012, in %	3.5	4.0	6.1	**10**
1.4 Consumption rate			7.0	**7**
1.4.1 Total consumption, 2002-2012, % of GDP	64.8	77.9	10.0	**1**
1.4.2 Change in CR 2002-2012, per year, pcp	0.4	0.2	4.0	**17**

FUNDAMENTAL HEALTH 2. Competitiveness	IE Value	EZ17 Value	Score 7.4	Rank 3
2.1 Export Ratio, % of GDP (2002-2012)	89.6	39.9	9.6	**5**
2.2 Rise in export ratio, 2002-2012, pcp	1.9	1.0	6.1	**13**
2.3 Labour costs			6.1	**9**
2.3.1 Real unit labour cost, change 2002-13 in %	0.4	-0.1	3.6	**17**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.4	1.7	7.4	**6**
2.3.3 Hiring & firing practice 2013	4.2	3.4	7.3	**3**
2.4 Market regulations			7.8	**5**
2.4.1 Competition intensity (index)	5.3	5.5	4.2	**12**
2.4.2 Service markets (index)	0.9	2.4	10.0	**1**
2.4.3 Opening new business (days)	10.0	12.1	9.1	**5**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	IE Value	EZ17 Value	Score 4.9	Rank 16
3.1 Government outlays, % of GDP (2002-2013)	41.2	48.5	9.9	**2**
3.2 Underlying fiscal balance 2013			4.6	**20**
3.2.1 Underlying fiscal balance (% of GDP)	-6.7	-1.5	3.3	**20**
3.2.2 Underlying primary fiscal balance (% of GDP)	-2.1	1.5	5.9	**19**
3.3 Debt ratio, % of GDP, Q1 2013	124.9	90.1	1.8	**17**
3.4 Sustainability gap 2014 -2020 (% of GDP)	7.7	3.9	3.3	**15**

FUNDAMENTAL HEALTH 4. Resilience	IE Value	EZ17 Value	Score 3.8	Rank 19
4.1 Debt redemptions 2014-16, % of GDP	12.4	25.7	7.0	**3**
4.2 Debt held abroad, % of GDP, 2013	82.1	49.8	0.9	**15**
4.3 Gross household savings rate, in %, 2012	11.1	13.2	6.4	**11**
4.4 Current account, % of GDP, 2013	4.1	2.3	7.7	**7**
4.5 Bank assets, % of GDP, 2013	638.1	332.6	1.1	**18**
4.6 Private sector debt, % of GDP, 2012	331.9	161.3	0.0	**18**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Italy

Overall Assessment

A mature economy with many weaknesses and few strengths. Fiscal situation looks stable even at a very low trend growth rate. The Monti government had successfully steered Italy through the worst of the crisis in 2012, but the new leadership suffered under political instability. Austerity peaked in 2012. But structural reforms too modest given the Italian challenge. Only a weak boost to potential growth.

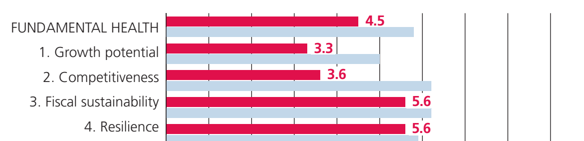
Strengths

- Low private sector indebtedness
- Successful fiscal adjustment
- Current account surplus

Weaknesses

- Weakest trend growth rate in the eurozone
- One of the most regulated economies in Europe
- Negative labour cost developments have not reversed
- Low labour force participation rate
- High public debt ratio
- Huge public debt redemption needs in the next years

Fundamental Health



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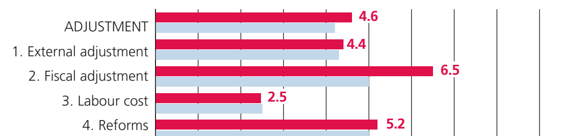


Detailed Scores

OVERALL RESULTS	IT	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	4.5	5.8	**18**
1. Growth potential	3.3	5.0	**19**
2. Competitiveness	3.6	6.2	**18**
3. Fiscal sustainability	5.6	6.2	**14**
4. Resilience	5.6	5.9	**11**
ADJUSTMENT	4.6	4.2	**9**
1. External adjustment	4.4	4.3	**12**
2. Fiscal adjustment	6.5	5.0	**5**
3. Labour costs	2.5	2.5	**14**
4. Reforms	5.2	5.0	**10**

ADJUSTMENT	IT	EZ17	Score	Rank
	Value	Value	4.6	**9**
1. External adjustment			4.4	**12**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	3.9	3.2	4.5	**11**
1.2 Net exports relative to 2H07 exports	12.7	7.0	5.2	**10**
1.3 Rise in export ratio, % of GDP	1.6	4.4	3.4	**14**
2. Fiscal squeze: shift in primary balance			6.5	**5**
2.1 2009-2013 in % of GDP	4.2	3.3	5.6	**7**
2.2 in % of required shift to 2020	66.0	45.9	7.3	**2**
3. Unit labour costs, 2009-13			2.5	**14**
3.1 Real ULC 2009-2013, %	0.2	-1.7	1.7	**14**
3.2 Nominal ULC 2009-2013, %	5.0	2.9	3.3	**12**
4. Reform responsiveness, 2011-12	0.5	0.5	5.2	**10**

FUNDAMENTAL HEALTH	IT	EZ17	Score	Rank
1. Growth potential	Value	Value	3.3	**19**
1.1 Trend growth 2002-2010, in %			0.8	**20**
1.1.1 Rise in Gross value added	-0.1	0.9	1.3	**20**
1.1.2 Deviation of GVA growth from norm	-1.1	-0.1	0.4	**19**
1.2 Human resources			3.8	**13**
1.2.1 Fertility rate 2009-2013 average	1.4	1.6	3.4	**16**
1.2.2 Integration of Immigrants (MIPEX, 2010)	60.7	54.9	6.4	**7**
1.2.3 Pisa Scores 2009	486.0	498.5	2.0	**15**
1.3 Employment			4.1	**16**
1.3.1 Employment rate 2002-2012, in %	57.3	64.0	1.5	**18**
1.3.2 Change in ER 2002-2012, per year, pcp	0.1	0.2	5.6	**9**
1.3.3 Youth unemployment rate, 2002-2012, in %	25.8	18.2	3.7	**16**
1.3.4 Long-term unemployment 2002-2012, in %	4.1	4.0	5.5	**13**
1.4 Consumption rate			4.7	**14**
1.4.1 Total consumption, 2002-2012, % of GDP	79.7	77.9	5.2	**13**
1.4.2 Change in CR 2002-2012, per year, pcp	0.3	0.2	4.2	**16**

FUNDAMENTAL HEALTH	IT	EZ17	Score	Rank
2. Competitiveness	Value	Value	3.6	**18**
2.1 Export Ratio, % of GDP (2002-2012)	26.8	39.9	2.3	**14**
2.2 Rise in export ratio, 2002-2012, pcp	0.5	1.0	6.0	**14**
2.3 Labour costs			3.1	**20**
2.3.1 Real unit labour cost, change 2002-13 in %	0.5	-0.1	2.9	**18**
2.3.2 Nominal unit labour cost, 2002-13 in %	2.5	1.7	4.4	**16**
2.3.3 Hiring & firing practice 2013	2.6	3.4	2.0	**18**
2.4 Market regulations			2.8	**19**
2.4.1 Competition intensity (index)	5.0	5.5	1.7	**17**
2.4.2 Service markets (index)	3.2	2.4	1.1	**17**
2.4.3 Opening new business (days)	6.0	12.1	5.7	**16**

FUNDAMENTAL HEALTH	IT	EZ17	Score	Rank
4. Resilience	Value	Value	5.6	**11**
4.1 Debt redemptions 2014-16, % of GDP	41.7	25.7	0.0	**20**
4.2 Debt held abroad, % of GDP, 2013	45.8	49.8	4.9	**9**
4.3 Gross household savings rate, in %, 2012	11.6	13.2	6.6	**10**
4.4 Current account, % of GDP, 2013	1.0	2.3	6.2	**11**
4.5 Bank assets, % of GDP, 2013	262.8	332.6	7.9	**6**
4.6 Private sector debt, % of GDP, 2012	128.8	161.3	7.8	**5**

FUNDAMENTAL HEALTH	IT	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	5.6	**14**
3.1 Government outlays, % of GDP (2002-2013)	49.1	48.5	4.2	**14**
3.2 Underlying fiscal balance 2013			8.9	**4**
3.2.1 Underlying fiscal balance (% of GDP)	-0.8	-1.5	7.8	**6**
3.2.2 Underlying primary fiscal balance (% of GDP)	4.6	1.5	10.0	**1**
3.3 Debt ratio, % of GDP, Q1 2013	127.9	90.1	1.6	**19**
3.4 Sustainability gap 2014 -2020 (% of GDP)	2.2	3.9	7.6	**4**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Luxembourg

Overall Assessment

A small open economy that builds it top place in the eurozone rankings for GDP per capita on its outward orientation and its position as a financial centre. Luxembourg can apparently afford a high degree of regulation in many markets, including the labour market.

