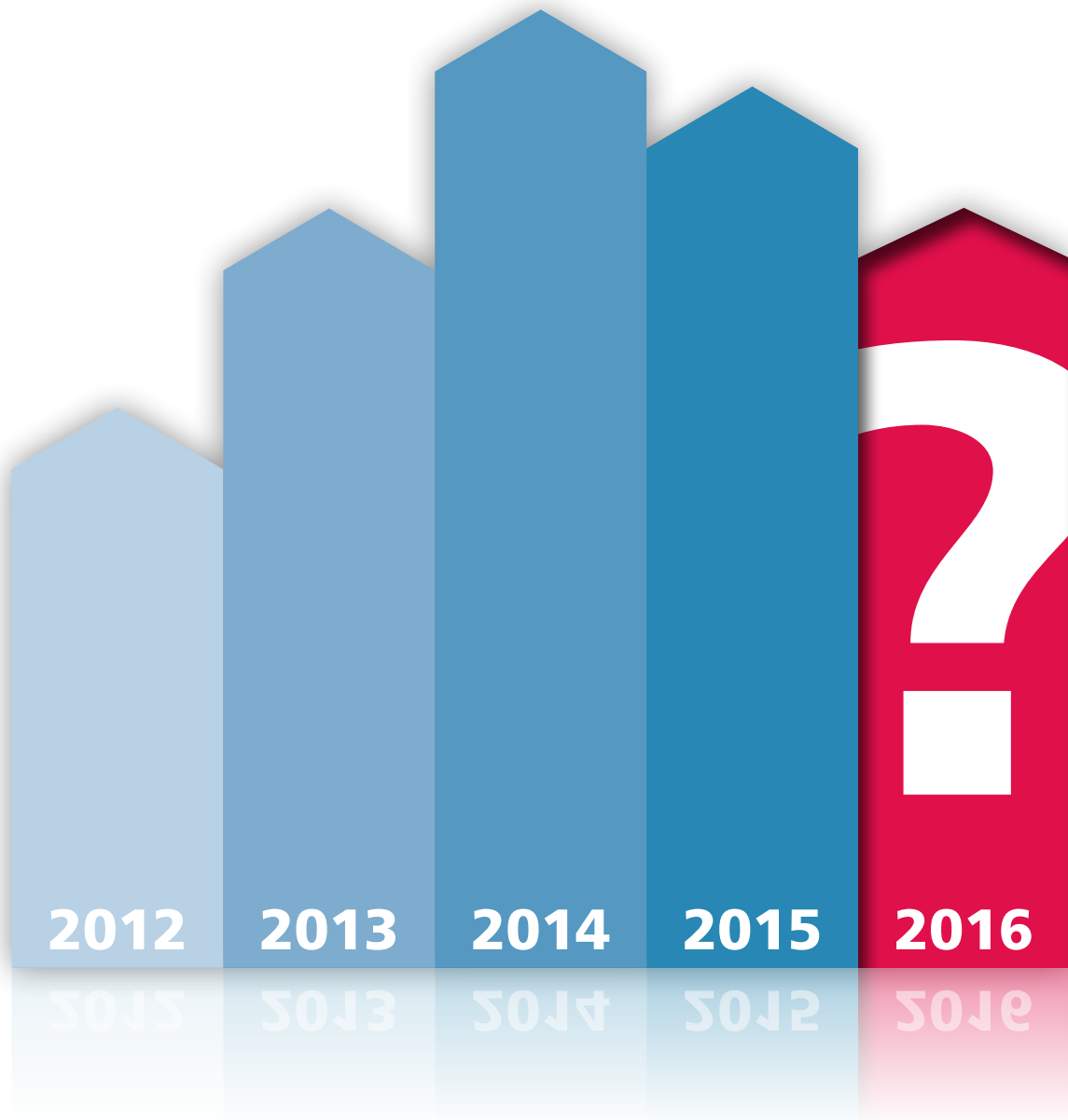


THE 2015
EURO PLUS MONITOR
MORE PROGRESS, NEW RISKS



Policy Brief

The 2015 Euro Plus Monitor More Progress, New Risks

By Holger Schmieding
Series editor: Paul Hofheinz



Holger Schmieding is chief economist of Berenberg, one of the leading privately owned banks in Europe, founded in 1590. Previously, he was an economist at the International Monetary Fund, head of research on central and eastern Europe at the Kiel Institute of World Economics and chief economist Europe of a major global investment bank.

The views expressed in this policy brief are those of the author alone and do not necessarily represent the views of the Lisbon Council, Berenberg or any of their associates.

The 2015 EURO PLUS MONITOR

MORE PROGRESS, NEW RISKS

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Highlights at a Glance

Reforms are paying off. Fiscal repair and structural reforms were difficult. But the bitter medicine has worked. The systemic euro crisis is history. Most reform countries at the periphery are reaping the rewards of their efforts. Thanks to serious labour market reforms and wage restraint, unemployment is falling rapidly.

Shifting risks. For the reform countries, the risks ahead are mostly political rather than economic. Last year, the *Euro Plus Monitor* warned that a major reform reversal could still undo much of the progress achieved so far. Greece unfortunately fell into that trap in 2015, succumbing to a deep new crisis instead of enjoying the gains from its previous adjustment efforts. Portugal and Poland beware.

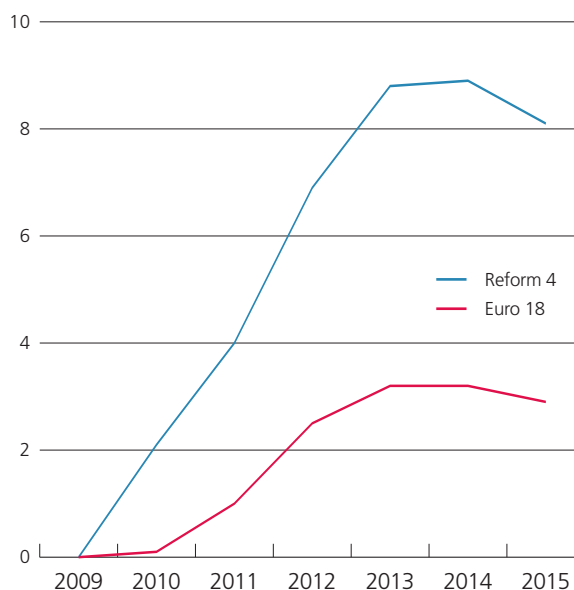
Tracking the progress. *The 2015 Euro Plus Monitor* examines the fundamental health and measures the adjustment progress of 18 euro members as well as Poland, Sweden and the United Kingdom. This year, we find a very uneven pattern with further progress in some countries such as Italy, a steady pace of adjustment for the eurozone as a whole and a major setback in Greece.

Moving beyond the pain. Almost all of the erstwhile crisis countries at the euro periphery slackened their adjustment efforts in 2015. For most of them, this is a sign of success. If fiscal policy is on a largely sustainable track already, no further tightening is needed near-term. A rapid rise in exports has created room for a rebound in imports.

Renzi does it. Italy's labour market reform of January 2015 has helped to put Italy on the right track. More needs to be done. But Italy is starting to feel the benefits.

Chart 1. Fiscal Repair: A Little Slippage

Cumulative change in underlying primary fiscal balance in percent of gross domestic product



Reform 4: Greece, Ireland, Portugal and Spain

Source: European Commission

Hope for France? France has finally started to address some of its serious structural problems. If France follows up with more serious labour market reforms, it may no longer be the “sick man of Europe” in a few years’ time. Unfortunately, that is a big “if.” Belgium and Finland also need to act soon and decisively. Otherwise, they could succumb to the French malaise over time.

Success breeds complacency. While still in good fundamental health, Sweden and Germany are showing signs of complacency. If Sweden does not adjust, it could end up in a Finnish-style crisis some five years from now.

Table 1. Adjustment Progress Indicator

Rank		Country	Total Score			External adjustment			Fiscal adjustment			Labour cost adj.			Reform drive		
2015	2014		2015	Change	2014	2015	Change	2014	2015	Change	2014	2015	Change	2014	2015	Change	2014
1	2	Ireland	7.7	-0.5	8.2	7.4	-1.0	8.4	6.6	-0.3	6.9	9.2	0.1	9.1	7.5	-1.0	8.5
2	1	Greece	7.6	-1.2	8.8	7.4	-0.2	7.5	8.5	-1.1	9.7	7.7	-0.2	7.9	6.9	-3.1	10.0
3	4	Portugal	6.5	-0.2	6.7	5.9	0.0	6.0	7.1	-0.8	7.9	5.6	0.4	5.2	7.3	-0.5	7.8
4	3	Spain	6.5	-0.4	6.9	7.0	0.2	6.8	6.3	-0.8	7.1	5.7	0.0	5.7	6.7	-1.2	7.9
5	7	Cyprus	6.0	0.1	6.0	4.8	-0.4	5.2	6.4	0.3	6.2	6.9	0.3	6.5	n.a.	n.a.	n.a.
6	5	Latvia	5.9	-0.5	6.4	9.1	0.2	9.0	3.5	-0.9	4.4	5.0	-0.8	5.9	n.a.	n.a.	n.a.
7	8	Slovakia	5.7	-0.1	5.8	6.3	0.2	6.1	6.3	-0.5	6.9	4.3	-0.3	4.6	5.6	0.1	5.5
8	6	Estonia	5.6	-0.4	6.0	7.9	0.3	7.6	2.3	0.6	1.7	5.2	-1.2	6.4	7.1	-1.2	8.3
9	9	Slovenia	4.7	0.0	4.7	6.8	0.2	6.5	4.3	-0.7	5.1	4.3	0.6	3.7	3.6	0.0	3.6
10	11	Italy	4.3	0.0	4.3	4.2	0.0	4.2	4.3	-0.8	5.1	2.9	-0.2	3.1	6.0	1.1	5.0
11	10	Poland	4.1	-0.3	4.4	4.8	0.4	4.3	5.5	-0.7	6.2	1.5	-0.1	1.6	4.8	-0.6	5.4
		Euro 18	4.0	0.0	4.0	4.3	0.3	4.0	4.0	-0.5	4.5	2.4	0.0	2.4	5.5	0.3	5.2
12	12	United Kingdom	3.9	-0.4	4.3	2.9	0.2	2.8	4.8	0.0	4.8	2.4	-1.2	3.6	5.6	-0.5	6.1
13	13	Netherlands	3.3	0.1	3.2	5.0	0.4	4.7	3.1	-0.9	4.0	2.2	0.2	1.9	3.0	0.6	2.4
14	14	Malta	3.2	-0.1	3.2	5.4	-0.8	6.2	2.2	0.2	2.0	1.8	0.4	1.5	n.a.	n.a.	n.a.
15	15	Luxembourg	3.0	0.0	3.1	4.8	-0.2	5.0	0.7	-0.4	1.1	4.8	-0.3	5.0	1.9	0.7	1.2
16	16	France	3.0	0.1	2.9	2.8	0.0	2.8	3.7	0.0	3.7	1.7	0.1	1.6	3.9	0.1	3.7
17	17	Austria	2.7	0.0	2.7	3.4	0.6	2.7	2.3	0.4	1.9	0.7	-0.4	1.1	4.4	-0.8	5.1
18	18	Germany	2.5	-0.1	2.6	3.5	0.3	3.2	3.1	-0.9	4.0	0.8	-0.1	0.9	2.8	0.4	2.4
19	20	Belgium	2.4	0.2	2.2	4.0	0.1	3.8	1.3	-0.1	1.4	2.2	0.4	1.8	2.0	0.3	1.8
20	19	Finland	2.2	0.0	2.2	1.5	0.1	1.3	0.0	-0.1	0.1	2.6	0.2	2.4	4.8	-0.3	5.1
21	21	Sweden	1.3	-0.4	1.7	2.1	0.1	2.0	0.0	0.0	0.0	0.8	0.2	0.7	2.4	-1.6	4.0

Table 2. Fundamental Health Indicator

Rank		Country	Total Score			Growth			Competitiveness			Fiscal sustainability			Resilience		
2015	2014		2015	Change	2014	2015	Change	2014	2015	Change	2014	2015	Change	2014	2015	Change	2014
1	1	Estonia	7.6	0.0	7.5	6.7	-0.1	6.8	6.1	-0.1	6.2	9.4	0.2	9.2	8.1	0.1	8.0
2	3	Germany	7.5	0.1	7.4	6.2	0.1	6.0	8.2	0.1	8.2	7.8	0.1	7.7	7.8	0.2	7.6
3	2	Luxembourg	7.5	0.0	7.5	7.0	0.0	7.0	7.6	0.2	7.4	9.4	-0.1	9.5	5.8	-0.1	5.9
4	4	Netherlands	6.9	0.0	6.9	6.9	-0.2	7.1	8.1	0.2	7.9	6.4	-0.3	6.6	6.3	0.2	6.1
5	5	Slovakia	6.8	0.0	6.9	5.8	-0.1	5.8	7.3	0.0	7.3	7.2	-0.1	7.3	7.1	0.1	7.0
6	7	Malta	6.8	0.1	6.6	7.0	0.1	6.9	7.4	-0.2	7.5	6.8	0.3	6.5	6.0	0.3	5.7
7	6	Poland	6.7	0.0	6.7	6.0	0.0	6.0	7.5	0.0	7.4	6.4	-0.1	6.5	6.8	0.1	6.7
8	8	Latvia	6.5	0.1	6.4	5.9	0.1	5.8	5.4	0.1	5.3	8.0	-0.1	8.1	6.6	0.3	6.4
9	11	Ireland	6.3	0.2	6.1	6.8	0.0	6.8	7.9	0.5	7.4	6.7	0.3	6.4	3.9	-0.1	3.9
10	9	Sweden	6.3	0.0	6.3	6.9	0.0	6.9	4.2	0.0	4.1	6.8	0.1	6.7	7.4	0.0	7.4
11	10	Slovenia	6.1	0.0	6.2	5.8	0.1	5.7	6.1	0.2	5.9	5.5	-0.2	5.7	7.2	-0.2	7.3
		Euro 18	5.8	0.0	5.8	4.8	0.0	4.8	6.2	0.1	6.1	6.2	-0.1	6.3	6.1	0.1	6.0
12	12	Austria	5.6	0.0	5.6	5.9	-0.1	6.0	4.7	-0.1	4.8	5.6	0.2	5.4	6.4	0.1	6.3
13	13	United Kingdom	5.5	0.0	5.5	5.1	0.0	5.0	6.2	-0.3	6.5	5.6	0.2	5.4	5.2	0.3	5.0
14	14	Belgium	5.3	0.0	5.3	5.1	-0.1	5.2	6.9	0.3	6.6	4.0	-0.1	4.1	5.2	0.0	5.2
15	15	Spain	5.0	-0.1	5.1	3.4	-0.2	3.6	5.2	-0.1	5.3	6.0	-0.3	6.3	5.3	0.2	5.1
16	17	France	4.8	0.0	4.8	4.9	0.0	4.9	4.9	0.2	4.7	4.3	0.0	4.3	5.4	0.0	5.4
17	16	Finland	4.7	-0.2	4.9	5.3	-0.1	5.4	2.4	-0.1	2.5	5.5	-0.5	6.0	5.5	0.0	5.5
18	18	Italy	4.5	0.0	4.5	3.1	-0.2	3.3	4.1	0.2	3.9	5.3	-0.2	5.4	5.6	0.0	5.5
19	19	Portugal	4.5	0.0	4.5	3.3	-0.2	3.5	5.8	0.0	5.8	4.7	-0.2	4.9	4.1	0.3	3.8
20	20	Cyprus	4.2	0.1	4.1	3.0	-0.1	3.1	4.1	0.2	3.9	7.1	0.2	6.9	2.7	0.1	2.7
21	21	Greece	3.9	-0.2	4.1	2.0	-0.3	2.3	4.9	0.0	4.9	4.0	-1.1	5.1	4.7	0.6	4.2

Scores: For the scores, 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 an overall score for each country, separately for the Adjustment Progress Indicator and the Fundamental Health Indicator.