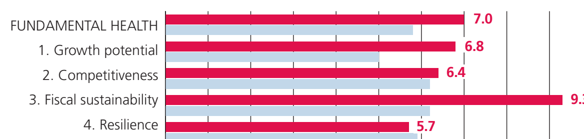
Strengths

- Very high export ratio
- Strong growth potential
- Most comfortable fiscal position
- Highest household savings rate
- One of the highest current account surpluses

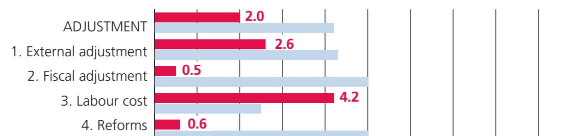
Weaknesses

- Highly regulated product, service and labour markets
- High private sector indebtedness
- Strong rise in nominal unit labour costs weighs on competitiveness
- Vulnerable to financial shocks due to role as financial centre

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	LU Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	7.0	5.8	**3**
1. Growth potential	6.8	5.0	**3**
2. Competitiveness	6.4	6.2	**7**
3. Fiscal sustainability	9.3	6.2	**1**
4. Resilience	5.7	5.9	**10**
ADJUSTMENT	2.0	4.2	**19**
1. External adjustment	2.6	4.3	**18**
2. Fiscal adjustment	0.5	5.0	**18**
3. Labour costs	4.2	2.5	**8**
4. Reforms	0.6	5.0	**18**

ADJUSTMENT	LU Value	EZ17 Value	Score 2.0	Rank 19
1. External adjustment			2.6	**18**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	-6.3	3.2	1.2	**20**
1.2 Net exports relative to 2H07 exports	-3.4	7.0	1.8	**19**
1.3 Rise in export ratio, % of GDP	5.7	4.4	4.9	**9**
2. Fiscal squeze: shift in primary balance			0.5	**18**
2.1 2009-2013 in % of GDP	-1.4	3.3	0.5	**18**
2.2 in % of required shift to 2020	n.a.	45.9	n.a.	**n.a.**
3. Unit labour costs, 2009-13			4.2	**8**
3.1 Real ULC 2009-2013, %	-7.3	-1.7	6.1	**5**
3.2 Nominal ULC 2009-2013, %	10.5	2.9	2.4	**14**
4. Reform responsiveness, 2011-12	0.1	0.5	0.6	**18**

FUNDAMENTAL HEALTH 1. Growth potential	LU Value	EZ17 Value	Score 6.8	Rank 3
1.1 Trend growth 2002-2010, in %			6.0	**9**
1.1.1 Rise in Gross value added	0.7	0.9	3.5	**15**
1.1.2 Deviation of GVA growth from norm	0.8	-0.1	8.5	**4**
1.2 Human resources			4.5	**9**
1.2.1 Fertility rate 2009-2013 average	1.6	1.6	5.2	**8**
1.2.2 Integration of Immigrants (MIPEX, 2010)	59.3	54.9	6.1	**8**
1.2.3 Pisa Scores 2009	481.7	498.5	1.5	**17**
1.3 Employment			6.6	**6**
1.3.1 Employment rate 2002-2012, in %	64.0	64.0	4.3	**12**
1.3.2 Change in ER 2002-2012, per year, pcp	0.2	0.2	6.1	**7**
1.3.3 Youth unemployment rate, 2002-2012, in %	15.0	18.2	7.3	**6**
1.3.4 Long-term unemployment 2002-2012, in %	1.2	4.0	8.6	**4**
1.4 Consumption rate			10.0	**1**
1.4.1 Total consumption, 2002-2012, % of GDP	51.1	77.9	10.0	**1**
1.4.2 Change in CR 2002-2012, per year, pcp	-0.9	0.2	10.0	**1**

FUNDAMENTAL HEALTH 2. Competitiveness	LU Value	EZ17 Value	Score 6.4	Rank 7
2.1 Export Ratio, % of GDP (2002-2012)	163.8	39.9	10.0	**1**
2.2 Rise in export ratio, 2002-2012, pcp	3.8	1.0	7.1	**10**
2.3 Labour costs			5.1	**13**
2.3.1 Real unit labour cost, change 2002-13 in %	-0.5	-0.1	8.4	**6**
2.3.2 Nominal unit labour cost, 2002-13 in %	3.1	1.7	2.5	**19**
2.3.3 Hiring & firing practice 2013	3.3	3.4	4.3	**9**
2.4 Market regulations			3.3	**17**
2.4.1 Competition intensity (index)	5.1	5.5	2.5	**16**
2.4.2 Service markets (index)	3.5	2.4	0.0	**19**
2.4.3 Opening new business (days)	19.0	12.1	7.5	**12**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	LU Value	EZ17 Value	Score 9.3	Rank 1
3.1 Government outlays, % of GDP (2002-2013)	41.8	48.5	10.0	**1**
3.2 Underlying fiscal balance 2013			8.7	**5**
3.2.1 Underlying fiscal balance (% of GDP)	0.2	-1.5	8.6	**4**
3.2.2 Underlying primary fiscal balance (% of GDP)	0.7	1.5	8.7	**7**
3.3 Debt ratio, % of GDP, Q1 2013	21.2	90.1	9.2	**2**
3.4 Sustainability gap 2014 -2020 (% of GDP)	n.a.	3.9	n.a.	**n.a.**

FUNDAMENTAL HEALTH 4. Resilience	LU Value	EZ17 Value	Score 5.7	Rank 10
4.1 Debt redemptions 2014-16, % of GDP	0.0	25.7	10.0	**1**
4.2 Debt held abroad, % of GDP, 2013	n.a.	49.8	n.a.	**n.a.**
4.3 Gross household savings rate, in %, 2012	17.4	13.2	9.7	**1**
4.4 Current account, % of GDP, 2013	6.7	2.3	8.9	**3**
4.5 Bank assets, % of GDP, 2013	2212.1	332.6	0.0	**19**
4.6 Private sector debt, % of GDP, 2012	326.3	161.3	0.0	**18**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

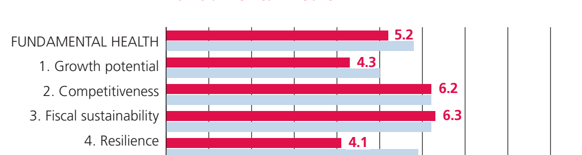
Malta

Overall Assessment
Small open economy which suffers similar growth potential problems to other peripheral economies, but relatively benign fiscal challenges. The analysis is marred by a lack of data on some important counts.

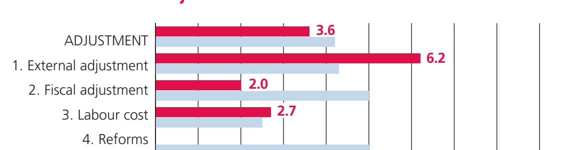
Strengths
- Mostly very deregulated labour, product and services markets
- Better-than-average youth and long-term unemployment rates
- Positive current account balance

Weaknesses
- Weak on human resources
- Low employment rate
- Weak fiscal adjustment despite significant fiscal challenge
- High bank assets as share of GDP

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	MT Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.2	5.8	**14**
1. Growth potential	4.3	5.0	**15**
2. Competitiveness	6.2	6.2	**10**
3. Fiscal sustainability	6.3	6.2	**7**
4. Resilience	4.1	5.9	**18**
ADJUSTMENT	3.6	4.2	**12**
1. External adjustment	6.2	4.3	**9**
2. Fiscal adjustment	2.0	5.0	**17**
3. Labour costs	2.7	2.5	**13**
4. Reforms	n.a.	5.0	**n.a.**

ADJUSTMENT	MT Value	EZ17 Value	Score	Rank
			3.6	**12**
1. External adjustment			6.2	**9**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	12.3	3.2	7.2	**5**
1.2 Net exports relative to 2H07 exports	13.1	7.0	5.3	**9**
1.3 Rise in export ratio, % of GDP	9.3	4.4	6.2	**6**
2. Fiscal squeze: shift in primary balance			2.0	**17**
2.1 2009-2013 in % of GDP	0.2	3.3	2.0	**17**
2.2 in % of required shift to 2020	n.a.	45.9	n.a.	**n.a.**
3. Unit labour costs, 2009-13			2.7	**13**
3.1 Real ULC 2009-2013, %	-2.3	-1.7	3.1	**9**
3.2 Nominal ULC 2009-2013, %	7.5	2.9	2.2	**16**
4. Reform responsiveness, 2011-12	n.a.	0.5	n.a.	**n.a.**