Change refers to the change in score relative to last year. Note that our scores and ranks for 2014 can differ slightly for some countries from those published in *The 2014 Euro Plus Monitor* due to subsequent revisions of back data for labour costs, net exports and some other parameters.

Ranks: Based on the scores, we calculate the relative ranking of each country, with the No. 1 rank to the country with the highest and the No. 21 rank to the one with the lowest score.

I. Key Findings

Is Europe squandering some of its hard-won gains? A year ago, the *Euro Plus Monitor* found massive progress across all erstwhile crisis countries of the eurozone periphery, putting them on track to enjoy faster growth in the future than the countries that had been under less intense market pressure during the euro crisis. This time, the in-depth analysis of adjustment progress in 21 European countries yields a much more nuanced picture. **The 2015 Euro Plus Monitor** shows a clear slackening of adjustment efforts among the previous reform leaders in Europe. However, some of the erstwhile laggards are starting to shape up. **Italy** and some other countries including **France** are moving slowly in the right direction. After **Ireland** and **Spain** some two years ago, Italy has now become the turnaround country of the year judging by its recent improvements in business confidence and employment. If France follows up its initial steps with some more thorough reforms, it may no longer be the “sick man of Europe” in a few years’ time.

The slackening of adjustment efforts in the reform countries that once were the focus of the euro-confidence crisis has two very different reasons. To some extent, reform countries such as Ireland and Spain have started to reap the rewards of their efforts. After a brutal front-loaded adjustment which the crisis had forced upon them, they no longer need to tighten their belts any further. Instead, they can afford to return to a neutral or even slightly expansionary fiscal policy and let imports rise slightly faster than exports for a while. With unemployment falling rapidly, albeit from still very high levels, they are beginning to savour the sweet taste of success. If a country has already adjusted a lot in the past, it no longer has to be

a leader in new adjustment efforts. That **Spain**, **Ireland** and **Portugal** have staged clean exits from their international support programmes exemplifies their success. It may also have made it easier for them to relax the reins somewhat in 2015.

The bitter but necessary medicine of macroeconomic repair and structural reforms, which also cured the **United Kingdom** in the early 1980s, **Sweden** and **Denmark** in the early 1990s and **Germany** after 2003, is now working in many countries at the eurozone periphery as well.

In the case of **Greece**, however, we find a policy shift that threatens to undo hard-won gains. In the first seven months of 2015, Greece sowed uncertainty and chased much-needed capital out of the country through actual or potential reform reversals at an alarming speed. That was the opposite of what the country needed.

Even more so than last year, the risk of reform reversals looms large. As we warned in *The 2014 Euro Plus Monitor*, preventing such reversals is the key challenge for those countries that have successfully reformed themselves during the euro confidence crisis. The risk of serious reform reversals seems to be particularly pronounced in **Portugal**, and outside of the eurozone, in **Poland**.

In the case of **France** and **Finland**, the adjustment still has a long way to go before these countries could allow themselves to slacken their efforts and focus on simply preventing policy reversals instead. **Belgium** and **Austria** are also in serious need of fundamental reforms. While Belgium scaled up its adjustment efforts a little in 2015, Austria and Finland did not.

'We detect a slower pace of adjustment among the reform leaders but more progress elsewhere.'

Chart 2. Adjustment Progress and Fundamental Health

Twenty-one European countries ranked by the Adjustment Progress Indicator



See notes under Table 2 on page 6.

Source: Berenberg

'How healthy are the European economies – and how fast are they adjusting?'

In *The 2015 Euro Plus Monitor*, produced by Berenberg and the Lisbon Council, we answer two separate questions. First, we ask whether the 21 European economies surveyed have risen to the challenge of the recent crisis. Whatever their starting situation, are they reforming themselves with visible results or are they failing to adjust? We examine four key aspects of adjustment: 1) change in the fiscal position, 2) swing in the external accounts, 3) change in unit labour costs, and 4) supply-side reforms. We aggregate the results into an **Adjustment Progress Indicator**, which measures the speed of progress that individual countries are making.

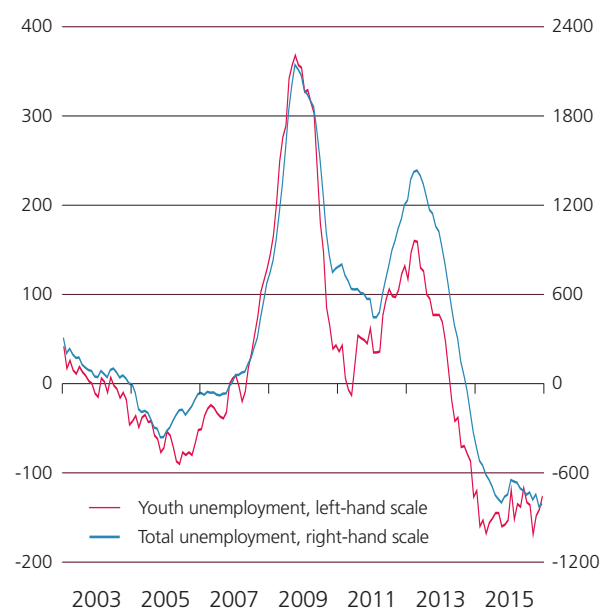
Second, we assess the fundamental economic health of the countries in our survey on four long-term criteria: 1) growth potential, 2) competitiveness, 3) fiscal sustainability, and 4) resilience to financial shocks. We aggregate these results into a **Fundamental Health Indicator**, which measures the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

The 2015 Euro Plus Monitor is the fifth edition of this annual survey which covers 18 members of the **eurozone** as well as three key non-eurozone economies – **Poland, Sweden** and the **United Kingdom**.

Four years ago, we found “progress amid the turmoil,” as the sub-title of *The 2011 Euro Plus Monitor* suggested.¹ Under the pressure of extreme

Chart 3. Back to Work – Unemployment is Falling

Year-on-year change in the number of unemployed in Spain, Greece, Portugal and Ireland



Source: Eurostat

market turbulence, the countries hit hardest by the euro crisis had seriously started to correct their imbalances. Two years, we outlined the way “from pain to gain,” suggesting that the reform countries could finally leave the harsh adjustment crisis and start to reap the rewards of their efforts in 2014.² Last year, we had analysed the efforts of “leaders and laggards” on the reform path, noting major improvements in all erstwhile crisis countries but a lack of progress in **France** and **Italy** as well as in **Austria** and **Sweden**.³

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 and Ann Mettler, *The 2013 Euro Plus Monitor: From Pain to Gain* (London/Brussels: Berenberg/Lisbon Council, 03 December 2013).

3. Op. cit.

'Tough love is working. Conditional support for weaker euro members is showing results.'

This year, the main findings are:

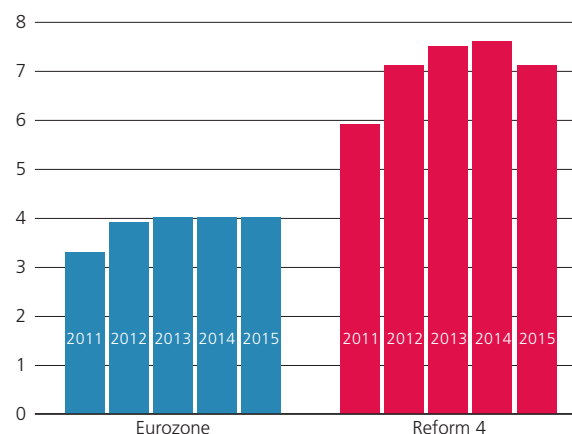
1. Tough love is working. Since 2010, the **eurozone** has offered its weaker members a deal: we protect you against market turbulence and help to finance your budget if you slash your fiscal deficit and raise your growth potential through serious structural reforms. By and large, the approach is paying off.
2. After surging to record levels, unemployment has come down noticeably in the reform countries since spring 2013 already (see Chart 3 on page 9). Those countries that stay the course could be in the early stages of a long-term surge in employment and incomes comparable to the one which started in **Germany** two years after its 2004 labour market reforms.
3. Last year, we warned about mounting political risks. The pain of adjustment and – in some cases – old or new corruption scandals caused a populist backlash against some of the mainstream political parties that had pushed through the reforms. We explained that any country giving in to the temptation of reform reversal might end up in a new crisis. Unfortunately, that risk has materialised with a vengeance in **Greece** (see the Special Focus on Greece on page 40).
4. Despite serious trouble in Greece, our overall results for the **eurozone** remain positive. Due to the adjustment efforts of the periphery in the last five years 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 with impressive vigour, as shown by their high rankings in the Adjustment Progress Indicator. See Tables 1 and 2 on page 6 and for a more detailed summary.

5. After four years of quickening progress, the pace of adjustment slowed down slightly across much of the **eurozone** periphery (see chart 4 below). However, the aggregate score for adjustment progress for the eurozone as a whole stayed unchanged due to small gains for **France**, **Belgium**, the **Netherlands** and **Cyprus**. As in the last four years, the aggregate score for the eurozone is held back by countries such as **Germany** which have only a limited need to adjust and have indeed done very little to further improve their outlook.
6. In *The 2011 Euro Plus Monitor*, we warned that “alarm bells should be ringing for **France**.” Four years later, we finally find slight progress

Chart 4. The Pace of Adjustment

Adjustment Progress Indicator 2011 – 2015 for the eurozone and for Spain, Greece, Ireland and Portugal combined. Scale 0 (worst) to 10 (best)



Reform 4: Greece, Ireland, Portugal and Spain

Source: Berenberg

'Italy is on a promising track. This partly reflects the sweeping labour market reform.'

in France on most counts including some structural reforms and more determined efforts to rein in government spending. Nonetheless, the challenges for France remain daunting. The country remains in the bottom third of the Adjustment Progress Indicator (No. 16) and the Fundamental Health Indicator (No. 16). It is still the only major European economy which is beset by serious health problems and is not yet tackling them energetically enough. France still has one of the most bloated shares of public spending in GDP among the countries surveyed and suffers from a pronounced lack of competitiveness according to the fundamental health check (see Chapter III which begins on page 33 for more).

7. Two other countries show traits of the French malaise. **Finland** and **Belgium** also score below average for both fundamental health and adjustment progress. Their results for adjustment progress this year (with Belgium at No. 19 and Finland at No. 20) are particularly weak. Of course, the score for Finland may have been affected by the Putin shock of 2014, as Finland is more exposed to Russian risks and the resulting fall in exports to Russia than many other countries in the sample. Still, the below-average reading for longer-term fundamental health for Finland and Belgium indicates that their problems go far beyond a temporary external shock.
8. **Italy** is on a promising track. With a score of 4.3, it has moved to No. 10 in the adjustment progress ranking, up from No. 11 last year. Its score is above the eurozone average of 4.0. This partly reflects the sweeping labour market reform that Prime Minister Matteo Renzi pushed through parliament in January 2015. The experience of other European countries such as the United Kingdom under Prime Minister Margaret Thatcher in the 1980s or Germany under Chancellor Gerhard Schröder in 2004 shows that labour market reform is one of the major ingredients to turn around an ossified country. Of course, Italy's high debt burden still makes it vulnerable to potential bouts of market anxiety. Also, the fiscal stimulus which Italy granted itself in 2015 has prevented a significant rise in Italy's score.
9. **Germany** continues to enjoy the fruits of its post-2003 "Agenda 2010" reforms. In terms of fundamental health, it has risen one notch to the No. 2 position behind **Estonia** (No. 1) and ahead of **Luxembourg** (No. 3). However, Germany is showing clear signs of complacency. It is doing very little to strengthen its position further. Instead, it stays close to the bottom of the adjustment progress ranking (No. 18) with a further slight drop in its score to 2.5, down from 2.6 last year. In 2014, the rolling back of some earlier reforms had weighed on the German result. This year, Germany's score for fiscal adjustment worsened as the country granted itself a fiscal stimulus. Fortunately, Germany can easily afford such a stimulus for a while, including extra spending on refugees.
10. The **eurozone** as a whole did not improve its overall health during the last year. The aggregate score in the Fundamental Health Indicator stayed unchanged at 5.8 in 2015 on a scale of 0 to 10. Significant declines in **Greece** (No. 21) and **Finland** (No. 17) in the ranking for fundamental health, and marginal declines in some other countries, were offset by modest gains in **Ireland** (No. 9), **Germany** (No. 2), **Malta** (No. 6), **Latvia** (No. 8) and **Cyprus** (No. 20). For Ireland, adjustment progress

'Hardly any other country has results closer to the eurozone average than the United Kingdom.'

shows up in a significant improvement in its competitiveness score in the Fundamental Health Indicator.

11. Judging by its domestic debate, the **United Kingdom** sees itself as a place apart, different and aloof from the crisis-stricken eurozone. Our analysis does 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 stays No. 13 with a score of 5.5, somewhat below the eurozone average of 5.8. In terms of microeconomics, common European Union regulations still give the UK sufficient room to set its own policies and shine despite the occasional gripes about meddling from Brussels. Britain gets top marks for its microeconomics, notably for its growth-friendly rules in product, services and labour markets. The UK's problems lie in the macroeconomic sphere, especially on the fiscal side, upon which Brussels has virtually no influence at all. With a 5.6 score for fiscal sustainability, the UK faces bigger challenges than the eurozone (with an overall 6.2 average score). In terms of adjustment progress, the UK score slipped to 3.9 this year from 4.3 last year, largely because of the challenge which the stronger sterling exchange rate poses for competitiveness. Of course, that may only be a temporary issue. In our ranking for adjustment progress, the UK stays at No. 12.
12. **Sweden** is on the wrong track even if it is still far away from the danger zone. With an unchanged score of 6.3 for fundamental health, it still exceeds the eurozone average of 5.8, despite falling to the No. 10 position, down from No. 9. However, on fundamental health Sweden (No. 10) is far behind **Germany** (No. 2) and the **Netherlands** (No. 4). More importantly, Sweden stays at the bottom of the adjustment progress league (No. 21) due to a lack of pro-growth reforms. The Swedish economy is still performing much better than **Finland** (No. 20) which has fallen from No. 19 to a more dismal position No. 20, while its fundamental health has deteriorated to No. 17, down from No. 16. For Sweden, the current economic crisis in Finland should serve as a warning. Over time, a lack of adjustment progress can have dire consequences for countries whose fundamental health is not exactly stellar any more.
13. The same finding applies in muted form to **Austria**. The Alpine country scores modestly below average for fundamental health (No. 12) but falls far short of the average on adjustment progress (No. 17). Austria is starting to develop a potentially serious competitiveness problem and would need significant structural reforms to increase its flexibility and deal with the fiscal consequences of an aging population.
14. **Poland** continues to do fairly well, with scores above average for both its fundamental health and its recent adjustment progress. However, the trend is no longer Poland's friend. A pre-election fiscal stimulus has cast a cloud over the country's fiscal outlook, and Poland has slipped to No. 11, down from No. 10, in the ranking for adjustment progress, and to No. 7, down from No. 6, in the ranking for fundamental health. Note that the plans and first actions of Poland's just elected new government to roll back an increase in the retirement age, undo some other reforms and raise social spending are not yet included in the analysis. Judging by what we know about

'The recovery in domestic demand and rising employment are the sweet taste of success.'

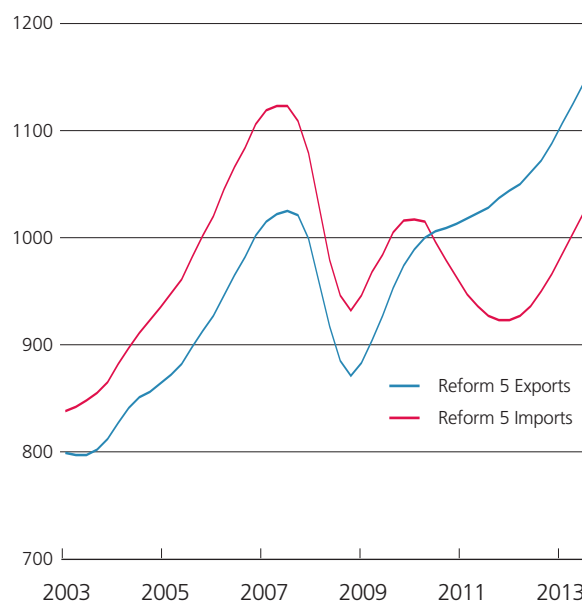
these plans so far, they might push Poland significantly lower in the adjustment ranking and ultimately the fundamental health rankings in the future.

15. *The 2015 Euro Plus Monitor* shows that external imbalances have diminished and that wage pressures are converging within the **eurozone**. As part and parcel of this adjustment progress, **Ireland, Italy, Portugal** and **Spain** have managed to turn major current account deficits into small surpluses. In this respect, they are no longer living beyond their means. More than anything else, this shows that serious adjustments have happened and continue to happen within the confines of the monetary union. This result, which we described in the first four editions of the *Euro Plus Monitor*, is seen clearly again in the 2015 edition. The rapid rise in exports creates room for a rebound in imports while maintaining a surplus in net exports (see chart 5 at right). Running an external surplus helps these countries to rebuild credibility on global bond markets. This recovery in domestic demand and imports combined with a rise in employment is the sweet taste of success.

16. Following serious repair in 2010-2013, most countries can afford the switch to a roughly neutral fiscal stance – or even a small stimulus as in the case of Germany. But except for countries with excellent fundamental health, they can only do so if they deliver serious **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

Chart 5. Exports Up, Imports Rebound

Real exports and imports of goods and services of the Reform 5 countries in billions of euros



Chain linked volumes (2010), four-quarter sums, in euro billions. Sum for reform-5 countries: Italy, Spain, Greece, Portugal and Ireland

Sources: Eurostat, National Statistical Offices, Berenberg

compression of demand through even higher taxes. With its labour market reform of early 2015 and its promise to cut corporate taxes in the future, Italy seems to be heeding this advice much more than France.

17. Despite serious progress in the last five years, the situation remains fragile. At the eurozone periphery, the major task is to stay the course and prevent reform reversals and Greek-style upsets. **Portugal** and **Poland** beware.

II. Adjustment Progress Indicator

II.1 Overall Results

The euro confidence crisis forced a brutal front-loaded adjustment on the economies at the southern and western periphery of the eurozone. The reform countries had to correct past excesses in public and private spending, governments and households had to curtail what they consume relative to what they produce and earn. The medicine was bitter. But by and large, it has cured the malaise.

The **Adjustment Progress Indicator** (Table 1 on page 6) tracks the progress countries have made on the four most important measures of short- to medium-term 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 as well as cyclical and one-off 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 long 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 2015 Euro Plus Monitor**, we first calculate these four sub-indicators for each country on a scale of 0 (worst) to 10 (best). We then aggregate them to assign an overall Adjustment Progress Indicator score. We then calculate the relative ranking of each country, with the No. 1 rank to the country with the highest and the No. 21 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 were meant to address.

The five peripheral countries that have received some support from European facilities (bilateral loans, European Financial Stability Forum and European Stability Mechanism credits), often topped up by the International Monetary Fund, are again the star performers this year in the adjustment ranking. This contradicts the occasional assertion that such support could tempt the recipients to slow down their adjustment. We find no such “moral hazard.” Indeed, the opposite is true: **Greece, Ireland, Portugal, Spain and Cyprus** – that is the five countries that had to ask for support – have adjusted faster than any other country in the sample. They had to do it. And they did it. This confirms the key results of the analysis in previous years.

'The five peripheral countries that needed help are the star performers in the adjustment league.'

But in one key respect, the 2015 results differ from those of previous years. We detect a clear slackening of adjustment efforts in the four countries that had fallen into crisis first: **Greece, Ireland, Portugal** and **Spain**. Of the top five performers, only latecomer **Cyprus** raised its score in the adjustment ranking this year. For Ireland, Spain and to a lesser extent Portugal, the drop in the score is part of the return to a more normal life after the end of the crisis. Having delivered serious fiscal repair and pro-growth reforms, they no longer need to adjust as rapidly as before. Having compressed domestic demands and imports drastically during the crisis, they can afford to relax the fiscal reins slightly and let imports rise faster than exports.

This is not the case for **Greece**, though. Greece led the adjustment ranking in the last four editions of this study. This time, its score for adjustment progress falls sharply by 1.2 points. This is the biggest single drop in the score we have found in all five editions so far. By sowing uncertainty and chasing capital out of the country in record amounts between late 2014 and July 2015, Greece weakened its economic and fiscal position dramatically (see Special Focus on Greece on page 40). That Greece still gets a No. 2 place in our overall adjustment ranking has only one reason: in the ranking, we measure the aggregate progress since 2010. Greece had worked hard to improve in previous years. So far, the Syriza shock has undone only part of that progress.

Because of the Greek reversal, **Ireland** moves to the No. 1 position in the Adjustment Progress Indicator, up from the No. 2 in 2014. **Spain**

(No. 4 after No. 3 last year) switches places with **Portugal** (No. 3 after No. 4 in 2014). That Spain's score falls back by 0.4 points is largely the result of the pre-election fiscal stimulus which the country granted itself this year and an absence of further major pro-growth structural reforms. Fortunately, the rapid decline in Spanish unemployment and the strong rates of GDP growth with an average annualised rate of 3.6% in the first three quarters of 2015 suggest that Spain can afford this. The reforms put in place in previous years are working.

A low score on the Adjustment Progress Indicator can mean two different things. On the positive side, it can signal that countries do not adjust much because they do not need to. This is the case with **Luxembourg** (No. 15), **Germany** (No. 18) 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. 4 slots, respectively. This indicator will be discussed in the next section, which begins on page 33.

To some extent, 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. Their above-average results in the overall Fundamental Health Indicator show that they can afford a relatively relaxed fiscal stance and an above-average rise in real unit labour costs. They also have a less pronounced need for immediate structural reforms than countries with lower scores.

On the negative side, a low score in the Adjustment Progress Indicator can be a harbinger of trouble

'Sweden stays at the bottom of the adjustment league due a lack of structural reforms.'

to come for countries that are in urgent need of reform as suggested by a low score in our Fundamental Health Indicator. In the last few years, **France** exhibited the worst combination of hardly any adjustment progress despite its rather shaky long-term fundamentals. This time, we find a little progress in France on most counts. For example, France tightened its fiscal policy slightly in 2015 against the trend prevailing elsewhere. While that did not suffice to improve its fiscal position very much, France still rises in the relative ranking for fiscal adjustment as other countries fall back. France started the inevitable process of fiscal repair and pro-growth reforms late. Hence it needs austerity when others are mostly done with it or can afford to grant themselves a small fiscal stimulus instead.

After a significant gain last year, **Slovenia** (No. 9) maintained a satisfactory pace of adjustment in 2015 with a score of 4.7, well above the eurozone average of 4.0. Having managed to escape troika scrutiny, Slovenia has nonetheless embarked on an impressive course of adjustment and reform. The once sluggish pace of change has quickened. However, the pace remains well below that seen in troika-supervised economies in previous years. While the external adjustment is proceeding well, the fiscal adjustment falls short of what Slovenia needs to make its fiscal position sustainable.

Of the three non-euro countries in our sample, **Poland** (No. 11, down from No. 10 last year) has slackened its adjustment efforts slightly, falling back to a score of 4.1 that is only marginally above the eurozone average of 4.0. Note that our analysis does not yet include the reform reversals planned or announced by Poland's newly elected government. The reversal of a pension reform and more government spending could potentially hurt Poland's fiscal sustainability and hence its position in our rankings noticeably.

Sweden (No. 21) stays at the bottom position of the Adjustment Progress Indicator with a further drop in its score largely because it has fallen behind on pro-growth structural reforms.

The **United Kingdom** (No. 12 in 2014 and 2015) has fallen in its score for adjustment progress from 4.3 in 2014 to 3.9 in 2015. This is the second significant aggregate-score slippage for the UK in a row. This time, we see two major reasons for the lower outcome. First, in election year 2015, the UK slowed down the pace of structural reforms. Second, the rise in the sterling exchange rate has raised nominal labour costs in the UK relative to its competitors in the eurozone. This affects one of the various components that go into the assessment of labour cost adjustment. The overall UK score for adjustment progress is now marginally below the eurozone average, down from a position slightly above.

'All in all, external adjustment continues at a satisfactory pace.'

II.2 External Adjustment

Table 3. External Adjustment 2007-2015

Rank		Change in net exports 2H 2007 - 3Q 2015										Rise in export ratio as a percent of GDP			
Rank				Relative to GDP						Relative to starting level			2H 2007 - 3Q 2015		
2015	2014	Country	Score	Change	Score	Change	Percent	Score	Change	Percent	Score	Change	Percent	Score	Change
1	1	Latvia	9.1	0.2	9.5	-0.1	17.2	9.0	-0.1	40.3	10.0	0.0	15.7	8.4	0.6
2	3	Estonia	7.9	0.3	6.8	0.5	12.5	7.4	0.5	20.2	6.2	0.5	25.2	10.0	0.0
3	4	Greece	7.4	-0.2	8.8	0.1	13.3	7.7	0.2	56.8	10.0	0.0	5.3	4.4	-0.7
4	2	Ireland	7.4	-1.0	6.1	-1.5	12.2	7.3	-1.7	13.2	4.8	-1.3	27.6	10.0	0.0
5	5	Spain	7.0	0.2	8.1	0.2	9.7	6.4	0.1	37.6	9.7	0.3	6.7	5.0	0.4
6	6	Slovenia	6.8	0.2	6.7	0.2	12.5	7.4	0.2	19.1	6.0	0.2	11.7	6.9	0.3
7	8	Slovakia	6.3	0.2	5.1	-0.5	8.2	5.9	-0.6	10.2	4.2	-0.5	16.9	8.8	1.7
8	9	Portugal	5.9	0.0	5.7	-0.5	6.0	5.2	-0.3	20.0	6.2	-0.6	10.4	6.4	0.9
9	7	Malta	5.4	-0.8	4.3	-0.6	6.5	5.4	-0.8	5.1	3.2	-0.4	14.0	7.8	-1.1
10	12	Netherlands	5.0	0.4	3.6	0.0	2.9	4.1	0.0	4.1	3.0	0.0	14.4	7.9	1.0
11	10	Cyprus	4.8	-0.4	5.9	-1.2	8.9	6.2	-1.2	17.0	5.6	-1.2	0.5	2.6	1.2
12	11	Luxembourg	4.8	-0.2	2.1	-0.8	-2.2	2.3	-1.1	-1.2	2.0	-0.4	21.9	10.0	0.9
13	13	Poland	4.8	0.4	4.7	0.3	4.7	4.7	0.2	11.9	4.6	0.4	6.6	5.0	0.8
		Euro 18	4.3	0.3	3.9	0.0	2.8	4.1	0.0	7.3	3.7	0.0	7.1	5.1	0.8
14	14	Italy	4.2	0.0	4.4	-0.3	3.2	4.2	-0.2	11.9	4.6	-0.5	3.2	3.7	0.5
15	15	Belgium	4.0	0.1	2.6	0.0	-0.1	3.1	0.0	-0.1	2.2	0.0	11.2	6.7	0.4
16	16	Germany	3.5	0.3	2.8	0.2	0.4	3.2	0.1	0.9	2.4	0.2	6.3	4.8	0.4
17	19	Austria	3.4	0.6	3.2	0.5	1.4	3.6	0.5	2.8	2.8	0.5	3.4	3.7	0.9
18	18	United Kingdom	2.9	0.2	3.0	0.0	0.7	3.4	0.0	2.6	2.7	0.0	0.8	2.7	0.5
19	17	France	2.8	0.0	2.4	-0.2	-0.5	2.9	-0.2	-1.9	1.8	-0.3	3.5	3.8	0.6
20	20	Sweden	2.1	0.1	1.8	0.0	-2.3	2.3	0.0	-4.8	1.2	0.0	0.8	2.8	0.2
21	21	Finland	1.5	0.1	1.3	0.2	-3.3	2.0	0.1	-7.9	0.6	0.2	-1.7	1.8	0.0

Ranks, scores and score changes for external adjustment indicator and sub-indicators. Values: (1) average of Q2 and Q3 2015 over H2 2007 change of net exports as a percent of GDP, (2) as a percent of the starting level and (3) rise in the export ratio in percentage points of GDP. For further explanations see notes under Table 2 on page 6. For Cyprus, Estonia, Ireland, Luxembourg and Malta, the scores are based on adjustment up to Q2 2015 as Q3 2015 data are not yet available, for other countries, we compare the Q2 and Q3 2015 average to the 2H 2007 base period.