FUNDAMENTAL HEALTH 1. Growth potential	MT Value	EZ17 Value	Score	Rank
			4.3	**15**
1.1 Trend growth 2002-2010, in %			3.8	**13**
1.1.1 Rise in Gross value added	1.2	0.9	4.7	**11**
1.1.2 Deviation of GVA growth from norm	-0.5	-0.1	2.9	**16**
1.2 Human resources			2.7	**18**
1.2.1 Fertility rate 2009-2013 average	1.5	1.6	3.8	**12**
1.2.2 Integration of Immigrants (MIPEX, 2010)	36.9	54.9	0.5	**18**
1.2.3 Pisa Scores 2009	n.a.	498.5	n.a.	**n.a.**
1.3 Employment			5.5	**11**
1.3.1 Employment rate 2002-2012, in %	55.3	64.0	0.6	**20**
1.3.2 Change in ER 2002-2012, per year, pcp	0.4	0.2	7.3	**5**
1.3.3 Youth unemployment rate, 2002-2012, in %	15.0	18.2	7.3	**7**
1.3.4 Long-term unemployment 2002-2012, in %	3.1	4.0	6.6	**9**
1.4 Consumption rate			5.1	**13**
1.4.1 Total consumption, 2002-2012, % of GDP	81.9	77.9	4.0	**16**
1.4.2 Change in CR 2002-2012, per year, pcp	0.0	0.2	6.1	**7**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	MT Value	EZ17 Value	Score	Rank
			6.3	**7**
3.1 Government outlays, % of GDP (2002-2013)	43.0	48.5	6.6	**8**
3.2 Underlying fiscal balance 2013			6.7	**15**
3.2.1 Underlying fiscal balance (% of GDP)	-3.5	-1.5	5.8	**14**
3.2.2 Underlying primary fiscal balance (% of GDP)	-0.4	1.5	7.6	**12**
3.3 Debt ratio, % of GDP, Q1 2013	72.7	90.1	5.5	**10**
3.4 Sustainability gap 2014 -2020 (% of GDP)	n.a.	3.9	n.a.	**n.a.**

FUNDAMENTAL HEALTH 2. Competitiveness	MT Value	EZ17 Value	Score	Rank
			6.2	**10**
2.1 Export Ratio, % of GDP (2002-2012)	87.2	39.9	6.8	**9**
2.2 Rise in export ratio, 2002-2012, pcp	2.3	1.0	7.4	**8**
2.3 Labour costs			5.1	**12**
2.3.1 Real unit labour cost, change 2002-13 in %	-0.1	-0.1	5.9	**10**
2.3.2 Nominal unit labour cost, 2002-13 in %	2.5	1.7	4.3	**17**
2.3.3 Hiring & firing practice 2013	3.9	3.4	6.3	**5**
2.4 Market regulations			5.6	**12**
2.4.1 Competition intensity (index)	6.0	5.5	10.0	**n.a.**
2.4.2 Service markets (index)	2.4	2.4	4.1	**11**
2.4.3 Opening new business (days)	40.0	12.1	2.8	**19**

FUNDAMENTAL HEALTH 4. Resilience	MT Value	EZ17 Value	Score	Rank
			4.1	**18**
4.1 Debt redemptions 2014-16, % of GDP	18.4	25.7	5.6	**12**
4.2 Debt held abroad, % of GDP, 2013	n.a.	49.8	n.a.	**n.a.**
4.3 Gross household savings rate, in %, 2012	n.a.	13.2	n.a.	**n.a.**
4.4 Current account, % of GDP, 2013	1.8	2.3	6.6	**9**
4.5 Bank assets, % of GDP, 2013	811.9	332.6	0.0	**19**
4.6 Private sector debt, % of GDP, 2012	209.9	161.3	4.1	**12**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Netherlands

Overall Assessment

The strongest major eurozone economy along with Germany. Top scores for growth potential and competitiveness in the eurozone. Despite already being at a very high level of income, still exceptional potential for further growth. Faces cyclical problems, a considerable fiscal challenge and substantial private sector deleveraging needs.

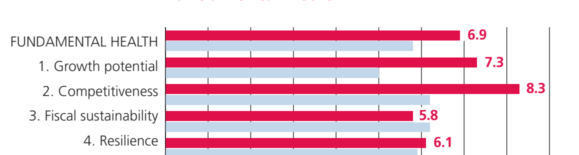
Strengths

- Strongest growth potential
- Very competitive economy
- High employment rate
- Biggest current account surplus

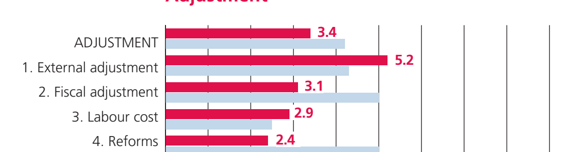
Weaknesses

- Relatively large fiscal sustainability gap due to age-related spending
- Large banking sector
- High private sector indebtedness
- Rising unit labour costs erode competitiveness

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	NL Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	6.9	5.8	**5**
1. Growth potential	7.3	5.0	**1**
2. Competitiveness	8.3	6.2	**1**
3. Fiscal sustainability	5.8	6.2	**10**
4. Resilience	6.1	5.9	**8**
ADJUSTMENT	3.4	4.2	**13**
1. External adjustment	5.2	4.3	**11**
2. Fiscal adjustment	3.1	5.0	**13**
3. Labour costs	2.9	2.5	**11**
4. Reforms	2.4	5.0	**14**

ADJUSTMENT	NL Value	EZ17 Value	Score 3.4	Rank 13
1. External adjustment			5.2	**11**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	3.2	3.2	4.3	**12**
1.2 Net exports relative to 2H07 exports	3.9	7.0	3.4	**13**
1.3 Rise in export ratio, % of GDP	14.6	4.4	8.1	**4**
2. Fiscal squeze: shift in primary balance			3.1	**13**
2.1 2009-2013 in % of GDP	1.9	3.3	3.5	**12**
2.2 in % of required shift to 2020	23.4	45.9	2.6	**12**
3. Unit labour costs, 2009-13			2.9	**11**
3.1 Real ULC 2009-2013, %	-1.8	-1.7	2.3	**11**
3.2 Nominal ULC 2009-2013, %	3.0	2.9	3.4	**10**
4. Reform responsiveness, 2011-12	0.2	0.5	2.4	**14**

FUNDAMENTAL HEALTH 1. Growth potential	NL Value	EZ17 Value	Score 7.3	Rank 1
1.1 Trend growth 2002-2010, in %			7.0	**7**
1.1.1 Rise in Gross value added	1.5	0.9	5.8	**8**
1.1.2 Deviation of GVA growth from norm	0.8	-0.1	8.2	**6**
1.2 Human resources			6.8	**3**
1.2.1 Fertility rate 2009-2013 average	1.8	1.6	6.5	**7**
1.2.2 Integration of Immigrants (MIPEX, 2010)	67.9	54.9	8.2	**4**
1.2.3 Pisa Scores 2009	518.7	498.5	6.1	**2**
1.3 Employment			8.1	**2**
1.3.1 Employment rate 2002-2012, in %	74.9	64.0	9.1	**1**
1.3.2 Change in ER 2002-2012, per year, pcp	0.1	0.2	5.1	**11**
1.3.3 Youth unemployment rate, 2002-2012, in %	7.1	18.2	10.0	**1**
1.3.4 Long-term unemployment 2002-2012, in %	1.4	4.0	8.4	**5**
1.4 Consumption rate			7.2	**4**
1.4.1 Total consumption, 2002-2012, % of GDP	73.2	77.9	8.4	**5**
1.4.2 Change in CR 2002-2012, per year, pcp	0.0	0.2	6.1	**9**

FUNDAMENTAL HEALTH 2. Competitiveness	NL Value	EZ17 Value	Score 8.3	Rank 1
2.1 Export Ratio, % of GDP (2002-2012)	73.2	39.9	9.9	**4**
2.2 Rise in export ratio, 2002-2012, pcp	2.4	1.0	8.9	**5**
2.3 Labour costs			5.2	**11**
2.3.1 Real unit labour cost, change 2002-13 in %	0.1	-0.1	5.1	**15**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.7	1.7	6.5	**10**
2.3.3 Hiring & firing practice 2013	3.2	3.4	4.0	**14**
2.4 Market regulations			9.1	**2**
2.4.1 Competition intensity (index)	6.0	5.5	10.0	**1**
2.4.2 Service markets (index)	1.2	2.4	8.7	**5**
2.4.3 Opening new business (days)	5.0	12.1	8.6	**7**

FUNDAMENTAL HEALTH 4. Resilience	NL Value	EZ17 Value	Score 6.1	Rank 8
4.1 Debt redemptions 2014-16, % of GDP	19.4	25.7	5.3	**14**
4.2 Debt held abroad, % of GDP, 2013	39.2	49.8	5.6	**8**
4.3 Gross household savings rate, in %, 2012	10.7	13.2	6.2	**12**
4.4 Current account, % of GDP, 2013	9.6	2.3	10.0	**1**
4.5 Bank assets, % of GDP, 2013	388.8	332.6	5.7	**14**
4.6 Private sector debt, % of GDP, 2012	222.8	161.3	3.5	**14**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	NL Value	EZ17 Value	Score 5.8	Rank 10
3.1 Government outlays, % of GDP (2002-2013)	47.9	48.5	5.6	**10**
3.2 Underlying fiscal balance 2013			7.4	**10**
3.2.1 Underlying fiscal balance (% of GDP)	-2.1	-1.5	6.8	**9**
3.2.2 Underlying primary fiscal balance (% of GDP)	-0.1	1.5	7.9	**10**
3.3 Debt ratio, % of GDP, Q1 2013	70.0	90.1	5.7	**8**
3.4 Sustainability gap 2014 -2020 (% of GDP)	6.2	3.9	4.4	**13**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

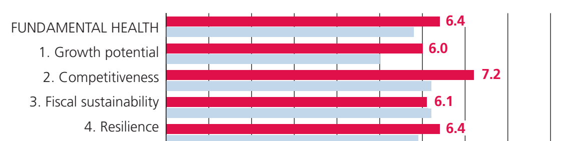
Poland

Overall Assessment
Dynamic catching-up economy with low labour costs. Demographically challenged, Poland will have to deregulate its markets and unleash other sources of growth once the current growth model hits its limits.