'The eurozone has improved its position largely because the reform countries have shaped up.'

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 gross domestic product. 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 the second half of 2007. For *The 2015 Euro Plus Monitor*, we can add one extra year of data to the previous analysis.

The overall results confirm the pattern we already detected in the last four years. The eurozone as a whole has improved its external position largely because the crisis countries have shaped up. All economies that were running excessive external deficits until 2007 (or 2009) have turned their external balance around convincingly. **Latvia** (No. 1) maintains its position as the best of the 21 countries in our sample by a wide margin, well ahead of **Estonia** (at No. 2, up from No. 3). A significant rebound in imports pushes **Ireland** to No. 4, down from No. 2 last year, allowing **Greece** (at No. 3 after finishing at No. 4 in 2014) to rise by one position despite a fall in the Greek score. **Spain** (No. 5 again) and **Portugal** (at No. 8, up from No. 9 last year) are among the top eight performers.⁴ While the **eurozone** as a whole improved its overall position slightly with a rise in its score to 4.3, up from 4.0 last year, **Italy** remains stuck at No. 14 with an unchanged score of 4.2.

All in all, the external adjustment continues at a satisfactory pace. But the pace is no longer quickening very much. While most of the reform countries continue to raise their exports rapidly, import demand is recovering as well, roughly in line or even ahead of the rebound in overall GDP. We view this as a sign of success: most of the reform countries have successfully concluded their external adjustment. The exception is **Greece** where the external adjustment has gone into reverse with exports in 3Q 2015 falling 11.4% below their year-ago level. The continuing small improvement in Greece's external accounts reflects solely a further fall in imports (-19.9% year-on-year in 3Q 2015). Of course, the Greek trade data may be heavily affected by the turmoil including capital controls and the closure of banks that were caused by the government's confrontation with its official creditors over the summer.

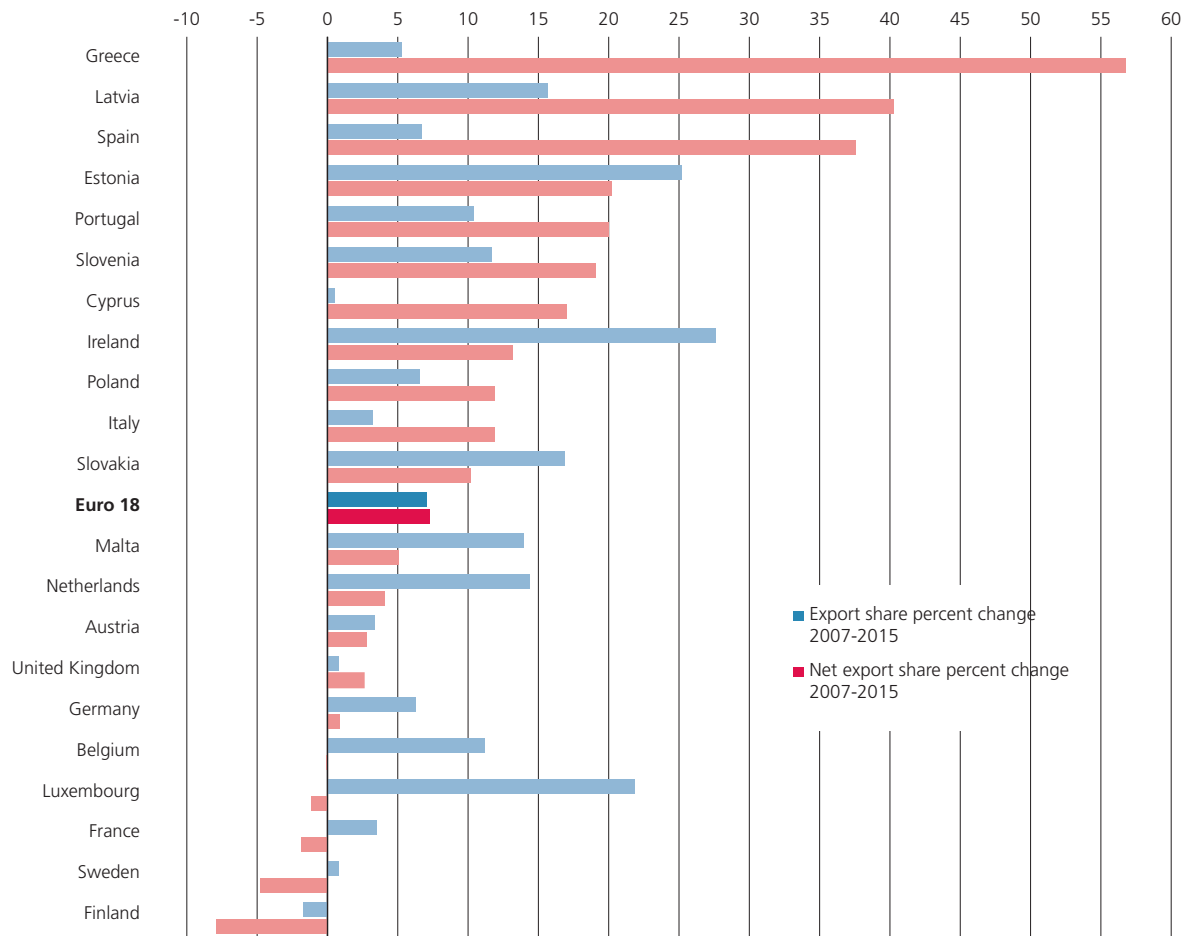
Relative to last year, we find significant gains in **Austria** (up 0.6 points) and the **Netherlands** (up 0.4 points). **Estonia** and **Germany** (both up 0.3 points) as well as **Spain**, **Slovenia**, **Slovakia** and the **United Kingdom** (up 0.2 points each) managed smaller improvements. While the rise for the UK comes from a rather low base, the further improvement for **Estonia** from an already very strong base is more remarkable. **Malta** (at No. 9, after finishing No. 7 last year) falls sharply in the ranking (its score is down by 0.8 points) due to a recent drop in exports. But for such small countries, the data can be too volatile to read much into that. Malta's overall position with a score of 5.4 remains comfortably ahead of the **eurozone** average of 4.3.

4. These calculations have been affected by data revisions. To make sure the results reflect the actual progress achieved in the last year rather than changes in accounting practices, we have re-calculated the results for previous years using the revised data. In this report, we compare the 2015 results to the re-calculated scores and ranks for 2014. These can differ slightly from those we published last year on the basis of the old data.

'Latvia has managed an impressive rise in its export share.'

Chart 6. Rapid External Adjustment 2007-2015

Change in share of exports in GDP in percent of GDP; change in share of net exports in GDP in percent of H2 2007 export ratios



See notes under Table 3 on page 17.
Sources: Eurostat, Berenberg

'Imports are rebounding in most reform countries while exports continue to grow.'

Looking at the first of the sub-criteria, the rise in the share of net exports in GDP, **Latvia** with its small and very open economy managed the most impressive shift, with its external balance shifting by a total of 17.2 percentage points of GDP from 2H 2007 to mid 2015.⁵ It is followed by **Greece** (a 13.3 percentage point shift), **Slovenia** and **Estonia** (12.5 percentage points each) and **Ireland** (12.2 percentage points). The result is also very encouraging for **Spain** with a shift of 9.7 percentage points as it is a much bigger and hence less open economy than the other five.

At the other end of the spectrum, the net export balance has deteriorated significantly in **Finland** (-3.3 percentage points of GDP from 2H 2007 to mid 2015), **Sweden** (-2.3 percentage points), **Luxembourg** (-2.2 percentage points), and **France** (-0.5 percentage points). Data for small Luxembourg can be very volatile. For Sweden and Finland, the shift is too pronounced for comfort; for France, the shift adds to signs that it is not yet on a sustainable track. See the column "Change in Net Exports Relative to GDP" in Table 3 on page 17.

Relative to last year, **Estonia** has raised the share of net exports in GDP significantly whereas **Cyprus** suffered an export problem.

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: **Latvia**, **Ireland** and **Estonia** stay at or close to the top whereas **Finland**, **Sweden** and **Germany** are close to the bottom of the list, confirming a major rebalancing within Europe. 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 also achieved impressive shifts. On this criterion, even **Italy** looks good as, relative to its weakish starting level, it has turned around its external balance quite decisively (see Table 3 on page 17).

In the first three years of the eurozone confidence crisis, a closer look at the drivers of adjustment revealed a dark side to the external adjustment story: in some countries, the net export position had 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 17). For most countries, this is no longer the case. As the worst of the domestic fiscal squeeze was already over in 2014, imports are rebounding in most reform countries while the share of exports in GDP continues to grow (see Chart 5 on page 13).

5. To avoid short-term volatility in the data, we use the average of Q2 and Q3 2015 for all countries for which Q3 data are available. For other countries, we use Q2 2015 data.

'Italy and France lag well behind the eurozone average.'

The sad exception is **Greece**. After a strong rise in its export share in GDP to 30.9% in 3Q 2014, up from 23.3% of GDP in 2H 2007, the export share has fallen back to 27.7% in 3Q 2015. Pervasive political uncertainty hampering investment into export-oriented activities may help to explain why Greek export gains are lagging far behind those of other crisis countries especially for manufactured goods.

While **Spain** and **Portugal** have done well, raising their export ratio by 6.7% and 10.4% of their GDP, respectively, from 2H 2007 to mid 2015, some of the small open economies in the eurozone have managed even more spectacular improvements. This means especially **Estonia** (+25.2 points), **Ireland** (+27.6 points), **Luxembourg** (+21.9 points), **Slovakia** (+16.9 points), **Latvia** (+15.7), the **Netherlands** (+14.4 points) and **Malta** (+14.0 points).

On the opposite side of the spectrum, **Finland** has not yet recouped the post-Lehman drop in its export ratio despite significant progress in 2015. The results are also very weak for **Cyprus** (its export ratio is up by a mere 0.5 percentage points of GDP), **Sweden** and the **United Kingdom** (both +0.8 points). With overall gains in the export ratio of 3.2 and 3.5 percentage points, respectively, **Italy** and **France** also lag well behind the eurozone average of 7.1 points.

Combining the findings from the shift in net exports and the rise in the export ratio into one ranking yields the results as shown in Table 3 on page 17. **Latvia** (No. 1), **Estonia** (No. 2), **Greece** (No. 3), **Ireland** (No. 4) and **Spain** (No. 5) are now the best performers in terms of the overall external adjustment, followed by **Slovenia** (No. 6), **Slovakia** (No. 7), **Portugal** (No. 8) and **Malta** (No. 9). However, comparing the countries that recently went through the euro confidence crisis to Estonia and Latvia can be misleading. Suffering from the bursting of domestic bubbles, Estonia and Latvia started their own wrenching adjustment earlier than most of the countries hit by the euro confidence crisis in the last four or five years.

Going forward, we expect the pace of external adjustment to slow down on the euro periphery, with stronger exports to be offset by a similar rebound in imports as domestic demand continues to recover. In **Ireland** and **Spain**, this process is in full swing already.

In terms of the overall external adjustment, **Sweden** (No. 20) and the **UK** (still No. 18) lag behind the eurozone average while **Poland's** score of 4.8 (up from 4.4 last year) remains modestly above the **eurozone** average of 4.3, up from 4.0 in 2014 (see Table 3 on page 17).

'The countries most in need of fiscal repair have made serious progress since 2010.'

II.3 Fiscal Adjustment

Table 4. Fiscal Adjustment 2009-2015

Rank		Country	Score	Change	2009-15 in percent of GDP			in percent of required shift		
2015	2014				Percent	Score	Change	Percent	Score	Change
1	1	Greece	8.5	-1.1	12.4	10.0	0.0	66.7	7.1	-2.2
2	2	Portugal	7.1	-0.8	8.8	7.7	-1.1	60.2	6.4	-0.6
3	4	Ireland	6.6	-0.3	7.5	6.8	-0.5	60.2	6.4	-0.1
4	7	Cyprus	6.4	0.3	7.0	6.4	0.3	n.a.	n.a.	n.a.
5	3	Spain	6.3	-0.8	7.4	6.7	-1.0	56.3	6.0	-0.6
6	5	Slovakia	6.3	-0.5	5.7	5.5	-0.6	67.3	7.2	-0.5
7	6	Poland	5.5	-0.7	4.3	4.5	-0.7	61.1	6.5	-0.8
8	10	United Kingdom	4.8	0.0	4.8	4.9	-0.1	45.2	4.8	0.2
9	9	Slovenia	4.3	-0.7	3.5	3.9	-0.7	44.6	4.7	-0.8
10	8	Italy	4.3	-0.8	3.1	3.6	-0.7	46.4	4.9	-0.9
		Euro 18	4.0	-0.5	2.9	3.5	-0.5	41.6	4.4	-0.6
11	14	France	3.7	0.0	2.9	3.5	-0.1	36.1	3.8	0.1
12	11	Latvia	3.5	-0.9	2.9	3.5	-0.9	n.a.	n.a.	n.a.
13	12	Netherlands	3.1	-0.9	2.5	3.2	-0.8	28.6	3.0	-0.9
14	13	Germany	3.1	-0.9	0.5	1.8	-0.3	41.8	4.4	-1.4
15	17	Estonia	2.3	0.6	1.2	2.3	0.6	n.a.	n.a.	n.a.
16	16	Austria	2.3	0.4	1.3	2.4	0.1	20.4	2.2	0.6
17	15	Malta	2.2	0.2	1.1	2.2	0.2	n.a.	n.a.	n.a.
18	18	Belgium	1.3	-0.1	0.7	1.9	-0.1	7.2	0.8	0.0
19	19	Luxembourg	0.7	-0.4	-1.0	0.7	-0.4	n.a.	n.a.	n.a.
20	20	Finland	0.0	-0.1	-2.7	0.0	-0.2	0.0	0.0	0.0
20	21	Sweden	0.0	0.0	-4.3	0.0	0.0	0.0	0.0	0.0

Ranks, scores and score changes for Fiscal Adjustment Indicator and sub-indicators. Values: (1) 2009-2015 change in structural primary balance in % 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 6.