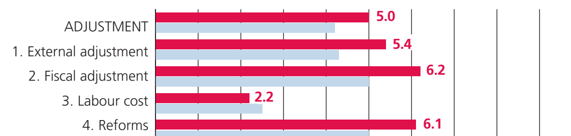
Strengths
- Very strong trend growth
- Fiscal adjustment progressing
- Low ratio of public and private sector debt
- High score on OECD reform responsiveness

Weaknesses
- Very low fertility rate
- High youth- and long-term unemployment rates
- Low employment rate
- High structural fiscal deficit
- Current account deficit
- Highly regulated economy
- Very low household savings rate

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	PL	EZ17	
	Score	Score	Rank
FUNDAMENTAL HEALTH	6.4	5.8	**8**
1. Growth potential	6.0	5.0	**6**
2. Competitiveness	7.2	6.2	**4**
3. Fiscal sustainability	6.1	6.2	**8**
4. Resilience	6.4	5.9	**6**
ADJUSTMENT	5.0	4.2	**8**
1. External adjustment	5.4	4.3	**10**
2. Fiscal adjustment	6.2	5.0	**6**
3. Labour costs	2.2	2.5	**15**
4. Reforms	6.1	5.0	**6**

ADJUSTMENT	PL	EZ17	Score	Rank
	Value	Value	5.0	**8**
1. External adjustment			5.4	**10**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	7.2	3.2	5.6	**10**
1.2 Net exports relative to 2H07 exports	18.5	7.0	6.5	**6**
1.3 Rise in export ratio, % of GDP	3.5	4.4	4.1	**11**
2. Fiscal squeze: shift in primary balance			6.2	**6**
2.1 2009-2013 in % of GDP	4.2	3.3	5.6	**7**
2.2 in % of required shift to 2020	60.4	45.9	6.7	**4**
3. Unit labour costs, 2009-13			2.2	**15**
3.1 Real ULC 2009-2013, %	-2.5	-1.7	1.0	**18**
3.2 Nominal ULC 2009-2013, %	3.0	2.9	3.4	**11**
4. Reform responsiveness, 2011-12	0.6	0.5	6.1	**6**

FUNDAMENTAL HEALTH	PL	EZ17	Score	Rank
1. Growth potential	Value	Value	6.0	**6**
1.1 Trend growth 2002-2010, in %			10.0	**1**
1.1.1 Rise in Gross value added	4.4	0.9	10.0	**1**
1.1.2 Deviation of GVA growth from norm	1.5	-0.1	10.0	**1**
1.2 Human resources			2.9	**16**
1.2.1 Fertility rate 2009-2013 average	1.4	1.6	2.9	**20**
1.2.2 Integration of Immigrants (MIPEX, 2010)	41.9	54.9	1.7	**17**
1.2.3 Pisa Scores 2009	501.0	498.5	3.9	**6**
1.3 Employment			4.0	**17**
1.3.1 Employment rate 2002-2012, in %	55.9	64.0	0.8	**19**
1.3.2 Change in ER 2002-2012, per year, pcp	0.8	0.2	10.0	**1**
1.3.3 Youth unemployment rate, 2002-2012, in %	29.6	18.2	2.5	**17**
1.3.4 Long-term unemployment 2002-2012, in %	6.5	4.0	2.8	**19**
1.4 Consumption rate			7.1	**5**
1.4.1 Total consumption, 2002-2012, % of GDP	80.9	77.9	4.5	**14**
1.4.2 Change in CR 2002-2012, per year, pcp	-0.6	0.2	9.7	**2**

FUNDAMENTAL HEALTH	PL	EZ17	Score	Rank
2. Competitiveness	Value	Value	7.2	**4**
2.1 Export Ratio, % of GDP (2002-2012)	39.2	39.9	7.6	**7**
2.2 Rise in export ratio, 2002-2012, pcp	1.6	1.0	10.0	**1**
2.3 Labour costs			8.0	**2**
2.3.1 Real unit labour cost, change 2002-13 in %	-1.7	-0.1	10.0	**1**
2.3.2 Nominal unit labour cost, 2002-13 in %	0.7	1.7	9.3	**1**
2.3.3 Hiring & firing practice 2013	3.4	3.4	4.7	**8**
2.4 Market regulations			3.3	**18**
2.4.1 Competition intensity (index)	5.3	5.5	4.2	**12**
2.4.2 Service markets (index)	2.7	2.4	3.1	**14**
2.4.3 Opening new business (days)	32.0	12.1	2.6	**20**

FUNDAMENTAL HEALTH	PL	EZ17	Score	Rank
3. Fiscal sustainability	Value	Value	6.1	**8**
3.1 Government outlays, % of GDP (2002-2013)	43.5	48.5	4.8	**11**
3.2 Underlying fiscal balance 2013			6.0	**17**
3.2.1 Underlying fiscal balance (% of GDP)	-4.0	-1.5	5.4	**16**
3.2.2 Underlying primary fiscal balance (% of GDP)	-1.3	1.5	6.7	**17**
3.3 Debt ratio, % of GDP, Q1 2013	57.3	90.1	6.6	**7**
3.4 Sustainability gap 2014 -2020 (% of GDP)	2.8	3.9	7.1	**6**

FUNDAMENTAL HEALTH	PL	EZ17	Score	Rank
4. Resilience	Value	Value	6.4	**6**
4.1 Debt redemptions 2014-16, % of GDP	17.8	25.7	5.7	**10**
4.2 Debt held abroad, % of GDP, 2013	30.3	49.8	6.6	**6**
4.3 Gross household savings rate, in %, 2012	0.8	13.2	0.9	**18**
4.4 Current account, % of GDP, 2013	-1.5	2.3	5.0	**15**
4.5 Bank assets, % of GDP, 2013	92.1	332.6	10.0	**1**
4.6 Private sector debt, % of GDP, 2012	78.4	161.3	10.0	**1**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Portugal

Overall Assessment

Among the worst performers in the fundamental health check despite further improvements. As Portugal is one of the strongest performers on the adjustment side, the positive trend looks set to continue. The fiscal situation has improved further from a weak level and structural reforms are beginning to yield the first benefits. The growth potential is still one of the weakest in the eurozone.

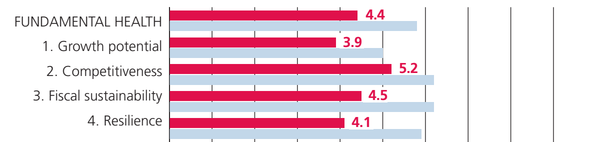
Strengths

- Major fiscal and external adjustment
- In the top half on labour cost adjustments
- Close to the top on the OECD's reform responsiveness score
- Easy to open new businesses
- Good at integrating immigrants
- Above-average household savings rate

Weaknesses

- Very weak growth potential due to low fertility and high propensity to consume
- One of the weakest employment performances
- Export ratio one of the lowest in Europe
- Very high and rising public debt ratio
- Among the largest debt roll-over needs over the next years
- Very high private sector debt ratio

Fundamental Health



Adjustment

Detailed Scores

OVERALL RESULTS	PT Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	4.4	5.8	**19**
1. Growth potential	3.9	5.0	**16**
2. Competitiveness	5.2	6.2	**14**
3. Fiscal sustainability	4.5	6.2	**19**
4. Resilience	4.1	5.9	**17**
ADJUSTMENT	6.7	4.2	**4**
1. External adjustment	7.1	4.3	**5**
2. Fiscal adjustment	6.7	5.0	**3**
3. Labour costs	5.3	2.5	**6**
4. Reforms	7.7	5.0	**4**

ADJUSTMENT	PT Value	EZ17 Value	Score 6.7	Rank 4
1. External adjustment *Change 2H07-2Q13*			7.1	**5**
1.1 Net exports in % points of GDP	10.6	3.2	6.7	**8**
1.2 Net exports relative to 2H07 exports	29.0	7.0	8.7	**4**
1.3 Rise in export ratio, % of GDP	8.5	4.4	5.9	**7**
2. Fiscal squeze: shift in primary balance			6.7	**3**
2.1 2009-2013 in % of GDP	6.5	3.3	7.7	**3**
2.2 in % of required shift to 2020	51.5	45.9	5.7	**6**
3. Unit labour costs, 2009-13			5.3	**6**
3.1 Real ULC 2009-2013, %	-7.3	-1.7	4.9	**6**
3.2 Nominal ULC 2009-2013, %	-5.0	2.9	5.8	**7**
4. Reform responsiveness, 2011-12	0.7	0.5	7.7	**4**