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 such as a recapitalisation of banks.

Taking the changes from 2010 to 2014 and the latest European Commission estimates for the

likely result for 2015 together and combining them into a five-year view, we draw two major conclusions:⁶

- On balance, the countries that were most in need of reining in their excessive deficits five years ago have made serious progress over time, with **Greece** (No. 1) well ahead of **Portugal** (No. 2), **Ireland** (No. 3), **Cyprus** (No. 4) and **Spain** (No. 5). All five eurozone countries that had

6. European Commission, *European Economic Forecast: Autumn 2015, European Economy 2015* (Brussels: European Commission, 2015).

'The fiscal repair of previous years has given way to some slippage and new concerns.'

to ask taxpayers of other countries for support have on balance tightened their belts quite dramatically over the last five years (see Chart 7 at right).

- A number of countries with a relatively comfortable fiscal starting position, including **Austria** (No. 16), **Estonia** (No. 15), **Germany** (No. 14) and **Belgium** (No. 18) have hardly changed their fiscal stance over these five years while **Luxembourg** (No. 19), **Finland** (No. 20) and **Sweden** (No. 21) have even relaxed their fiscal reins a little over this period.

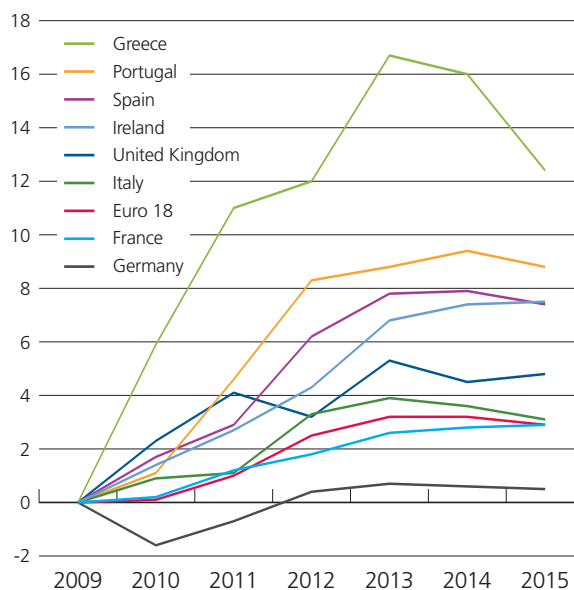
On a five-year view, serious tightening in the fiscally challenged periphery and virtual standstill in major parts of the core have resulted in a significant convergence of fiscal policy in the **eurozone** as a whole. As required, the overall underlying primary balance for the eurozone improved by 2.9% of GDP over this period, rising to a surplus of 1.3% of GDP in 2015 from a deficit of 1.6% in 2009.

Relative to last year, however, the picture is very different. The fiscal repair of the years before has given way to some slippage and new fiscal concerns.

- After serious austerity in the years 2010 to 2013 and a neutral stance in 2014, the **eurozone** as a whole relaxed its fiscal stance modestly in 2015 with a decline in the structural primary fiscal balance to 1.3%, down from 1.6% in 2014.
- For some countries, this makes sense. **Germany** has enough fiscal space for more than the small stimulus worth 0.1% of its GDP which it granted itself in 2015.

Chart 7. Fiscal Adjustment 2009-2015

Change in underlying primary fiscal balance 2015 over 2009, in percent of annual GDP



Sources: European Commission, Berenberg

- After massive progress in the years before, the pre-election loosening of fiscal policy in **Portugal** (by 0.6% of GDP) and **Spain** (by 0.5% of GDP) is somewhat understandable even if unfortunate. Spain certainly did not need a stimulus to demand. For **Italy**, the stimulus of 0.5% of its GDP can be justified as a means to offset the impact of a serious labour market reform which might otherwise constrain demand before the full positive supply response becomes visible.
- **Greece** drove its fiscal outlook into the ground in 2015. That Greece's structural primary balance deteriorated by 3.6% of GDP in one year is not the expression of any fiscal stimulus. Instead, it is the result of an almost uniquely

'For Greece, shattering fragile confidence proved to be a costly disaster.'

inept policy in the months from February to July 2015. For a country that had just emerged from one of the worst adjustment recessions on record in Western economies, shattering fragile confidence by a full-blown and futile confrontation with the country's only willing lenders proved to be a costly disaster.

Despite the calamity in 2015, the overall change in Greece's underlying fiscal position since 2009 still exceeds that of any other country in the sample. Instead of the whopping cumulative improvement of 15.9% of GDP that we had noted a year ago, what remains after the partial reversal of 2015 is a still impressive cumulative adjustment of 12.4% of GDP.

With a less dismal starting point and a less-frontloaded approach, the cumulative fiscal repair since 2009 has still been quite breathtaking in **Portugal** (8.8% of GDP), **Ireland** (7.5%) and **Spain** (7.4%). Even **Cyprus**, which fell into a crisis only in 2013, has managed a total fiscal correction of 7.0% of its GDP so far. Unlike most other countries, Cyprus continued to tighten its fiscal stance in 2015.

Of course, the size of the fiscal squeeze tells only half the story. We have to relate it to the actual adjustment need. The International Monetary Fund has estimated how much countries have to shift their underlying primary balance between 2014 and 2020 to get to a deficit-to-GDP ratio of 60%

by 2030, also adding an adjustment for age-related spending.⁷ We take these numbers – including their underlying assumptions – and add the actual adjustment progress in 2015 over 2009 according to the European Commission's November 2015 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 actually been achieved from 2009 to 2015.

On this measure, **Slovakia** made the most progress in the eurozone over the last five years taken together, as shown in the column on "Fiscal Adjustment in Percent of Required Shift" in Table 4 on page 22. It is followed by **Greece**, **Portugal**, **Poland** and **Ireland**. Whereas the progress in Greece still looks impressive on a five-year view, the disaster of 2015 shows up clearly in the data. Last year, we estimated that Greece had completed 85.9% of the entire hypothetical adjustment need. This time, we find that this measure of success has dropped sharply to 66.7% (see Chart 8 on page 25). Unfortunately, Greece will now have to endure significantly more fiscal pain for longer to make up for this accident even if creditors continue to reduce the country's costs of servicing its public debt.

We combine both fiscal adjustment measures – namely the estimated total shift in 2010-2015 in absolute terms and the adjustment so far relative to the total adjustment need until 2020 – for the overall fiscal score. With the exception of **Cyprus**,

7. International Monetary Fund, *Fiscal Monitor October 2015* (Washington DC: IMF, 2015). These estimates are subject to change. They also deviate somewhat from those of the European Commission, which we use in other parts of the fiscal analysis. But the EU and IMF estimates of how much countries are shifting their cyclically adjusted primary balances tend to be similar. As the IMF has not updated its estimates for the overall adjustment need for Greece, we use the IMF's 2013 estimates for Greece and correct them for the fiscal change that has happened since then.

'Italy still attains an above-average fiscal score despite its 2015 fiscal stimulus.'

the score has worsened for all our frontrunners and most other countries. Only Cyprus (No. 4), **Estonia** (No. 15) and **Austria** (No. 16) can improve their score in a meaningful way.

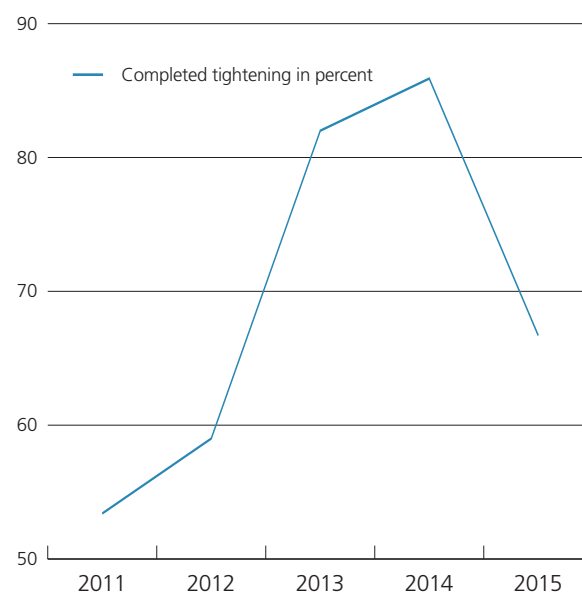
In the resulting relative ranking for fiscal adjustment progress over the last five years taken together, **Greece** remains No. 1 despite a sharp drop in its score followed by **Portugal** (No. 2). **Ireland** moves to No. 3, up up from No. 4, and **Cyprus** to No. 4, up from No. 7, while **Spain** falls back to No. 5, down from No. 3, due to its pre-election fiscal stimulus.

Italy (at No. 10, down from No. 8 last year) still attains an above-average score despite falling back somewhat due to its 2015 fiscal stimulus (see Table 4 on page 22). Fortunately, the labour market reform of 2015 offers hope that Italy can improve its trend rate of GDP growth to close to 1%, up from barely above 0% at present. That, in turn, would help to improve the fiscal outlook significantly. But it is still too early to tell whether the effects of the labour market and other reforms in Italy will suffice for that.

The mediocre ranking for **Germany** (No. 14) needs to be seen in context. Although Germany has gone through hardly any austerity since 2009, its sustainability gap remains so small that it is no reason for concern for the time being. For **France** (No. 11), the below-average fiscal adjustment is a greater concern because the country has an above-

Chart 8. Greece falls back

Fiscal repair: how much has Greece achieved already, in percent?



Actual cumulative change in structural primary balance in percent of what would be required until 2020 to bring debt ratio down to 60% of GDP by 2030.

Sources: IMF, European Commission, Berenberg

average need to adjust. But in 2015, the French score at least stayed stable while it went down for most other countries in our sample.

Outside the eurozone, the **United Kingdom** (at No. 8, up from No. 10 last year) tightened its fiscal stance only marginally in 2015 after some pre-election slippage in 2014.

'Labour costs matter – but they are an imperfect gauge of competitiveness.'

II.4 Swing in Labour Cost Dynamics

Table 5. Labour Cost Adjustment

Rank		Country	Real Unit Labour Costs 2009-2015			RULC shift from 2000-2009 relative to Euro 18			Nominal Unit Labour Costs 2009-2015			NULC shift from 2000-2009 relative to Euro 18				
2015	2014		Score	Change	Percent	Score	Change	Percent	Score	Change	Percent	Score	Change			
1	1	Ireland	9.2	0.1	-16.9	10.0	0.0	27.3	10.0	0.0	-14.2	10.0	0.2	28.3	6.8	0.2
2	2	Greece	7.7	-0.2	-7.7	6.2	-0.6	15.1	7.1	-0.4	-12.1	9.3	0.1	39.5	8.3	0.1
3	3	Cyprus	6.9	0.3	-11.7	9.0	0.3	7.0	4.5	0.0	-9.9	8.4	0.6	18.7	5.4	0.3
4	6	Spain	5.7	0.0	-6.8	5.5	0.1	5.8	4.1	-0.1	-5.9	6.9	-0.2	24.4	6.2	0.0
5	7	Portugal	5.6	0.4	-9.8	7.7	1.1	3.2	3.3	0.3	-5.7	6.8	0.1	12.1	4.5	0.1
6	4	Estonia	5.2	-1.2	-4.8	4.0	-2.1	14.0	6.8	-1.1	11.8	0.1	-1.7	60.1	10.0	0.0
7	5	Latvia	5.0	-0.8	-6.6	5.3	-1.2	10.5	5.6	-0.7	6.1	2.3	-1.2	29.9	7.0	-0.3
8	8	Luxembourg	4.8	-0.3	-5.5	4.5	-0.6	17.5	7.9	-0.4	8.8	1.2	-0.2	18.1	5.4	0.0
9	9	Slovakia	4.3	-0.3	-1.2	1.4	-0.4	0.1	2.3	-0.3	2.7	3.6	-0.3	68.5	10.0	0.0
10	10	Slovenia	4.3	-0.3	-4.1	3.5	1.2	4.0	3.5	0.4	-1.6	5.2	0.5	15.4	5.0	0.3
11	12	Italy	2.9	-0.2	-0.4	0.8	-0.1	5.4	4.0	-0.2	5.5	2.5	-0.3	11.3	4.4	0.0
12	13	Finland	2.6	0.2	-2.4	2.2	0.6	7.6	4.7	0.2	9.5	1.0	-0.2	-2.7	2.5	0.0
		Euro 18	2.4	0.0	-1.4	1.5	0.3	0.0	2.3	0.0	4.8	2.8	-0.3	0.0	2.9	0.0
13	11	United Kingdom	2.4	-1.2	-6.0	4.9	-0.4	7.8	4.8	-0.3	15.7	0.0	-3.5	-33.9	0.0	-0.3
14	15	Belgium	2.2	0.4	-1.7	1.7	0.9	1.9	2.9	0.3	7.5	1.7	0.1	-3.7	2.4	0.1
15	14	Netherlands	2.2	0.2	-0.4	0.8	0.6	-0.4	2.1	0.2	5.2	2.6	0.0	1.9	3.1	0.1
16	18	Malta	1.8	0.4	-2.1	2.1	1.2	3.5	3.4	0.4	12.3	0.0	-0.1	-7.2	1.9	0.0
17	17	France	1.7	0.1	1.3	0.0	0.0	-0.5	2.1	0.2	6.9	2.0	0.0	-2.4	2.5	0.1
18	16	Poland	1.5	-0.1	-1.9	1.9	-0.1	-14.8	0.0	0.0	4.2	3.0	-0.1	-13.1	1.1	-0.3
19	21	Sweden	0.8	0.2	0.1	0.4	0.4	1.6	2.8	0.2	20.7	0.0	0.0	-38.1	0.0	0.0
20	20	Germany	0.8	-0.1	-0.6	0.9	0.2	-5.0	0.6	0.0	8.7	1.3	-0.6	-19.0	0.3	-0.1
21	19	Austria	0.7	-0.4	0.7	0.0	-0.3	-4.0	1.0	-0.3	10.7	0.5	-0.8	-11.6	1.3	-0.2

Ranks, scores and score changes for Labour Cost Adjustment Indicator and sub-indicators. Values: (1) 2009-2015 cumulative change in real unit labour costs, in percent; (2) shift in cumulative real unit labour cost change between periods 2000-2009 and 2009-2015, relative to the Eurozone, in percent; (3) 2009-2015 cumulative change in euro nominal unit labour costs, 2007-2015 for non-eurozone countries, in percent; (4) shift in cumulative euro nominal unit labour cost change between periods 2000-2009 and 2009-2015, relative to the eurozone, 2000-2007 to 2007-2015 for non-eurozone countries, in percent. For further explanations see notes under Table 2 on page 6.