FUNDAMENTAL HEALTH 1. Growth potential	PT Value	EZ17 Value	Score 3.9	Rank 16
1.1 Trend growth 2002-2010, in %			2.7	**18**
1.1.1 Rise in Gross value added	0.9	0.9	4.0	**12**
1.1.2 Deviation of GVA growth from norm	-0.9	-0.1	1.4	**18**
1.2 Human resources			4.7	**8**
1.2.1 Fertility rate 2009-2013 average	1.4	1.6	3.2	**18**
1.2.2 Integration of Immigrants (MIPEX, 2010)	79.0	54.9	10.0	**1**
1.2.3 Pisa Scores 2009	489.7	498.5	2.5	**12**
1.3 Employment			4.1	**15**
1.3.1 Employment rate 2002-2012, in %	66.8	64.0	5.6	**8**
1.3.2 Change in ER 2002-2012, per year, pcp	-0.7	0.2	0.0	**20**
1.3.3 Youth unemployment rate, 2002-2012, in %	19.4	18.2	5.9	**10**
1.3.4 Long-term unemployment 2002-2012, in %	4.5	4.0	5.0	**15**
1.4 Consumption rate			3.9	**16**
1.4.1 Total consumption, 2002-2012, % of GDP	85.3	77.9	2.3	**18**
1.4.2 Change in CR 2002-2012, per year, pcp	0.1	0.2	5.4	**11**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	PT Value	EZ17 Value	Score 4.5	Rank 19
3.1 Government outlays, % of GDP (2002-2013)	46.7	48.5	4.5	**13**
3.2 Underlying fiscal balance 2013			7.2	**11**
3.2.1 Underlying fiscal balance (% of GDP)	-3.7	-1.5	5.6	**15**
3.2.2 Underlying primary fiscal balance (% of GDP)	0.7	1.5	8.7	**7**
3.3 Debt ratio, % of GDP, Q1 2013	126.5	90.1	1.7	**18**
3.4 Sustainability gap 2014 -2020 (% of GDP)	6.1	3.9	4.5	**12**

FUNDAMENTAL HEALTH 2. Competitiveness	PT Value	EZ17 Value	Score 5.2	Rank 14
2.1 Export Ratio, % of GDP (2002-2012)	30.9	39.9	0.0	**18**
2.2 Rise in export ratio, 2002-2012, pcp	1.1	1.0	9.2	**3**
2.3 Labour costs			6.9	**4**
2.3.1 Real unit labour cost, change 2002-13 in %	-0.6	-0.1	8.9	**5**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.2	1.7	7.9	**5**
2.3.3 Hiring & firing practice 2013	3.2	3.4	4.0	**14**
2.4 Market regulations			4.6	**15**
2.4.1 Competition intensity (index)	4.9	5.5	0.8	**18**
2.4.2 Service markets (index)	2.5	2.4	3.8	**12**
2.4.3 Opening new business (days)	5.0	12.1	9.3	**3**

FUNDAMENTAL HEALTH 4. Resilience	PT Value	EZ17 Value	Score 4.1	Rank 17
4.1 Debt redemptions 2014-16, % of GDP	35.3	25.7	1.5	**18**
4.2 Debt held abroad, % of GDP, 2013	82.4	49.8	0.8	**16**
4.3 Gross household savings rate, in %, 2012	12.2	13.2	6.9	**8**
4.4 Current account, % of GDP, 2013	0.9	2.3	6.1	**12**
4.5 Bank assets, % of GDP, 2013	314.0	332.6	7.0	**12**
4.6 Private sector debt, % of GDP, 2012	256.0	161.3	2.0	**16**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Slovakia

Overall Assessment

A dynamic catching-up economy with some pronounced strengths and weaknesses. The growth model of the past two decades, based on low labour costs may be hitting its limits. Weakness in human resources and employment pose considerable challenges. Robust fiscal situation.

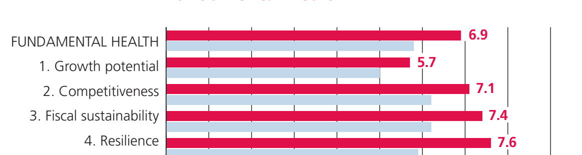
Strengths

- Top performer for trend growth
- High export ratio
- Strong fiscal adjustment effort
- Low public and private debt levels strengthen resilience to financial shocks
- Small banking system compared to GDP

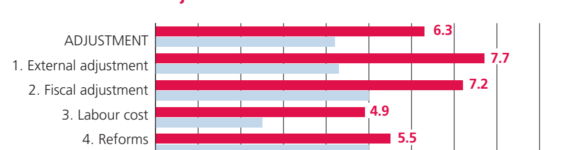
Weaknesses

- Weak human resources: difficult for immigrants to integrate, underachieving education system
- Low employment rate, high long-term unemployment
- Above average structural fiscal deficit
- Low household savings rate

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	SK Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	6.9	5.8	**4**
1. Growth potential	5.7	5.0	**10**
2. Competitiveness	7.1	6.2	**5**
3. Fiscal sustainability	7.4	6.2	**3**
4. Resilience	7.6	5.9	**2**
ADJUSTMENT	6.3	4.2	**5**
1. External adjustment	7.7	4.3	**2**
2. Fiscal adjustment	7.2	5.0	**2**
3. Labour costs	4.9	2.5	**7**
4. Reforms	5.5	5.0	**9**

ADJUSTMENT	SK Value	EZ17 Value	Score 6.3	Rank 5
1. External adjustment *Change 2H07-2Q13*			7.7	**2**
1.1 Net exports in % points of GDP	15.9	3.2	8.4	**3**
1.2 Net exports relative to 2H07 exports	16.2	7.0	6.0	**8**
1.3 Rise in export ratio, % of GDP	16.3	4.4	8.7	**3**
2. Fiscal squeze: shift in primary balance			7.2	**2**
2.1 2009-2013 in % of GDP	5.8	3.3	7.1	**4**
2.2 in % of required shift to 2020	65.0	45.9	7.2	**3**
3. Unit labour costs, 2009-13			4.9	**7**
3.1 Real ULC 2009-2013, %	-3.1	-1.7	2.8	**10**
3.2 Nominal ULC 2009-2013, %	1.7	2.9	6.9	**3**
4. Reform responsiveness, 2011-12	0.5	0.5	5.5	**9**

FUNDAMENTAL HEALTH 1. Growth potential	SK Value	EZ17 Value	Score 5.7	Rank 10
1.1 Trend growth 2002-2010, in %			10.0	**1**
1.1.1 Rise in Gross value added	4.4	0.9	10.0	**1**
1.1.2 Deviation of GVA growth from norm	1.3	-0.1	10.0	**1**
1.2 Human resources			2.4	**20**
1.2.1 Fertility rate 2009-2013 average	1.4	1.6	3.4	**15**
1.2.2 Integration of Immigrants (MIPEX, 2010)	36.4	54.9	0.4	**19**
1.2.3 Pisa Scores 2009	488.0	498.5	2.3	**13**
1.3 Employment			2.8	**19**
1.3.1 Employment rate 2002-2012, in %	59.0	64.0	2.2	**16**
1.3.2 Change in ER 2002-2012, per year, pcp	0.3	0.2	6.8	**6**
1.3.3 Youth unemployment rate, 2002-2012, in %	29.8	18.2	2.4	**19**
1.3.4 Long-term unemployment 2002-2012, in %	9.8	4.0	0.0	**20**
1.4 Consumption rate			7.4	**3**
1.4.1 Total consumption, 2002-2012, % of GDP	76.5	77.9	6.8	**10**
1.4.2 Change in CR 2002-2012, per year, pcp	-0.3	0.2	8.1	**4**

FUNDAMENTAL HEALTH 2. Competitiveness	SK Value	EZ17 Value	Score 7.1	Rank 5
2.1 Export Ratio, % of GDP (2002-2012)	80.9	39.9	9.9	**3**
2.2 Rise in export ratio, 2002-2012, pcp	2.3	1.0	7.6	**7**
2.3 Labour costs			4.6	**14**
2.3.1 Real unit labour cost, change 2002-13 in %	0.1	-0.1	5.2	**14**
2.3.2 Nominal unit labour cost, 2002-13 in %	2.4	1.7	4.6	**15**
2.3.3 Hiring & firing practice 2013	3.2	3.4	4.0	**14**
2.4 Market regulations			6.1	**9**
2.4.1 Competition intensity (index)	5.5	5.5	5.8	**9**
2.4.2 Service markets (index)	2.3	2.4	4.6	**10**
2.4.3 Opening new business (days)	16.0	12.1	7.9	**11**