'Wage moderation has taken hold with a vengeance across the eurozone periphery.'

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 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.

To gauge adjustment progress, we examine how changes in nominal and real unit labour costs are deviating from the eurozone average. We conduct the analysis in three steps. First, we calculate the cumulative change in real unit labour costs between 2009 and 2015 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.

Overall, two results stand out on a five-year view:

1. Wage pressures have converged within the **eurozone**: most of the euro members with excessive wage increases until 2009 have gone through a big correction.⁸
2. Whereas wage moderation has taken hold with a vengeance across the eurozone periphery, wage costs have risen significantly in many core countries such as **Germany**, **Austria**, the **Netherlands** and **France**.

Under the pressure of record unemployment and the lagged impact of a deep adjustment crisis that lasted until the end of 2013, the five countries that had to ask taxpayers elsewhere for help have slashed their labour costs the most. **Ireland** (No. 1) tops the ranking ahead of **Greece** (No. 2), **Cyprus** (No. 3), **Spain** (No. 4) and **Portugal** (No. 5).

But even with respect to labour costs, **Greece** went the wrong way in 2015. While all other erstwhile euro crisis countries improved or at least maintained their scores, the Greek score slipped to 7.7, down slightly from 7.9 last year.

Having been among the star performers in previous years, **Estonia** (at No. 6, down from No. 4 in 2014) and **Latvia** (at No. 7, down from No. 5) continue to slide in the ranking. This makes sense.

8. 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.

'The real problem in the eurozone remains France.'

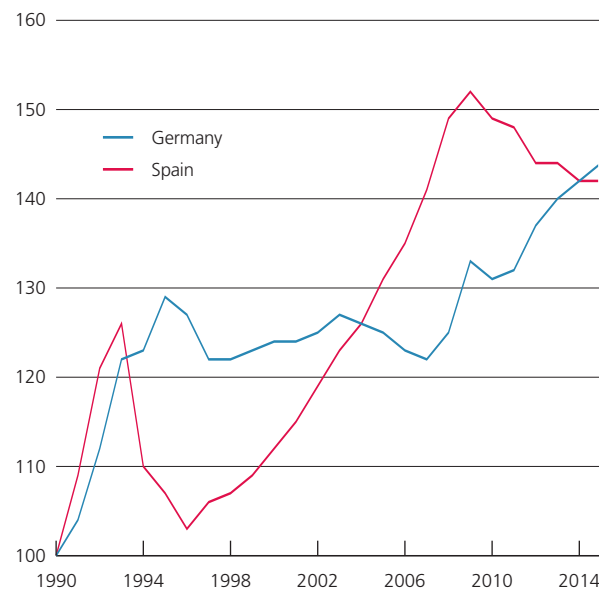
The two small, open economies on the Baltic Sea had successfully concluded their own post-bubble adjustment process two years ago and started to relax the reins somewhat.

At the bottom of the league table, **Austria** (No. 21), **Germany** (No. 20) and **Sweden** (No. 19) take the last three spots. At least for Germany with its comparatively healthy labour market, this is exactly the position which it should be in.

Comparing real unit labour cost in **Germany** to those in **Spain** showcases the return to a better balance (see Chart 9 on page 27). In the wake of the German unification boom, labour costs surged across much of Europe. After Spain devalued, the temporary boost to its competitive position allowed the country to outgrow Germany by a wide margin. But through wage restraint enforced by mounting unemployment and serious labour market reforms, Germany restored its competitive position over time while Spain became careless in its credit-driven heydays until 2007. With German wage costs rebounding on the back of virtual full employment and Spanish workers forced to tighten their belts, the relative position of Spain versus Germany is now back where it was 25 years ago. Both countries are good places for job-creating inward investment. Looking ahead, a simple extrapolation of trends would suggest that Germany needs to take care to not allow itself too much of a party.

Chart 9. Back to Balance

Real unit labour costs Germany versus Spain, 1990=100



Source: European Commission

The real problem in the eurozone remains **France** (No. 17). The inflexible French labour market has still not responded adequately to the challenge of high unemployment. Labour costs remain excessive. But France is at least taking baby steps in the right direction. Its nominal unit labour costs rose by merely 0.1% in 2015, well below the 0.7% average for the eurozone. As a result, the overall score for France improved by 0.1 points to 1.7. However, it remains well below the 2.4 average for the currency area as a whole. France still has a long way to go towards a well-functioning labour market.

'The strength of sterling has made the United Kingdom look less competitive.'

Under the pressure of recession, **Finland** (No. 12) has started to reduce costs. Real unit labour costs fell by 0.9% in 2015 and thus by more than the 0.4% decline for the eurozone.

Looking at the absolute changes in real unit labour costs in the six years leading up to 2015 (see the column on "Real Unit Labour Costs 2009-2015, Cumulative in Percent" in Table 5 on page 26), workers in **Ireland** have endured the most pain (-16.9%), followed by **Cyprus** (-11.7%), **Portugal** (-9.8%), **Greece** (-7.7%) and **Spain** (-6.8%). The only countries with a cumulative rise in their real unit labour costs are **France** (+1.3%), **Austria** (+0.7%) and **Sweden** (+0.1%).

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 the analysis, are affected heavily by exchange rate moves. The Swedish krona and sterling first devalued sharply after the Lehman Brothers collapse, only to recover significant

ground thereafter. In addition, sterling firmed significantly against the euro in 2015. If we compare their 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 that come about though the exchange rate.

For this analysis, we thus look at both nominal and real unit labour costs and then aggregate the results. The changes since last December, when we published *The 2014 Euro Plus Monitor*, are significant for the **United Kingdom** (No 13). Its stronger exchange rate versus the euro has made the UK look less competitive this year on the basis of nominal unit labour costs than it was last year. In terms of real unit labour costs, which are affected by exchange rate moves only indirectly and with substantial lags, the score for the UK fell by much less in 2015 than it did for nominal unit labour costs.⁹

9. Exchange rates react much faster to changing economic circumstances than wages or productivity. To capture this effect, we used 2007 as the base period for the comparison of nominal unit labour costs for the three non-euro members in the sample (Poland, Sweden and the United Kingdom) 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. However, we did not make this exchange rate adjustment in the nominal unit labour costs pillar 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.

'Crises are handmaidens of change.'

II.5 Reform Drive

Table 6. Reform Drive

Rank						
2015	2014	Country	Score	Change	Adjusted for 2015	OECD 2010-14
1	2	Ireland	7.5	-1.0	0.63	0.63
2	5	Portugal	7.3	-0.5	0.61	0.61
3	3	Estonia	7.1	-1.2	0.60	0.60
4	1	Greece	6.9	-3.1	0.58	0.78
5	4	Spain	6.7	-1.2	0.57	0.57
6	11	Italy	6.0	1.1	0.51	0.36
7	7	Slovakia	5.6	0.1	0.47	0.47
8	6	United Kingdom	5.6	-0.5	0.47	0.47
		Euro 18	5.5	0.3	0.46	0.46
9	8	Poland	4.8	-0.6	0.41	0.41
10	10	Finland	4.8	-0.3	0.40	0.40
11	9	Austria	4.4	-0.8	0.37	0.37
12	13	France	3.9	0.1	0.32	0.32
13	14	Slovenia	3.6	0.0	0.30	0.30
14	15	Netherlands	3.0	0.6	0.25	0.25
15	16	Germany	2.8	0.4	0.24	0.29
16	12	Sweden	2.4	-1.6	0.20	0.20
17	17	Belgium	2.0	0.3	0.17	0.17
18	18	Luxembourg	1.9	0.7	0.16	0.16
		Latvia	n.a.	n.a.	n.a.	n.a.
		Cyprus	n.a.	n.a.	n.a.	n.a.
		Malta	n.a.	n.a.	n.a.	n.a.

Ranks, score and score changes for the reform drive indicator. Value refers to the average score for adjustment effort from the OECD's *Going for Growth* reports for 2010/11, 2011/12, 2012/13 and 2013/14. Sources: OECD, Berenberg. For further explanations see notes under Table 2 on page 6.

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.

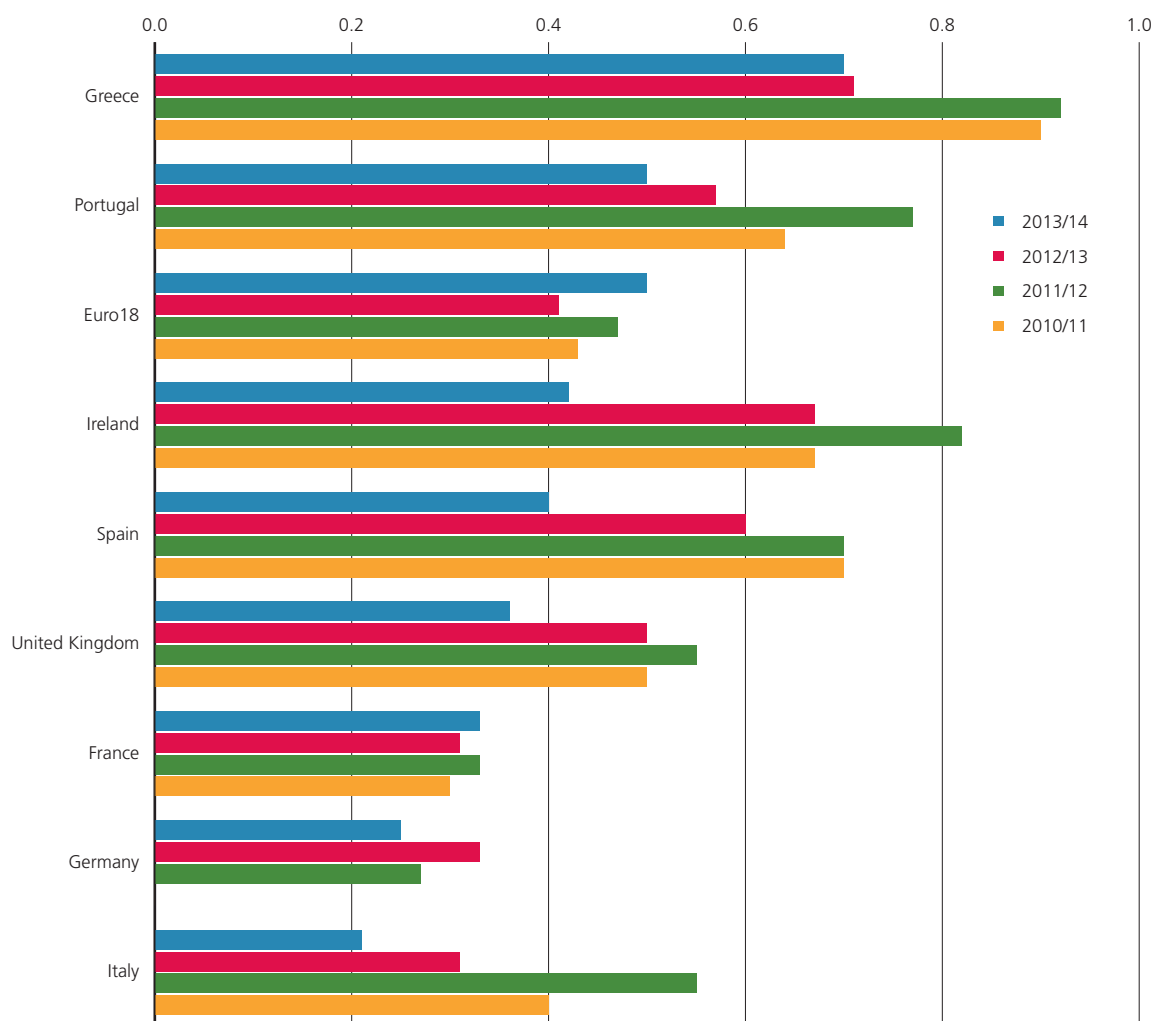
Crises are handmaidens of change. Under the pressure of crisis, governments at the euro

periphery 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.

'Adjustment efforts have slackened at the eurozone periphery.'

Chart 10. Reform Drive Slackening

OECD reform responsiveness indicator 2010/11 – 2013/2014



1.0 would be best possible value.

Source: OECD, *Going for Growth* reports 2011-2015.

To measure how much countries have done, we employ the expertise of the Organisation for Economic Co-operation and Development. 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). We aggregate the data for the last four years. The latest data comes from the

'Italy advances to No. 6 from No. 11 thanks to its January 2015 labour market reform.'

February 2015 edition of *Going for Growth*, the annual OECD survey, with the cut-off date 31 December 2014.

This year, we adjust the methodology in one important respect. For countries with major changes over the course of 2015, we add a proxy for such events to the OECD data. In our view, the reform reversals in **Greece** of 2015 merit a malus of 0.2 points. For **Germany**, we subtract 0.05 points from the OECD score due to the introduction of a minimum wage and the reduction in the retirement age to 63 years for workers with 45 years or more of service. On the positive side, we award a bonus of 0.15 points to **Italy** for its January 2015 labour market reform. If **Poland** and **Portugal** follow up with the policy changes their new governments have announced, that would warrant a malus of at least 0.1 point, in our view. But as we first need to see to which extent misguided plans turn into bad reality, we do not include such adjustments at this time.

As a result of a lower OECD score and the malus for the 2015 reform reversals, **Greece** drops to No. 4, down from No. 1 last year. Thanks to the bonus for the January 2015 labour market reform and the slippage in many other countries, **Italy** advances to No. 6, up from No. 11.

The countries that were once the focus of the systemic euro crisis and had to ask other taxpayers for help remain at or close to the top of the reform league. However, their scores drop significantly relative to last year. While progress continues,

the pace of additional reforms has slowed down substantially. In some cases, we can find a positive interpretation for that. Because **Spain** (No. 5) and **Ireland** (No. 1) have reformed themselves successfully, they no longer need to do much more. In the case of **Greece** (No. 4), the story is different. With the Greek economy returning to growth in early 2014, the previous Greek government may have believed that it could afford to implement reforms slightly less diligently than before. This caused the OECD's score to drop marginally. With the change in government in early 2015, however, reforms stalled across the board. Even worse, by threatening serious reform reversals, the new Greek government aborted the fragile recovery.