FUNDAMENTAL HEALTH 4. Resilience	SK Value	EZ17 Value	Score 7.6	Rank 2
4.1 Debt redemptions 2014-16, % of GDP	17.4	25.7	5.8	**9**
4.2 Debt held abroad, % of GDP, 2013	26.3	49.8	7.1	**3**
4.3 Gross household savings rate, in %, 2012	8.2	13.2	4.8	**15**
4.4 Current account, % of GDP, 2013	4.3	2.3	7.8	**6**
4.5 Bank assets, % of GDP, 2013	83.4	332.6	10.0	**1**
4.6 Private sector debt, % of GDP, 2012	76.3	161.3	10.0	**1**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	SK Value	EZ17 Value	Score 7.4	Rank 3
3.1 Government outlays, % of GDP (2002-2013)	38.4	48.5	8.8	**4**
3.2 Underlying fiscal balance 2013			7.1	**12**
3.2.1 Underlying fiscal balance (% of GDP)	-2.3	-1.5	6.7	**11**
3.2.2 Underlying primary fiscal balance (% of GDP)	-0.4	1.5	7.6	**12**
3.3 Debt ratio, % of GDP, Q1 2013	52.8	90.1	6.9	**5**
3.4 Sustainability gap 2014 -2020 (% of GDP)	3.1	3.9	6.8	**7**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Slovenia

Overall Assessment

Small, dynamic catching-up economy with above-average scores for fundamental health. Fiscal and banking problems should be manageable if political will is maintained.

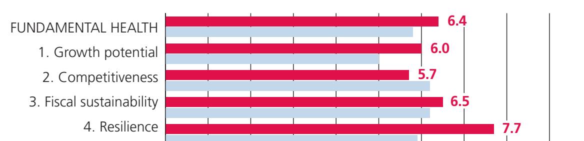
Strengths

- Low legacy public debt
- Strong trend growth rates
- Easy to open new business
- Low youth unemployment rate
- Resilient to financial shocks due to low levels of private and public debt

Weaknesses

- Demographics: below average for integration of immigrants
- Losing competitiveness due to rising labour costs
- Overregulated economy
- Fiscal challenge: above-average structural deficits
- Low score for reform responsiveness

Fundamental Health



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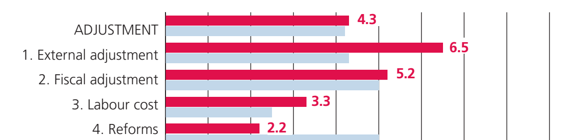


Detailed Scores

OVERALL RESULTS	SI Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	6.4	5.8	**7**
1. Growth potential	6.0	5.0	**7**
2. Competitiveness	5.7	6.2	**13**
3. Fiscal sustainability	6.5	6.2	**6**
4. Resilience	7.7	5.9	**1**
ADJUSTMENT	4.3	4.2	**11**
1. External adjustment	6.5	4.3	**8**
2. Fiscal adjustment	5.2	5.0	**8**
3. Labour costs	3.3	2.5	**10**
4. Reforms	2.2	5.0	**15**

ADJUSTMENT	SI Value	EZ17 Value	Score 4.3	Rank 11
1. External adjustment			6.5	**8**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	12.1	3.2	7.2	**6**
1.2 Net exports relative to 2H07 exports	16.3	7.0	6.0	**7**
1.3 Rise in export ratio, % of GDP	9.7	4.4	6.3	**5**
2. Fiscal squeze: shift in primary balance			5.2	**8**
2.1 2009-2013 in % of GDP	2.9	3.3	4.5	**10**
2.2 in % of required shift to 2020	54.1	45.9	6.0	**5**
3. Unit labour costs, 2009-13			3.3	**10**
3.1 Real ULC 2009-2013, %	-1.6	-1.7	2.1	**13**
3.2 Nominal ULC 2009-2013, %	0.5	2.9	4.5	**9**
4. Reform responsiveness, 2011-12	0.2	0.5	2.2	**15**

FUNDAMENTAL HEALTH 1. Growth potential	SI Value	EZ17 Value	Score 6.0	Rank 7
1.1 Trend growth 2002-2010, in %			7.9	**3**
1.1.1 Rise in Gross value added	2.5	0.9	8.5	**4**
1.1.2 Deviation of GVA growth from norm	0.6	-0.1	7.3	**7**
1.2 Human resources			3.8	**14**
1.2.1 Fertility rate 2009-2013 average	1.5	1.6	4.1	**10**
1.2.2 Integration of Immigrants (MIPEX, 2010)	48.4	54.9	3.4	**14**
1.2.3 Pisa Scores 2009	498.7	498.5	3.6	**8**
1.3 Employment			6.0	**9**
1.3.1 Employment rate 2002-2012, in %	65.8	64.0	5.1	**9**
1.3.2 Change in ER 2002-2012, per year, pcp	0.0	0.2	4.5	**13**
1.3.3 Youth unemployment rate, 2002-2012, in %	14.5	18.2	7.5	**5**
1.3.4 Long-term unemployment 2002-2012, in %	3.0	4.0	6.6	**8**
1.4 Consumption rate			6.1	**10**
1.4.1 Total consumption, 2002-2012, % of GDP	74.4	77.9	7.8	**6**
1.4.2 Change in CR 2002-2012, per year, pcp	0.3	0.2	4.5	**14**

FUNDAMENTAL HEALTH 2. Competitiveness	SI Value	EZ17 Value	Score 5.7	Rank 13
2.1 Export Ratio, % of GDP (2002-2012)	64.4	39.9	5.7	**11**
2.2 Rise in export ratio, 2002-2012, pcp	2.2	1.0	9.1	**4**
2.3 Labour costs			3.3	**19**
2.3.1 Real unit labour cost, change 2002-13 in %	0.0	-0.1	5.3	**13**
2.3.2 Nominal unit labour cost, 2002-13 in %	2.8	1.7	3.3	**18**
2.3.3 Hiring & firing practice 2013	2.4	3.4	1.3	**20**
2.4 Market regulations			4.6	**16**
2.4.1 Competition intensity (index)	5.2	5.5	3.3	**14**
2.4.2 Service markets (index)	3.3	2.4	0.8	**18**
2.4.3 Opening new business (days)	6.0	12.1	9.7	**1**

FUNDAMENTAL HEALTH 4. Resilience	SI Value	EZ17 Value	Score 7.7	Rank 1
4.1 Debt redemptions 2014-16, % of GDP	15.4	25.7	6.3	**6**
4.2 Debt held abroad, % of GDP, 2013	27.8	49.8	6.9	**4**
4.3 Gross household savings rate, in %, 2012	11.9	13.2	6.8	**9**
4.4 Current account, % of GDP, 2013	5.0	2.3	8.1	**5**
4.5 Bank assets, % of GDP, 2013	140.7	332.6	10.0	**1**
4.6 Private sector debt, % of GDP, 2012	125.2	161.3	7.9	**4**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	SI Value	EZ17 Value	Score 6.5	Rank 6
3.1 Government outlays, % of GDP (2002-2013)	46.8	48.5	4.5	**12**
3.2 Underlying fiscal balance 2013			7.0	**13**
3.2.1 Underlying fiscal balance (% of GDP)	-2.9	-1.5	6.2	**13**
3.2.2 Underlying primary fiscal balance (% of GDP)	-0.2	1.5	7.8	**11**
3.3 Debt ratio, % of GDP, Q1 2013	51.7	90.1	7.0	**4**
3.4 Sustainability gap 2014 -2020 (% of GDP)	2.5	3.9	7.3	**5**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Spain

Overall Assessment

A mostly mature economy forced to undergo major adjustment during the financial turbulences 2011/2012 and amidst a serious real estate and banking crisis, paired with very high unemployment. Structural reforms, especially the 2012 labour market reform, and fiscal rebalancing are showing first signs of positive impact also on longer-term fundamental scores. But crisis has left large employment and fiscal challenges.