In the new ranking, **Ireland** replaces **Greece** at the top of the league. Because its score worsened by less than for the other reform countries, **Portugal** moves to No. 2, up from No. 5, ahead of **Estonia** (at No. 3 again) and **Spain** (No. 5).

Some comparatively healthy core eurozone countries which need few reforms feature at the bottom of the table with the **Netherlands** at No. 14, **Germany** at No. 15 and **Luxembourg** at No. 18. Because of its below-average ranking for fundamental health, the lack of serious reforms in **Belgium** (No. 17) looks more worrisome. Our biggest concern remains **France** (No. 12). Although it has advanced marginally with a gain in its score of 0.1 points, it still has the worst gap between a pronounced need for reforms and a sluggish pace of change.

III. Fundamental Health Indicator

III. 1 Overview

Table 7. Fundamental Health Overview

Rank		Country	Total Score			Growth			Competitiveness			Fiscal sustainability			Resilience		
2015	2014		2015	Change	2014	2015	Change	2014	2015	Change	2014	2015	Change	2014	2015	Change	2014
1	1	Estonia	7.6	0.0	7.5	6.7	-0.1	6.8	6.1	-0.1	6.2	9.4	0.2	9.2	8.1	0.1	8.0
2	3	Germany	7.5	0.1	7.4	6.2	0.1	6.0	8.2	0.1	8.2	7.8	0.1	7.7	7.8	0.2	7.6
3	2	Luxembourg	7.5	0.0	7.5	7.0	0.0	7.0	7.6	0.2	7.4	9.4	-0.1	9.5	5.8	-0.1	5.9
4	4	Netherlands	6.9	0.0	6.9	6.9	-0.2	7.1	8.1	0.2	7.9	6.4	-0.3	6.6	6.3	0.2	6.1
5	5	Slovakia	6.8	0.0	6.9	5.8	-0.1	5.8	7.3	0.0	7.3	7.2	-0.1	7.3	7.1	0.1	7.0
6	7	Malta	6.8	0.1	6.6	7.0	0.1	6.9	7.4	-0.2	7.5	6.8	0.3	6.5	6.0	0.3	5.7
7	6	Poland	6.7	0.0	6.7	6.0	0.0	6.0	7.5	0.0	7.4	6.4	-0.1	6.5	6.8	0.1	6.7
8	8	Latvia	6.5	0.1	6.4	5.9	0.1	5.8	5.4	0.1	5.3	8.0	-0.1	8.1	6.6	0.3	6.4
9	11	Ireland	6.3	0.2	6.1	6.8	0.0	6.8	7.9	0.5	7.4	6.7	0.3	6.4	3.9	-0.1	3.9
10	9	Sweden	6.3	0.0	6.3	6.9	0.0	6.9	4.2	0.0	4.1	6.8	0.1	6.7	7.4	0.0	7.4
11	10	Slovenia	6.1	0.0	6.2	5.8	0.1	5.7	6.1	0.2	5.9	5.5	-0.2	5.7	7.2	-0.2	7.3
		Euro 18	5.8	0.0	5.8	4.8	0.0	4.8	6.2	0.1	6.1	6.2	-0.1	6.3	6.1	0.1	6.0
12	12	Austria	5.6	0.0	5.6	5.9	-0.1	6.0	4.7	-0.1	4.8	5.6	0.2	5.4	6.4	0.1	6.3
13	13	United Kingdom	5.5	0.0	5.5	5.1	0.0	5.0	6.2	-0.3	6.5	5.6	0.2	5.4	5.2	0.3	5.0
14	14	Belgium	5.3	0.0	5.3	5.1	-0.1	5.2	6.9	0.3	6.6	4.0	-0.1	4.1	5.2	0.0	5.2
15	15	Spain	5.0	-0.1	5.1	3.4	-0.2	3.6	5.2	-0.1	5.3	6.0	-0.3	6.3	5.3	0.2	5.1
16	17	France	4.8	0.0	4.8	4.9	0.0	4.9	4.9	0.2	4.7	4.3	0.0	4.3	5.4	0.0	5.4
17	16	Finland	4.7	-0.2	4.9	5.3	-0.1	5.4	2.4	-0.1	2.5	5.5	-0.5	6.0	5.5	0.0	5.5
18	18	Italy	4.5	0.0	4.5	3.1	-0.2	3.3	4.1	0.2	3.9	5.3	-0.2	5.4	5.6	0.0	5.5
19	19	Portugal	4.5	0.0	4.5	3.3	-0.2	3.5	5.8	0.0	5.8	4.7	-0.2	4.9	4.1	0.3	3.8
20	20	Cyprus	4.2	0.1	4.1	3.0	-0.1	3.1	4.1	0.2	3.9	7.1	0.2	6.9	2.7	0.1	2.7
21	21	Greece	3.9	-0.2	4.1	2.0	-0.3	2.3	4.9	0.0	4.9	4.0	-1.1	5.1	4.7	0.6	4.2

Ranks, scores and score changes for the Overall Health Indicator and sub-indicators. For further explanations see notes under Table 2 on page 6.

'Estonia continues to lead the health ranking, ahead of Germany and Luxembourg.'

The **Fundamental Health Indicator** is designed to identify underlying strengths and weaknesses of European countries. It complements the Adjustment Progress Indicator. Ideally, countries with below-average scores should be reforming and feature above average in the separate adjustment scores. While the criteria to assess the health of countries are inspired by the European Union's Euro Plus Pact (2011), their selection owes as much to the factors that contributed so greatly to the European and global financial crises since 2007.

Since we look at long-run averages or slow-moving aggregates like debt levels, changes from year to year tend to be small even for those countries with deep economic crises and fast adjustment processes. In addition, deep adjustment crises tend to have a "J-curve" impact on some key criteria of fundamental health. It gets worse before it gets

better. For example, the temporary declines in GDP that often go along with fiscal repair raise the ratio of debt to GDP and hence impact one key measure of fiscal sustainability. In the same vein, the number of long-term unemployed usually goes up, too, worsening the score for human capital. It usually takes five years or more after a country has left its adjustment recession and starts to reap the rewards of its efforts for debt ratios to fall below the pre-crisis level. For long-term unemployment, the lag can also be very long, especially if the labour market has not been made sufficiently flexible.

The primary purpose of the Fundamental Health Indicator is not to look at such J-curve effects but to analyse the longer-term issues that will shape the economic outlook for European economies well beyond the current crisis.

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

III. 2 The Four Pillars of Fundamental Health

To assess the fundamental health of the 21 European countries surveyed in *The 2015 Euro Plus Monitor*, 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). Then we bring the four sub-indicators together in one overall score and rank the countries 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.¹⁰ The guiding ideas of the Pact make fundamental sense. More importantly, many European Union members are making great strides towards putting them into practice.

As the results do not change much within one year, we present the findings in a more summary way than before. We look at the four pillars in turn but do not add in-depth discussions of all components that make up these pillars. For more details, see the Methodological Notes on page 43 as well as previous editions of the *Euro Plus Monitor*. After discussing the separate scores for the four pillars, we discuss the aggregate results for the Fundamental Health Indicator.

III.2.a 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.

The assessment of human resources includes data for fertility, for educational achievement according to the OECD's Programme for International Student Assessment (PISA) as well as an index to measure how well countries are integrating immigrants into their labour market. To analyse whether countries make use of their human potential, we look at overall employment, the share of young people and long-term unemployed in total joblessness as well as measures of labour market flexibility.

The leaders in terms of growth potential are **Luxembourg** (No. 1), **Malta** (No. 2), the **Netherlands** (No. 3) ahead of **Sweden** (No. 4) and **Ireland** (No. 5). At the bottom of the league, **Italy** (No. 19), **Cyprus** (No. 20) and **Greece** (No. 21) have the lowest growth potential for the time being, and hence a strong need to do something about it. Of course, this long-term analysis is shaped by the data for the last ten years. Once recent reforms in Italy and Cyprus bear fruit, their results can improve.

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

'The ultimate proof of competitiveness: does a country find buyers for its wares?'

III.2.b Competitiveness

Competitiveness is an elusive concept. The ultimate proof of 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. 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 the analysis of competitiveness, we thus focus on two measures of export success: 1) the share of exports in a country's GDP and 2) the rise of this share over time. We adjust these data for the fact that small and rich countries tend to have a higher share of exports in GDP than big or less advanced countries and compare the actual data to a model-based benchmark. Subsequently, we add labour cost dynamics and the level of product and service market regulation for an overall assessment of competitiveness.

Unsurprisingly, **Germany** (No. 1) and the **Netherlands** (No. 2) remain the most competitive countries in the league table (see the columns for Competitiveness in Table 7 on page 33). Once again, **Finland** (No. 21), **Cyprus** (No. 20), **Italy** (No. 19) and **Sweden** (No. 18) fare worst in this long-term ranking.

The **eurozone** as a whole became slightly more competitive in 2015 due to a rise in exports and a small improvement in the score for cutting excessive regulation. However, the **United Kingdom** (No. 9) falls back because of a drop in its ratio of exports to GDP to 28.4% in 2014, down from 30% in 2013, versus an increase for the eurozone average to 44.4%, up from 43.8%.

'Courtesy of their very low debt levels, the leaders are Luxembourg, Estonia and Latvia.'

III.2.c Fiscal Sustainability

Safeguarding fiscal sustainability has been one of the key thrusts of eurozone macro-economic policy since 2009. Where do countries stand after five years of adjustment? To answer this question, we examine 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.

Courtesy of their very low levels of public debt, the clear leaders are **Luxembourg** (No. 1), **Estonia** (No. 2) and **Latvia** (No. 3). Because it has achieved a small fiscal surplus and has put its debt ratio on a nicely declining trajectory, **Germany** comes in at No. 4. As in previous years, **Portugal** (No. 18), **Greece** (No. 20) and **Belgium** (No. 21) with their high levels of public debt, and **France** (No. 19) with its excessive share of government expenditure in GDP, get the worst scores in the ranking for long-term fiscal sustainability (see the columns on Fiscal Sustainability in Table 7 on page 33).

III.2.d Resilience

To analyse 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 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.

To some degree, the adjustment efforts made over the past five years continue to shine through. While the former crisis countries remain at the bottom of the table, most of their scores have improved. Current account deficits have turned into surpluses, the private sector is repairing its balance sheet, savings rates have risen and banks keep deleveraging. However, debt ratios have continued to increase in most cases except **Ireland**.

Best placed to weather potential future shocks would be **Estonia** (No. 1 again for resilience) ahead of **Germany** (No. 2), **Sweden** (No. 3) and **Slovenia** (No. 4). This resilience has allowed Slovenia to master its serious financial crisis without having to call in the troika. At the other end of the spectrum, the **United Kingdom** (No. 16), **Belgium** (No. 17), **Greece** (No. 18), **Portugal** (No. 19), **Ireland** (No. 20) and **Cyprus** (No. 21) face the most severe challenges. In the case of the UK, the big current account deficit and the low savings rate weigh on the score, putting the UK in terms of resilience to financial shocks into a group which otherwise includes mostly countries that made negative headlines during the euro crisis.

'The United Kingdom comes in slightly below the average.'

III.3 Overall Results

Because of the longer-term focus, the results of the Fundamental Health Indicator do not change much from year to year. In some cases, data revisions affect the ranking by as much as the most recent changes in actual economic performance.

As last year, the analysis suggests that **Estonia** (No. 1), **Germany** (No. 2), **Luxembourg** (No. 3) and the **Netherlands** (No. 4) are the most fundamentally sound economies in our sample. Germany excels in terms of competitiveness due to its strong export sector. It also scores exceptionally well for fiscal sustainability because of its fiscal surplus and its rapidly declining ratio of public debt to GDP. The Netherlands look somewhat similar to Germany in many respects except for significantly lower scores for fiscal sustainability and resilience.

With an unchanged score of 5.5, the **United Kingdom** (No. 13 again) comes in modestly below the eurozone average of 5.8 largely because of its comparatively low scores for fiscal sustainability and resilience. The UK's big macroeconomic imbalances ranging from a still huge structural fiscal deficit (around 4.5% of GDP in 2015) to a huge current account deficit (an estimated 4.3% of GDP in 2015) and a low personal savings rate weigh on the ranking of the UK. That the UK has a growth potential above that of the **eurozone** average mitigates the damage but does not suffice to close the gap to the eurozone average.

Italy (No. 18), **Portugal** (No. 19), **Cyprus** (No. 20), and **Greece** (No. 21) remain at the bottom of the league. All four countries have very low scores for trend growth. In the case of Cyprus, an insufficient resilience against future financial crises is also a major concern.

France (No. 16) and **Finland** (No. 17) also look sickly on their long-term fundamentals. In the case of France, we are particularly concerned about a fiscal position that is less sustainable than that of most other countries in the sample except **Greece** and **Belgium**. France also needs major efforts to become more competitive. For Finland, the lack of competitiveness is by far the biggest single problems. On all other counts, Finland is not too far below the eurozone average.

The results for fundamental health change only slowly over time. Nonetheless, comparing the 2015 results to those of 2014, we find some significant changes.

The fundamental health of **Greece** deteriorated sharply in 2015. This is especially dangerous as Greece had usually been at the bottom of the ranking in each of the last four years. If any country would need to improve its score instead of sending it down further, it is Greece. By the standards of the slow-moving scores for fundamental health, the Greek drop by 0.2 points in 2015 is significant. It reflects the fiscal accident which Greece inflicted on itself in 2015 and which

'In the most positive change, Ireland moved up to No. 9 from No. 11.'

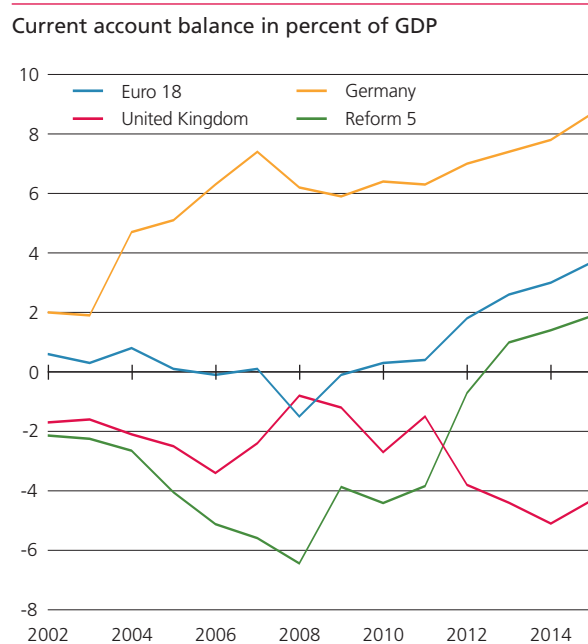
worsened its fiscal sustainability significantly. The accident shows up in a major worsening of Greece's structural fiscal balance to an estimated deficit of 1.1% for 2015, down from a surplus of 2% in 2014. In addition, Greek public debt surged to almost 190% of GDP, up from 175%, mostly because the reckless policies caused capital to flee to such an extent that Greek banks needed to be recapitalised again. The Greek fiscal accident would have led to an even lower score for fundamental health if Greece's creditors had not agreed to support Greece nonetheless, effectively reducing Greece's future debt service. Also, the rise in the personal savings rate in 2014 supported the Greek score.