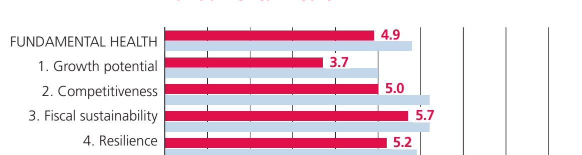
Strengths

- Very strong reform and adjustment efforts
- Impressive turn-around in net exports and current account
- Low share of government outlays in GDP
- Scores high on OECD reform responsiveness indicator
- In top half for labour cost adjustments

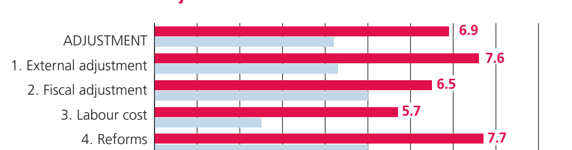
Weaknesses

- One of the worst employment records
- Low trend growth rate
- Demographic challenge due to low fertility rate
- Still one of the largest fiscal challenges
- Still room to improve on regulation

Fundamental Health



Adjustment



Detailed Scores

OVERALL RESULTS	ES Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	4.9	5.8	**15**
1. Growth potential	3.7	5.0	**17**
2. Competitiveness	5.0	6.2	**15**
3. Fiscal sustainability	5.7	6.2	**12**
4. Resilience	5.2	5.9	**14**
ADJUSTMENT	6.9	4.2	**3**
1. External adjustment	7.6	4.3	**3**
2. Fiscal adjustment	6.5	5.0	**4**
3. Labour costs	5.7	2.5	**5**
4. Reforms	7.7	5.0	**5**

ADJUSTMENT	ES Value	EZ17 Value	Score	Rank
			6.9	**3**
1. External adjustment			7.6	**3**
Change 2H07-2Q13				
1.1 Net exports in % points of GDP	12.6	3.2	7.3	**4**
1.2 Net exports relative to 2H07 exports	40.8	7.0	10.0	**1**
1.3 Rise in export ratio, % of GDP	7.0	4.4	5.4	**8**
2. Fiscal squeze: shift in primary balance			6.5	**4**
2.1 2009-2013 in % of GDP	6.6	3.3	7.8	**2**
2.2 in % of required shift to 2020	46.9	45.9	5.2	**8**
3. Unit labour costs, 2009-13			5.7	**5**
3.1 Real ULC 2009-2013, %	-7.3	-1.7	4.6	**7**
3.2 Nominal ULC 2009-2013, %	-6.8	2.9	6.8	**4**
4. Reform responsiveness, 2011-12	0.7	0.5	7.7	**5**

FUNDAMENTAL HEALTH 1. Growth potential	ES Value	EZ17 Value	Score	Rank
			3.7	**17**
1.1 Trend growth 2002-2010, in %			2.7	**17**
1.1.1 Rise in Gross value added	0.7	0.9	3.5	**14**
1.1.2 Deviation of GVA growth from norm	-0.8	-0.1	1.9	**17**
1.2 Human resources			3.8	**12**
1.2.1 Fertility rate 2009-2013 average	1.4	1.6	3.4	**17**
1.2.2 Integration of Immigrants (MIPEX, 2010)	62.7	54.9	6.9	**6**
1.2.3 Pisa Scores 2009	484.0	498.5	1.8	**16**
1.3 Employment			3.2	**18**
1.3.1 Employment rate 2002-2012, in %	60.8	64.0	3.0	**15**
1.3.2 Change in ER 2002-2012, per year, pcp	-0.3	0.2	2.5	**16**
1.3.3 Youth unemployment rate, 2002-2012, in %	29.6	18.2	2.5	**18**
1.3.4 Long-term unemployment 2002-2012, in %	4.6	4.0	4.9	**17**
1.4 Consumption rate			5.1	**12**
1.4.1 Total consumption, 2002-2012, % of GDP	76.9	77.9	6.5	**12**
1.4.2 Change in CR 2002-2012, per year, pcp	0.4	0.2	3.8	**18**

FUNDAMENTAL HEALTH 2. Competitiveness	ES Value	EZ17 Value	Score	Rank
			5.0	**15**
2.1 Export Ratio, % of GDP (2002-2012)	27.2	39.9	1.6	**16**
2.2 Rise in export ratio, 2002-2012, pcp	0.6	1.0	6.2	**12**
2.3 Labour costs			6.8	**6**
2.3.1 Real unit labour cost, change 2002-13 in %	-0.6	-0.1	9.1	**4**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.6	1.7	6.9	**9**
2.3.3 Hiring & firing practice 2013	3.3	3.4	4.3	**9**
2.4 Market regulations			5.6	**13**
2.4.1 Competition intensity (index)	5.5	5.5	5.8	**9**
2.4.2 Service markets (index)	2.1	2.4	5.5	**6**
2.4.3 Opening new business (days)	28.0	12.1	5.5	**17**

FUNDAMENTAL HEALTH 4. Resilience	ES Value	EZ17 Value	Score	Rank
			5.2	**14**
4.1 Debt redemptions 2014-16, % of GDP	35.7	25.7	1.4	**19**
4.2 Debt held abroad, % of GDP, 2013	32.1	49.8	6.4	**7**
4.3 Gross household savings rate, in %, 2012	10.4	13.2	6.0	**13**
4.4 Current account, % of GDP, 2013	1.4	2.3	6.4	**10**
4.5 Bank assets, % of GDP, 2013	320.0	332.6	6.9	**13**
4.6 Private sector debt, % of GDP, 2012	215.2	161.3	3.9	**13**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	ES Value	EZ17 Value	Score	Rank
			5.7	**12**
3.1 Government outlays, % of GDP (2002-2013)	42.0	48.5	8.2	**5**
3.2 Underlying fiscal balance 2013			6.3	**16**
3.2.1 Underlying fiscal balance (% of GDP)	-4.1	-1.5	5.3	**17**
3.2.2 Underlying primary fiscal balance (% of GDP)	-0.7	1.5	7.3	**16**
3.3 Debt ratio, % of GDP, Q1 2013	85.8	90.1	4.6	**13**
3.4 Sustainability gap 2014 -2020 (% of GDP)	7.5	3.9	3.5	**14**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

Sweden

Overall Assessment

A mature economy with still tremendous growth potential. Fiscally sustainable and resilient to shocks, Sweden's fundamental health is strong, similar to the Netherlands or Germany. Only in terms of competitiveness, Sweden is falling a bit behind the eurozone average.

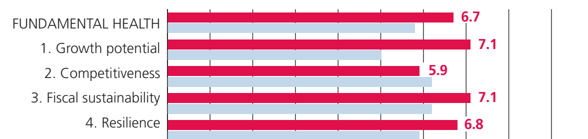
Strengths

- Excellent growth potential
- Comfortable fiscal position
- Makes excellent use of its human resources
- Strong current account position
- Thrifty households

Weaknesses

- Export performance slipping
- High private sector debt levels rising again
- Cumbersome hiring and firing practices
- Relatively high youth unemployment rate

Fundamental Health



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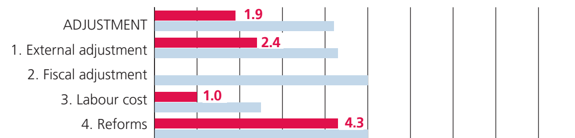


Detailed Scores

OVERALL RESULTS	SE Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	6.7	5.8	**6**
1. Growth potential	7.1	5.0	**2**
2. Competitiveness	5.9	6.2	**11**
3. Fiscal sustainability	7.1	6.2	**5**
4. Resilience	6.8	5.9	**5**
ADJUSTMENT	1.9	4.2	**20**
1. External adjustment	2.4	4.3	**19**
2. Fiscal adjustment	0.0	5.0	**20**
3. Labour costs	1.0	2.5	**20**
4. Reforms	4.3	5.0	**12**

ADJUSTMENT	SE Value	EZ17 Value	Score 1.9	Rank 20
1. External adjustment *Change 2H07-2Q13*			2.4	**19**
1.1 Net exports in % points of GDP	-1.0	3.2	2.9	**18**
1.2 Net exports relative to 2H07 exports	-1.9	7.0	2.2	**18**
1.3 Rise in export ratio, % of GDP	-1.9	4.4	2.2	**19**
2. Fiscal squeze: shift in primary balance			0.0	**20**
2.1 2009-2013 in % of GDP	-2.2	3.3	0.0	**20**
2.2 in % of required shift to 2020	0.0	45.9	0.0	**15**
3. Unit labour costs, 2009-13			1.0	**20**
3.1 Real ULC 2009-2013, %	-1.5	-1.7	1.6	**15**
3.2 Nominal ULC 2009-2013, %	12.6	2.9	0.5	**20**
4. Reform responsiveness, 2011-12	0.4	0.5	4.3	**12**

FUNDAMENTAL HEALTH — 1. Growth potential	SE Value	EZ17 Value	Score 7.1	Rank 2
1.1 Trend growth 2002-2010, in %			7.8	**4**
1.1.1 Rise in Gross value added	1.6	0.9	6.0	**6**
1.1.2 Deviation of GVA growth from norm	1.1	-0.1	9.5	**3**
1.2 Human resources			6.9	**2**
1.2.1 Fertility rate 2009-2013 average	1.9	1.6	7.3	**4**
1.2.2 Integration of Immigrants (MIPEX, 2010)	83.0	54.9	10.0	**1**
1.2.3 Pisa Scores 2009	495.3	498.5	3.2	**11**
1.3 Employment			6.8	**4**
1.3.1 Employment rate 2002-2012, in %	73.3	64.0	8.4	**2**
1.3.2 Change in ER 2002-2012, per year, pcp	0.0	0.2	4.5	**13**
1.3.3 Youth unemployment rate, 2002-2012, in %	20.5	18.2	5.5	**13**
1.3.4 Long-term unemployment 2002-2012, in %	1.2	4.0	8.7	**2**
1.4 Consumption rate			7.1	**6**
1.4.1 Total consumption, 2002-2012, % of GDP	74.7	77.9	7.7	**7**
1.4.2 Change in CR 2002-2012, per year, pcp	0.0	0.2	6.5	**6**

FUNDAMENTAL HEALTH — 2. Competitiveness	SE Value	EZ17 Value	Score 5.9	Rank 11
2.1 Export Ratio, % of GDP (2002-2012)	48.6	39.9	4.4	**12**
2.2 Rise in export ratio, 2002-2012, pcp	0.5	1.0	4.2	**17**
2.3 Labour costs			6.7	**7**
2.3.1 Real unit labour cost, change 2002-13 in %	-0.4	-0.1	7.8	**7**
2.3.2 Nominal unit labour cost, 2002-13 in %	1.2	1.7	8.1	**4**
2.3.3 Hiring & firing practice 2013	3.3	3.4	4.3	**9**
2.4 Market regulations			8.3	**3**
2.4.1 Competition intensity (index)	5.6	5.5	6.7	**7**
2.4.2 Service markets (index)	0.6	2.4	10.0	**1**
2.4.3 Opening new business (days)	16.0	12.1	8.2	**10**

FUNDAMENTAL HEALTH — 4. Resilience	SE Value	EZ17 Value	Score 6.8	Rank 5
4.1 Debt redemptions 2014-16, % of GDP	12.7	25.7	7.0	**4**
4.2 Debt held abroad, % of GDP, 2013	21.4	49.8	7.6	**2**
4.3 Gross household savings rate, in %, 2012	14.7	13.2	8.3	**5**
4.4 Current account, % of GDP, 2013	5.9	2.3	8.5	**4**
4.5 Bank assets, % of GDP, 2013	298.8	332.6	7.3	**10**
4.6 Private sector debt, % of GDP, 2012	256.5	161.3	2.0	**17**

FUNDAMENTAL HEALTH — 3. Fiscal sustainability	SE Value	EZ17 Value	Score 7.1	Rank 5
3.1 Government outlays, % of GDP (2002-2013)	53.0	48.5	2.7	**19**
3.2 Underlying fiscal balance 2013			9.1	**3**
3.2.1 Underlying fiscal balance (% of GDP)	0.5	-1.5	8.8	**2**
3.2.2 Underlying primary fiscal balance (% of GDP)	1.4	1.5	9.4	**4**
3.3 Debt ratio, % of GDP, Q1 2013	39.3	90.1	7.9	**3**
3.4 Sustainability gap 2014 -2020 (% of GDP)	0.8	3.9	8.6	**2**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

United Kingdom

Overall Assessment

A large mature economy, which benefits from a very flexible labour market, a very deregulated economy and London as a global financial centre and tax revenue generator. Key weakness remains the fiscal situation, which - despite progress - remains one of the worst in Europe. The adjustment effort is sizeable, but not as front-loaded as in the eurozone periphery.

Strengths

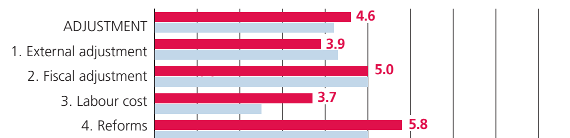
- A very deregulated labour, product and services market
- One of the highest fertility rates in Europe
- Long average maturity of public debt limits roll-over needs
- Good score on OECD reform responsiveness

Weaknesses

- Extremely high share of public and private consumption in GDP
- Very low savings rate for a mature economy
- London as financial centre makes UK vulnerable to financial crises
- Fiscal challenge the second largest after Ireland

Fundamental Health

Adjustment



Detailed Scores

OVERALL RESULTS	UK Score	EZ17 Score	Rank
FUNDAMENTAL HEALTH	5.3	5.8	**12**
1. Growth potential	5.3	5.0	**12**
2. Competitiveness	6.2	6.2	**9**
3. Fiscal sustainability	4.7	6.2	**17**
4. Resilience	5.0	5.9	**16**
ADJUSTMENT	4.6	4.2	**10**
1. External adjustment	3.9	4.3	**13**
2. Fiscal adjustment	5.0	5.0	**9**
3. Labour costs	3.7	2.5	**9**
4. Reforms	5.8	5.0	**8**

ADJUSTMENT	UK Value	EZ17 Value	Score 4.6	Rank 10
1. External adjustment *Change 2H07-2Q13*			3.9	**13**
1.1 Net exports in % points of GDP	2.1	3.2	3.9	**13**
1.2 Net exports relative to 2H07 exports	7.0	7.0	4.0	**12**
1.3 Rise in export ratio, % of GDP	2.7	4.4	3.8	**13**
2. Fiscal squeze: shift in primary balance			5.0	**9**
2.1 2009-2013 in % of GDP	4.6	3.3	6.0	**6**
2.2 in % of required shift to 2020	36.5	45.9	4.1	**11**
3. Unit labour costs, 2009-13			3.7	**9**
3.1 Real ULC 2009-2013, %	-1.6	-1.7	2.2	**12**
3.2 Nominal ULC 2009-2013, %	-3.9	2.9	5.1	**8**
4. Reform responsiveness, 2011-12	0.5	0.5	5.8	**8**

FUNDAMENTAL HEALTH 1. Growth potential	UK Value	EZ17 Value	Score 5.3	Rank 12
1.1 Trend growth 2002-2010, in %			5.0	**12**
1.1.1 Rise in Gross value added	0.9	0.9	4.0	**13**
1.1.2 Deviation of GVA growth from norm	0.3	-0.1	6.1	**10**
1.2 Human resources			6.2	**5**
1.2.1 Fertility rate 2009-2013 average	1.9	1.6	7.9	**3**
1.2.2 Integration of Immigrants (MIPEX, 2010)	56.6	54.9	5.4	**10**
1.2.3 Pisa Scores 2009	500.0	498.5	3.8	**7**
1.3 Employment			6.7	**5**
1.3.1 Employment rate 2002-2012, in %	70.9	64.0	7.3	**3**
1.3.2 Change in ER 2002-2012, per year, pcp	-0.1	0.2	3.9	**15**
1.3.3 Youth unemployment rate, 2002-2012, in %	15.4	18.2	7.2	**8**
1.3.4 Long-term unemployment 2002-2012, in %	1.6	4.0	8.2	**6**
1.4 Consumption rate			3.4	**18**
1.4.1 Total consumption, 2002-2012, % of GDP	85.9	77.9	2.1	**19**
1.4.2 Change in CR 2002-2012, per year, pcp	0.2	0.2	4.8	**12**

FUNDAMENTAL HEALTH 2. Competitiveness	UK Value	EZ17 Value	Score 6.2	Rank 9
2.1 Export Ratio, % of GDP (2002-2012)	28.2	39.9	2.9	**13**
2.2 Rise in export ratio, 2002-2012, pcp	0.6	1.0	6.3	**11**
2.3 Labour costs			6.3	**8**
2.3.1 Real unit labour cost, change 2002-13 in %	0.0	-0.1	5.6	**11**
2.3.2 Nominal unit labour cost, 2002-13 in %	2.3	1.7	4.8	**14**
2.3.3 Hiring & firing practice 2013	4.5	3.4	8.3	**2**
2.4 Market regulations			9.5	**1**
2.4.1 Competition intensity (index)	6.0	5.5	10.0	**1**
2.4.2 Service markets (index)	0.7	2.4	10.0	**1**
2.4.3 Opening new business (days)	13.0	12.1	8.6	**8**

FUNDAMENTAL HEALTH 3. Fiscal sustainability	UK Value	EZ17 Value	Score 4.7	Rank 17
3.1 Government outlays, % of GDP (2002-2013)	45.8	48.5	6.6	**7**
3.2 Underlying fiscal balance 2013			4.7	**19**
3.2.1 Underlying fiscal balance (% of GDP)	-5.7	-1.5	4.1	**19**
3.2.2 Underlying primary fiscal balance (% of GDP)	-2.7	1.5	5.3	**20**
3.3 Debt ratio, % of GDP, Q1 2013	88.1	90.1	4.4	**14**
3.4 Sustainability gap 2014 -2020 (% of GDP)	8.0	3.9	3.1	**16**

FUNDAMENTAL HEALTH 4. Resilience	UK Value	EZ17 Value	Score 5.0	Rank 16
4.1 Debt redemptions 2014-16, % of GDP	15.6	25.7	6.3	**7**
4.2 Debt held abroad, % of GDP, 2013	28.8	49.8	6.8	**5**
4.3 Gross household savings rate, in %, 2012	6.8	13.2	4.1	**16**
4.4 Current account, % of GDP, 2013	-4.3	2.3	3.7	**20**
4.5 Bank assets, % of GDP, 2013	468.4	332.6	4.2	**16**
4.6 Private sector debt, % of GDP, 2012	189.8	161.3	5.0	**11**

Notes: The light-blue shaded areas in the chart indicate the eurozone average for comparison. Category values are given for both the individual country and the eurozone average. Scores are from 10 (best possible) to 0 (worst possible). Ranks show the relative position among the 17 eurozone members and Poland, Sweden and the UK from 1 (best) to 20 (worst-rank). For an explanation of the variables, see the separate notes to all country tables on pages 82-83.

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