The decline in the score for **Finland** to 4.7 from 4.9 also raises concerns. It reflects a worsening fiscal outback and a lack of competitiveness.

In the most positive change, **Ireland** moved up in the ranking for fundamental health to No. 9, up from No. 11, with a rise in its score by 0.2 points. Beyond the drop in the public debt to an estimated 99.8% in 2015, down from 109.5% of GDP in 2014, Ireland's sub-indicator for competitiveness improved strongly further in 2015 on the back of a major surge in exports.

For **Spain**, the pre-election fiscal stimulus has impaired the long-term fiscal sustainability slightly. This is the major reason for the small decline in the overall Spanish score for fundamental health to 5.0, up from 5.1.

Chart 11. Reform Countries Swing into Surplus



Sources: Eurostat, European Commission

Although the countries at the **eurozone** periphery except Ireland remain in the bottom third of the ranking for fundamental health, they have made progress over the last five years. Their fiscal sustainability still looks shaky as the progress in bringing down underlying fiscal deficits has gone along with a rise in the debt ratios caused by the severe adjustment recession. But they have turned their external accounts around convincingly, improving their positions by more than Germany and the eurozone average (see chart 11).

IV. Special Focus: The Greek Tragedy

Since the first *Euro Plus Monitor* in November 2011, Greece has featured prominently in the report in three separate ways:

1. According to our analysis, Greece had and still has the worst fundamental problems in the eurozone, usually coming last in the Fundamental Health Indicator.
2. Under the pressure of crisis, Greece also adjusted fast from 2010 onwards. It slashed its fiscal deficit, its export deficit and its labour costs faster than almost any other country in the sample while legislating serious structural reforms. As a result, it usually took the top spot in the Adjustment Progress Indicator.
3. We repeatedly criticised the composition of the Greek adjustment programme. In its design – and even more in its implementation – it focussed too much on suppressing demand through front-loaded fiscal tightening rather than on raising supply through fast labour, product and services markets reforms. In the fiscal sphere, the emphasis was too much on hiking taxes than broadening the tax base. Like other countries with weak administrative capacities, Greece needs simpler rather than higher taxes in order to improve economic efficiency, growth potential and the tax intake. It would have been and still is an ideal candidate for a flat tax on income and sales coupled with an offer to bring undeclared income and assets into the open against a measured penalty.

Unfortunately, successive Greek governments and their international creditors found it easier to implement and police tax hikes than structural reforms. The result was an unnecessarily deep adjustment recession. To make matters worse, creditors responded to the fiscal shortfalls caused by the depth of the recession by asking Greece to compress demand even more. As we argued repeatedly in previous editions of this study, beyond taking back a short-term fiscal stimulus such as the Greek pre-election stimulus of 2009, we believe no country should be made to tighten fiscal policy by more than 2% of its GDP in any given year.

While Greece went through more pain than was necessary, its adjustment programme did work in the end. Although Greece took the medicine in the wrong dose and not in the optimal sequence, the medicine still did its job. In *The 2013 Euro Plus Monitor*, we noted that the worst should be over soon for Greece; courtesy of its heroic adjustment efforts, Greece was reaching the turnaround stage.

The recovery set in over the course of 2014. In late 2014, Greek corporate confidence had rebounded so fast that it even exceeded that of Spain (see Chart 12 on page 41).

In 2015, the Spanish economy is expanding by around 3.2%. Greece could have achieved the same. Unfortunately, the risk of reform reversals, which we had identified as the worst remaining issue in the eurozone in *The 2014 Euro Plus Monitor*, materialised with a vengeance in Greece.

'Rarely has corporate confidence plunged so badly in any self-inflicted disaster.'

With the rise of political uncertainty in late 2014, capital started to flee the country. With threats to reverse many reforms and a confrontational approach towards the only willing lenders Greece has, the Greek government that came to power in January 2015 confirmed the worst fears. Until the end of the tenure of Yanis Varoufakis as finance minister in mid-2015, capital flight through the banking system as recorded in Greece's balances in the Target2, the Eurosystem's inter-bank payment system, reached €66 billion, equivalent to 37% of Greece's 2014 GDP.

No country can withstand such a blow and the sheer fear which the antics of the Greek government had caused in the first seven months of 2015. The Greek economy fell back into recession as a populist coalition in Athens drove Greece's fiscal outlook and its banks into the ground in 2015. That Greece's structural primary balance deteriorated by 3.6% of GDP in one year is not the expression of any fiscal stimulus. For a country that had just emerged from one of the worst adjustment recessions on record in Western economies, shattering fragile confidence by a full-blown and futile confrontation with the country's only willing lenders proved to be a costly disaster. Rarely before has corporate confidence plunged so fast and so badly in any self-inflicted disaster (see chart 12 on page 41).

The damage is substantial. Counting only the fiscal costs, we come up with a rough guesstimate for 2015 and 2016:

Chart 12. The Varoufakis Effect



Corporate confidence. Weighted average of confidence in industry, services, retail trade and construction.

Sources: European Commission, Berenberg

- **Lost growth.** Instead of expanding by around 3% in 2015 and 2016, the Greek economy will probably contract by 0.5% in 2015 and 1.0% in 2016. For 2016, Greek real GDP will be roughly 7.5% below what it would have been otherwise.
- **Lost revenues.** Lower tax revenues and extra spending will likely lead to a cumulative fiscal shortfall of at least €9 billion for 2015 and 2016 relative to a baseline of unchanged policies and the absence of a political confidence shock.

'The Greek experience provides a stark warning: policy mistakes can be very costly.'

- **Weaker banks.** The need to recapitalise the badly weakened banks and the prospect of much lower potential revenues from a future privatisation of banks after the massive dilution of the public sector's share in the banks probably amounts to a fiscal hit of at least €12 billion and possibly significantly more.

7.5% less of real GDP, a slightly lower GDP deflator in response to renewed recession and an extra fiscal hit of €21 billion add up to a likely rise in the Greek debt-to-GDP ratio by around 28% of Greece's projected 2016 GDP. Rarely have so few months as Greece's January to July 2015 policy chaos been so expensive for the public purse while causing so much misery on top of that.

Of course, history moves on. After Greece ratified a new agreement with its international lenders in the summer of 2015, corporate confidence recovered somewhat. But shattered trust is difficult to rebuild. Even if a chastened Greek government without Yanis Varoufakis now stays roughly on the course agreed with its lenders, the road ahead will be rocky. Business investment will remain tepid for a while after such a near-death experience. Unfortunately, we cannot rule out a new Greek crisis as, due to the renewed recession, the social situation will take significantly longer before it can improve.

The Greek experience should provide a stark warning to other governments thinking of reform reversals. In a still fragile situation, policy mistakes that shatter confidence can be very costly indeed.

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, due to revisions to back data for labour costs, exports, imports and some other parameters, the values we give for 2015 scores and ranks can differ slightly from those published in *The 2014 Euro Plus Monitor* on 18 December 2014. We have recalculated the 2014 results on the basis of the revised data.

Notes

I. Adjustment

1. External Adjustment

- 1.1 Change in net exports (real, GDP definition) as a percent of GDP. Source: Eurostat.
- 1.2 Change in net exports for average of Q2 and Q3 2015 over H2 2007, ESA2010, as a percent of starting level. Source: Eurostat.
- 1.3 Rise in export ratio, percent of GDP, ESA2010, average of Q2 and Q3 2015 over H2 2007. Source: Eurostat.

2. Fiscal Adjustment

- 2.1 2009-2015 shift in structural primary fiscal balance, percentage of GDP. Sources: European Commission Autumn 2015 forecasts, November 2015; Berenberg.
- 2.2 Fiscal shift 2009-2015 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 2015 forecasts, November 2015; IMF Fiscal Monitor, October 2014 and October 2015; Berenberg.

3. Labour Cost Adjustment

- 3.1 Cumulative change in Real Unit Labour Costs (RULC), 2009-2015, in percent.
- 3.2 Shift in RULC trend = cumulative change in RULC 2000-2005 minus the cumulative change in RULC 2009-2015, each minus eurozone changes in same period. Source: European Commission AMECO database.
- 3.3 Cumulative change in Nominal Unit Labour Costs (NULC) in euros, 2009-2015, in percent. Non-eurozone countries: 2007-2015.
- 3.4 Shift in NULC (euros) trend = cumulative change in NULC (euros), 2000-2009 minus cumulative change in NULC (euros), 2009-2015, each minus eurozone changes in same period. Non-eurozone countries: 2000-2007 minus 2007-2015 changes, each minus eurozone average. Source: European Commission AMECO database.

4. OECD Reform Responsiveness Indicator

4. OECD Reform Responsiveness Indicator Average 2010/11, 2011/12, 2012/13 and 2013/14, 0-1 range index. Source: OECD, *Economic Policy Reforms 2015: Going for Growth* (Paris: OECD, February 2015).

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, ESA2010. Source: Eurostat.
 - 1.1.2 Deviation of annual average rise in gross value added ex construction from income-adjusted norm, 2002-2010, percentage points. Sources: Eurostat; Berenberg.
- 1.2 Human capital
 - 1.2.1 Fertility rate, 2009-2013 average. Sources: Eurostat.
 - 1.2.2 Integration of immigrants (1) deviation of employment rates of foreign born population from native population, 2011-2014 average, in percentage points; (2) average of score based on deviation between immigrants and natives in (3a) change in education attainment rates between primary and tertiary education, 2011-2014 average, and (3b) early school leaver rates, 2011-2014 average; social inclusion: average score based on deviation between immigrants and natives in (4a) median equalised net incomes, 2011-2014 average, and (4b) at-risk-of-poverty-rates, 2011-2014 average, (4c) home ownership rates, 2011-2014 averages. (5) citizenship acquisition rates, 2010. All based on Eurostat "Migrant Integration Indicators". Sources: Eurostat, Berenberg.
 - 1.2.3 Education: 2012 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 2002-2014, in percent of all 15-64 year-olds. Source: Eurostat.
 - 1.3.2 Average annual change in employment rate, 2002-2014, percentage points. Source: Eurostat.
 - 1.3.3 Youth (15-24 year-olds) unemployment rate, average 2002-2014. Source: Eurostat.
 - 1.3.4 Long-term (more than 12 months) unemployment rate (15-64 year-olds), average 2002-2014, in percent of active population. Source: Eurostat.
- 1.4 Consumption
 - 1.4.1 Total public and private consumption, average 2002-2014, in percent of GDP, ESA2010. Source: Eurostat.
 - 1.4.2 Average annual change in consumption rate, 2002-2014, percentage points, ESA2010. Source: Eurostat.

2. Competitiveness

- 2.1 Export ratio, average 2002-2014, percent of GDP, ESA2010. Score based deviation of export ratio from adjusted norm based on GDP (size) and GDP per capita (income). Outlier Luxembourg excluded from norm regression. Sources: Eurostat; Berenberg.
- 2.2 Average annual rise in export ratio, 2002-2014, percentage points of GDP, ESA2010. 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 2002-2015, in percent. Source: European Commission AMECO database.
 - 2.3.2 Nominal Unit Labour Costs (NULC), (national currency), annual average change 2002-2015, in percent. European Commission AMECO database.

2.3.3 World Economy Forum Global Competitiveness Report: Hiring and Firing Practices Survey, 2015. 1 (heavily impeded by regulations) - 7 (extremely flexible) range. Source: World Economic Forum Global Competitiveness Report 2015/2016, September 2015.

2.4 Market regulations

- 2.4.1 World Economic Forum Product Market competition intensity survey score 2015/16, 0 (not intense at all) -7 (extremely intense) range. Source: World Economic Forum Global Competitiveness Report 2015/2016, September 2015.
- 2.4.2 OECD service trade restrictiveness indicator 2015. Source: OECD.
- 2.4.3 World Bank Doing Business Report 2016, 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 2015.

3. Fiscal Sustainability

- 3.1 Government outlays, average 2002-2015, in percent of GDP, ESA2010. Source: European Commission AMECO database, November 2014.
- 3.2 Structural fiscal balance
 - 3.2.1 Structural fiscal balance, 2015, in percent of GDP, ESA2010. Source: European Commission Autumn 2015 forecasts, November 2015.
 - 3.2.2 Structural primary fiscal balance, 2015, in percent of GDP, ESA2010. Sources: European Commission Autumn 2015 forecasts, November 2015; Berenberg.
- 3.3 Public debt end of 2015, in percent of GDP, ESA2010. Source: EU Commission autumn 2015 forecasts, November 2015.
- 3.4 Sustainability gap 2015-2020, adjusted for age-related spending, in percent of GDP. Sources: IMF Fiscal Monitor, October 2014 and October 2015 (Greece October 2013); Berenberg.

4. Resilience

- 4.1 Total government bond and bill redemptions, 2016-2018, in percent of 2014 nominal GDP, ESA2010. Source: Bloomberg.
- 4.2 Share of public debt held by foreigners, 2014, in percent of GDP. Source: IMF Fiscal Monitor, April 2015.
- 4.3 Gross household savings rate, 2015, in percent of disposable income. Source: European Commission AMECO database.
- 4.4 Current account balance, 2015, in percent of GDP, ESA2010. Source: European Commission Autumn 2015 forecasts, November 2015.
- 4.5 Monetary Financial Institutions total assets/liabilities, September 2015, in percent of 2014 nominal GDP, ESA2010. Sources: ECB, Eurostat.
- 4.6 Private sector debt, 2014, in percent of GDP, ESA2010. Source: Eurostat.

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BERENBERG
PARTNERSHIP SINCE 1590

Berenberg
Neuer Jungfernstieg 20
20354 Hamburg, Germany
T. +49 40 350 600
F. +49 40 350 60 900

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think tank for the 21st century

The Lisbon Council asbl
IPC-Résidence Palace
155 rue de la Loi
1040 Brussels, Belgium
T. +32 2 647 9575
F. +32 2 540 9828